



2008
annual report

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ABOUT THIS REPORT

Water Corporation Report 2008 is a review of our operations for the financial year ending 30 June 2008.

This Report is produced in accordance with the provisions of the *Water Corporation Act 1995* and other relevant legislation, which governs our operations. It is provided to the Minister for Water Resources as our sole shareholder.

This year we have changed the structure to highlight our progress towards sustainable operations as well as key events and initiatives.

To provide feedback on this report, email report@watercorporation.com.au

Previous reports can be found in the publications section of our website: www.watercorporation.com.au

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SECTION 1 **OUR ORGANISATION**

SECTION 1
OUR ORGANISATION

60
recycled water schemes

352,355
million litres of water supplied

259
water treatment plants

14,684
kilometres of wastewater mains

We are the principal supplier of water and wastewater services in Western Australia and supply reliable and safe drinking water to almost two million customers.

We also provide wastewater and drainage services to hundreds of thousands of homes, businesses and farms and provide bulk water to farms for irrigation.

We are owned by the Western Australian Government and are accountable to our sole shareholder, the Minister for Water Resources, for delivery of our services in a commercial manner. The majority of our profits are returned to the Government as a dividend to contribute to the development of the State.

We draw on a history of excellent performance with 100 years of commercial and technical experience, responsible environmental management and community partnerships.

We currently directly employ approximately 2500 people and manage more than \$11.5 billion in water supply, sewerage and drainage infrastructure.

We have regional offices located in Perth, Bunbury, Albany, Karratha, Geraldton, Northam and Kalgoorlie which allow our people to provide a high level of professional expertise to customers in communities throughout the State.

OUR PURPOSE

Our purpose is "Sustainable management of water services to make Western Australia a great place to live and invest."

As an organisation we take a long-term view. Sustainable management means we manage for both the present and the future – ensuring that our water sources, services and infrastructure meet current and anticipated needs without compromising those of future generations or the environment.

We are proudly Western Australian, and aspire to making Western Australia a great place. It's our aim to add value to the many communities with which we interact right across our cities, towns and regional areas.

471
water pump stations

2,507
employees

32,635
kilometres of water mains

1,066,964 properties served

148,257
million litres of wastewater collected

2,826
kilometres drains

110
dams and weirs

1,086
wastewater pump stations

Canning Dam. Image reproduced with permission of Michelle Harrison.

We assist in the development of Western Australia by delivering the essential water services and infrastructure that enable investment in new residential areas, public facilities and commercial and industrial enterprises. We engage with industry and private enterprise to understand their businesses, their needs and their plans, and work with them strategically to create sustainable outcomes despite the challenges of this vast State and its environment. We also partner extensively with private enterprise in the ongoing delivery of water services and infrastructure, thereby directly contributing to the health and growth of the State economy.

OUR VALUES

We aspire to a constructive culture which supports us in working to achieve our purpose of sustainable management of water services for the Western Australian community.

Our values are a key component of our culture. They are the principles that guide the way we work, drive our behaviour and help us to achieve our goals.

Our community

There is hardly a metropolitan area or country town where the Water Corporation is not part of the local community.

Every day, we talk to these communities, and work side-by-side with them as we deliver services that are fundamental to our way of life.

We are dedicated to excellence in customer service, and this includes playing our part in supporting local communities and involving them in our decision-making processes.

Our responsibilities

We take our responsibilities very seriously and pride ourselves on delivering on the commitments we make

We want people to see our organisation as reliable and trustworthy, and this often means we will go well beyond what is accepted as the minimum we are required to do.

The future

Sustainability is a key principle of our organisation. When we make decisions, we make them for both the present and the future – in terms of water needs and services, the economy the community and the environment. No decision is made without thorough examination of all possible environmental consequences.

Delivering quality

A commitment to quality is at the heart of our approach to every facet of our organisation and operations. We always take a long-term view and do everything to the best of our ability and without compromising quality.

Supporting people

We want our people to grow personally and professionally as our organisation also grows.

We respect them as individuals and promote the maintenance of balance between work and life.

We encourage initiative and ideas, provide access to ongoing training and development and work diligently to maintain a safe and healthy workplace so that employees and contractors go home unharmed at the end of each day.



OUR DESIRED STATE

- Our customers are our advocates.
- We are the point of excellence in Western Australia on all matters related to water services.
- We are leaders in sustainability.

OUR STRATEGIES

The following strategies will help get us to our Desired State:

Genuinely engage with our stakeholders

We will focus our energies on delivering excellent customer service and building genuine relationships with all our stakeholders through timely and meaningful engagement.

Change the way we think and work

We will position ourselves for the future through continuously improving our business processes, standardising and simplifying what we do and building sustainability principles into all our decisions.

Core business – rock solid

We will continue to pursue excellence in our processes with a focus on optimising asset management, delivering effective and efficient services and providing quality products to our customers.

Security through diversity

We will secure Western Australia's water future through a diverse portfolio of supply and demand programs.

Creating a great place to work

We will create a great place to work where we feel safe, inspired and empowered to achieve and where we will sustain and grow our capability for the future.



2007-08 ACHIEVEMENTS

Genuinely engage with our stakeholders

- Sought community input on future water sources and services required through the Water Forever project.
- Received a Customer Service Institute of Australia award for Service Excellence.
- Launched the SewerSmart initiative to provide customers with prompt and consistent service from a panel of trained plumbers when responding to a sewer blockage.
- Introduced an Indigenous Community Relations Officer in the Mid West Region, with positive feedback from stakeholders.

Change the way we think and work

- Launched the 'Water for all, forever' advertising campaign, combining key messages about managing water supply and community demand for water.
- Developed a private sector procurement model for new water sources and wastewater treatment plants.
- Significantly contributed to the Economic Regulation Authority's review of developers' contributions and competition in the Western Australian water sector.

Core business-rock solid

- Invested \$810 million in capital works for water and wastewater services.
- Recorded 100% compliance with health related water quality guidelines, across all 244 localities served in Western Australia.
- Signed a new five-year Memorandum of Understanding with the Department of Health.
- Opened the Geraldton to Northampton pipeline and Albany's new 25 million litre water storage tank.
- Progressed work related to the new Alkimos and East Rockingham Wastewater Treatment Plants, and major upgrades at the existing Woodman Point, Beenyup and Subiaco treatment plants.
- Upgraded wastewater treatment plants at Bunbury and Donnybrook.
- Completed planning for a second wastewater treatment plant in Broome to cater for growth, to be commissioned in 2009.

Security through diversity

- Introduced permanent water efficiency measures across Western Australia in October 2007 on behalf of the State Government.
- Shortlisted two consortia to construct and operate the Southern Seawater Desalination Plant.
- Reached full capacity at the Kwinana Water Reclamation Plant, supplying 24 million litres of water a day to local industry.
- Completed the 400 million litre Kalgoorlie reservoir and 7.4 million litre Kambalda storage tank.

Creating a great place to work

- Continuing our plans to improve our culture, we launched our re-vitalised values, developed through engagement with our employees around the State.
- Launched our expanded community support program, which provides employees the opportunity to give back to the community and acquire valuable work experience and life skills.
- Achieved Gold health and safety accreditation from WorkSafe.
- Notwithstanding the tragic fatality of a contracted worker, the corporate Significant Injury Frequency Rate maintained a downward trend: recording 7.61, below the target of 8.5.

CHALLENGES AHEAD

- Following all environmental approvals, develop the Southern Seawater Desalination Plant.
- Release the *Water Forever: Directions* paper in late 2008.
- Continue to implement and manage the permanent statewide water efficiency measures.
- Support behaviour change to achieve our target of 100 kilolitres per person consumption for Perth residential customers.

CHAIRMAN'S OVERVIEW

The Western Australian Government in May 2007 released its State Water Plan, including a priority action for the Water Corporation to engage with the Perth community on their future needs for water services.

Responding to that initiative, in October we launched Water Forever, which looks 50 years ahead to deliver an integrated strategy for water, wastewater, drainage and recycling initiatives. This process is continuing with significant community input.

The year saw the Economic Regulation Authority (ERA) hold an inquiry into Competition in the Water and Wastewater Services Sector.

We support many of the ERA's findings and recommendations. However, we have serious concerns relating to a proposal that an Independent Procurement Entity (IPE) be established to take over the Corporation's water source planning and procurement functions.

It is the Board's contention that the proposed model fragments decision-making on planning and provision of future water and wastewater services. Also, given the climate risk and other uncertainties associated with developing new water sources, the Board believes it will not attract strong private sector participation. After extensive consultation with the private sector in 2007, the Corporation developed a more robust model that we believe will maximise effective participation by the private sector, while ensuring security of supply and the integration of source procurement with overall scheme planning.

The model proposed by the ERA does not exist anywhere in the world. Further, it is a fact that the Water Corporation has been uniquely successful in an Australian context in enabling Western Australia to withstand the impacts this decade of the drying climate. The Board will continue to encourage management to make representations to the Government on this issue in 2008-09.

Board performance

Good corporate governance is a fundamental part of the culture and business practices of the Water Corporation.

During the year the Board reviewed its performance and efficiency as a follow up to a 2006 review conducted with key stakeholders and leading industry people. The independent review reassured the Board that its processes and procedures were satisfactory and that minor adjustments only were required to maintain performance.

The Board's Audit and Compliance and Human Resources and Remuneration Committees continued to serve as a forum for in-depth consideration of essential strategic issues in 2007-08. Notably, the Audit and Compliance Committee encouraged a strong focus on risk management and mitigation while the Human Resources and Remuneration Committee oversaw a thorough review of the Corporation's human resources practices.

In June 2008, Chief Executive Officer Jim Gill announced that he would not be seeking to renew his contract beyond the end of the 2008 calendar year. Dr Gill's strategic leadership since the inception of the Corporation 12 years ago has ensured that the Corporation has provided excellent service to the community and will continue to do so into the future. The Board joins me in thanking Jim for his dedication and outstanding leadership over a very long period.

On behalf of the Board, I thank management and staff for their continuing support through another challenging year.



Patrick O'Connor
Chairman



In October of this financial year we launched **Water Forever**, which looks **50 years ahead** to deliver an **integrated strategy** for **water, wastewater, drainage** and **recycling initiatives**.

CEO'S OVERVIEW

We continue to stay ahead of the challenge of drying climate.

Supply security on the major Integrated Water Supply Scheme is satisfactory thanks to a multi-faceted approach termed Security Through Diversity, embracing not only new sources but a great range of measures across the community, industry and Government.

Security will receive a boost in 2011 with the completion of the second desalination plant near Binningup south of Perth. As a climate-independent year-round source, this plant will enable us to reduce pressure on the Gngangara Mound while retaining its flexibility to supply at higher levels during drought conditions. The plant will be capable of being doubled in size if required to cater for growth to 2020.

Exciting progress is being made on Water Forever, an important planning process in which we are working with the community, Government and industry to provide, by mid-2009, a framework for development to the year 2060, embracing water, wastewater, recycling, and cleverer usage of this precious resource.

A problem we face is in acquiring sites for our facilities, including desalination plants and waste and recycling plants, and then ensuring that the planning of the surrounding areas defines land uses which are compatible with those facilities, such as industry, sporting venues and environmentally valued areas.

Without sewerage and water sources we simply cannot build and expand communities. Without proper land planning and control, growth is delayed. We are working with relevant State bodies as part of the Water Forever process to identify and protect key sites for the future and to improve planning processes.

Capable people

Attracting and retaining talent for our business is an important current focus, particularly given the demand for capable people from the booming mining and energy sectors and the growth

and age structure of our organisation. Guided by our Board's Human Resources and Remuneration Committee, we are giving this high priority.

While the drying climate and drought have, over the last three years, impacted other parts of Australia – with four states having followed our lead into desalination – the persistence of the decline of stream flows in Western Australia's South West is unparalleled anywhere on the globe.

It is pleasing to note that our success in keeping ahead of this challenge is receiving increasing recognition both nationally and internationally. In March our Security Through Diversity approach received front-page coverage in New York's Wall Street Journal. Since the close of the financial year, the Grand Prize of the International Water Association has been awarded to me, as CEO, for the Corporation's success in adapting to the challenge of a drying climate. I shall accept the award at a major biennial congress in Vienna in September.

This will be my last Annual Report, as I have advised our Board and Minister that I do not intend to seek renewal of my current contract when it expires in December. It has been a wonderful privilege to have led the Corporation as its inaugural CEO at a time of great challenge. I thank the Premiers, Ministers and Board members whose support I have enjoyed during my tenure. I am especially thankful to the many competent and dedicated staff of the Water Corporation who, together with many expert consultants, contractors and suppliers, do a wonderful job in serving our customers and building for the future of Western Australia.



Dr Jim Gill
Chief Executive Officer



Supply security on the major **Integrated Water Supply Scheme** is satisfactory thanks to a multi-faceted approach termed **Security Through Diversity**, embracing not only new sources but a great range of measures across the **community, industry** and **government**.

GLOSSARY

Aquifer

An underground layer of water-bearing permeable rock or consolidated materials (clay, sand, silt or gravel) from which groundwater can be extracted.

Biosolids

Biosolids are the stabilised, nutrient rich, organic solid residues generated from the wastewater treatment process.

Catchment

The areas of land that collect rainfall and contribute to surface water or to groundwater.

Desalination

The process that removes salt from saline water to produce fresh water.

Drinking water

Water that is safe to use for drinking and cooking.

Gigalitre (GL)

A metric unit of volume or capacity equal to one billion (a thousand million) litres of water. This volume would fill 500 Olympic-sized swimming pools.

Greenhouse gases

Atmospheric gases that absorb and re-radiate the sun's energy, rather than letting it escape back into space. Water vapour, carbon dioxide, nitrous oxide, methane and ozone are the primary greenhouse gases. Human activities have increased the levels of these gases in the atmosphere, leading to more energy being trapped and so raising the Earth's temperature.

Groundwater

Water in the soil below the surface of the ground, typically found in an aquifer.

Groundwater replenishment

A process that enhances the natural replenishment of groundwater by artificially supplying aquifers with additional water.

Hectare

Measure of area equal to ten thousand square metres.

Infrastructure

Services and equipment needed to support communities.

Integrated Water Supply Scheme (IWSS)

Supplies water to 1.6 million of the 1.9 million people living in Western Australia, serving towns in the South West, metropolitan Perth and from Mundaring Weir to towns and farmlands in the Central Wheatbelt out to Kalgoorlie-Boulder.

Kilolitre (kL)

A metric unit of volume or capacity equal to 1,000 litres.

Megalitre (ML)

A metric unit of volume or capacity equal to one million litres.

Reverse osmosis

Salty water is placed under pressure, causing salt and impurities to separate from fresh water. The fresh water then passes through a filter or membrane, leaving salt and other impurities behind.

Significant Injury Frequency Rate (SIFR)

The number of medically treated injuries and lost-time injuries per million exposure hours.

Surface water

All water naturally open to the atmosphere (rivers, lakes, dams, streams, oceans, and the like).

Sustainability

Meeting the needs of current and future generations through integration of environmental protection, social advancement and economic prosperity.



SECTION 2 **OPERATIONAL DEVELOPMENTS**

SECTION 2 OPERATIONAL DEVELOPMENTS



REDUCING WATER USE

With the drying climate affecting our natural water resources, it's now more important than ever to make every drop count.

Water efficiency becomes permanent

In October 2007 Western Australia became the first State in Australia to introduce permanent Water Efficiency Measures. This marked an important step in the response to climate change, from the temporary restrictions in place across most of Australia, to a permanent water use culture change.

The new measures effectively cover all water users throughout Western Australia and aim to save a minimum of 33 giganlitres per year.

The Western Australian Government also launched its State Water Plan, which sets a new target of less than 100 kilolitres per person for annual household consumption.

We will work towards this goal by expanding our nationally-recognised Waterwise Programs, continuing 20 years' work with business and industry partners.

Water for all, forever

– a united approach to supply and demand

During 2007 a new face for the Water Corporation was launched – the Motorbike Frog. The new frog brand builds on our successful water conservation marketing campaigns of the past decade and for the first time brings together key messages about managing water supply and our community's demand for water.

First seen in advertising over summer, the frog immediately resonated with the community. More than 3,500 school children responded to the call to name it in early 2008, christening it 'Freckles the Motorbike Frog'.

Since 2001, campaigns have grown in sophistication with our increasing knowledge of water consumption trends and what motivates or prevents changes in consumer behaviour, with marketing now directed at providing information and tools to help high water users reduce use.

PLANNING FOR THE FUTURE

As Western Australia grows, we're continually planning for the services and infrastructure needed to make our State a great place to live and invest.

Water Forever 50-year plan

This year we launched Water Forever, a public engagement program that will result in the creation of a 50-year plan for Perth and surrounding areas that integrates water, wastewater and drainage services with land planning. To develop the plan, we undertook significant community consultation, making more than 2.5 million contacts with the wider Perth community, visiting shopping centres, taking registrations of interest online and hosting community forums to better understand community views on water services.

The Water Forever Options Paper was released in April for public comment. The next paper, *Water Forever: Directions* will be released in early 2009 and will incorporate community and stakeholder feedback. The final Water Forever plan will be presented mid-2009.

Since the announcement of the Southern Seawater Desalination Plant last year, we have consulted extensively with the community of Binningup about the environment, and the impact the project could have on their way of life.



MAJOR WATER SUPPLY WORKS

When you turn on the tap you expect clean, safe drinking water. That's why we've worked in hundreds of communities across the State to deliver \$342 million in water supply works in 2007-08.

Integrated Water Supply Scheme

The Integrated Water Supply Scheme (IWSS) serves 1.6 million people across Perth, the South West, Kalgoorlie-Boulder and the Wheatbelt, Goldfields and Agricultural regions.

Southern Seawater Desalination Plant

In February, two Spanish-led consortia were short-listed to design, construct, operate and maintain the Southern Seawater Desalination Plant at Binningup over a period of 27 years.

Construction of the plant is expected to commence in 2009 after all environmental approvals have been obtained. In April the Environmental Protection Authority released the Public Environmental Review (PER) document, detailing potential environmental issues and how any impacts will be eliminated or minimised. When finished in 2011 the plant will provide an additional 50 gegalitres of water per year to the IWSS.

Logue Brook Dam to provide drinking water

In late 2007, the Government announced that Logue Brook Dam would become a drinking water source from 2010. This is the final stage of a water trade with Harvey Water to provide 17.1 billion litres of drinking water a year.

Under existing drinking water protection legislation and policy, recreational use of Logue Brook Dam can no longer be allowed as it is a risk to water quality and public health. The dam was closed to the public on 1 May 2008 so conversion works could begin.

To counter the closure of this popular recreation spot, the Department of Sport and Recreation is developing a *South West Recreational Master Plan* and a fund of \$10 million, financed by the Water Corporation, has been set up to develop alternative recreation facilities. We will also spend \$600,000 upgrading our day use sites at Waroona, Harvey and Drakesbrook dams for next summer.

Two Spanish-led consortia were short-listed to **design, construct, operate and maintain** the **Southern Seawater Desalination Plant** at Binningup over a period of **27 years**. Construction of the plant is expected to **commence in 2009** after all **environmental approvals** have been obtained.



Minister for Water Resources, the Hon. John Kobelke and General Manager Planning & Infrastructure Sue Murphy at the new Kalgoorlie reservoir.

Other key water supply projects around the State include:

South West

A new bore will boost supplies to the future Bridgetown regional water supply scheme serving Bridgetown, Boyup Brook, Hester, Balingup, Greenbushes, Kirup and Mullalyup and subject to the necessary approvals, could begin operating in 2009.

In Margaret River, the town's drinking water scheme will be linked to the South West Yarragadee aquifer. Infrastructure will also be upgraded to cater for growth in the region.

A major upgrade of Wellington Dam is scheduled to begin during 2008. The project will ensure the ongoing stability of the historic dam well into the future.

A new dam on Samuels Brook has also been identified as the preferred long-term water source for Walpole. Detailed planning and consultation will now ensure feasibility and environmental soundness.

Goldfields and Agricultural

Key water supply projects for the Goldfields this year included completion of the new \$82 million Binduli reservoir in Kalgoorlie and the John Hill tank in Kambalda. Both projects were designed and constructed by the WaterHorizons Alliance.

The Binduli reservoir includes two, 200 million litre concrete-lined roofed modules, a 70 megalitre-a-day pumping station and chlorination facilities.

A 7.4 million litre steel-roofed reinforced concrete storage tank and new solar-powered water treatment plant have been constructed on the Kambalda supply main to improve water quality.

Mid West

In a region facing challenges from scarce or brackish water supplies, we are working to ensure every town has reliable access to quality drinking water. This includes establishing new water sources in Coral Bay and Exmouth and building new storage tanks in Morawa and Denham, plus the new \$21 million Geraldton to Northampton pipeline opened in February 2008.

We are also trialling new, more efficient water treatment technologies. A High Efficiency Reverse Osmosis (HERO) plant was commissioned in Yalgoo in July 2007, while in Wiluna an Electrodialysis Reversal (EDR) plant is set to be operational by late 2008.

North West

We are upgrading our infrastructure to accommodate rapid growth in the North West Region. We have started investigating possibilities for the West Pilbara's next major supply, with community and stakeholder consultation beginning mid 2008, and the approvals process to install three new bores in Broome is currently under way.

Wyndham's water supply has been guaranteed year-round with a microfiltration water treatment plant commissioned to treat water from the Moochalabra Dam, which can become muddied and unsuitable for drinking due to heavy wet season rains. Options are also being considered to increase the scheme capacity of Onslow, the possible site for a major liquid natural gas project.

Albany's new \$9.8 million, 25 million litre **Mt Clarence water storage tank** was opened in March. This was the final project in a **five-year, \$50 million water supply upgrade**.

Great Southern

In August 2007, we began supplementing Denmark's water supply with water from the Denmark River when the Quickup Dam was in danger of drying up following two years of below average rainfall. An extensive upgrade of the Denmark Water Treatment Plant has been undertaken including the installation of ultra-filtration and ultraviolet treatment to ensure the safety of water delivered to the region. A pump-back system has been installed from the Denmark River to the Quickup Dam to harvest winter flows from the Denmark River to bolster water levels in the Dam.

Albany's new \$9.8 million, 25 million litre Mt Clarence water storage tank was opened in March. This was the final project in a five-year, \$50 million water supply upgrade. Pipe and common infrastructure have been put in place to cater for a further 25 million litre storage tank in the future.

Albany's new 25 million litre Mt Clarence water storage tank was opened in March 2008.





WASTEWATER

When people flush their toilets or empty a sink, rarely do they think about where the wastewater goes. However, this largely unseen part of our business is crucial to protect public health and the environment.

We aim to ensure wastewater management remains 'out of sight, out of mind' for our customers as we meet the growing needs of communities across the State. In 2007-08, \$311 million, or more than a third of our capital program, was invested in wastewater infrastructure.

New treatment plants support the State's growth

We are purchasing land at East Rockingham for Perth's next major wastewater treatment plant. The 31 hectare site is west of Mandurah Road, within an appropriately-zoned industrial area, central to the south west metropolitan wastewater catchment and with easy access of the southern extremity of the Kwinana Industrial Strip, where in future we hope treated effluent can be reused.

The proposed East Rockingham Wastewater Treatment Plant will initially treat up to 25 million litres of wastewater a day from 2015, with the capacity to increase to 160 million litres a day.

Our Alkimos Water Alliance is working on projects valued at more than \$150 million which will provide for the future development of Perth's northern suburbs. These include extending the Quinns Main Sewer, building an ocean outfall and evacuating almost 3 million cubic metres of sand and rock for the Alkimos Wastewater Treatment Plant. In June 2008, the Sunset Alliance was awarded preferred tenderer status for construction of the first stage of the wastewater treatment plant, due for completion at the end of 2010.

A 600 metre buffer area surrounding the plant has been purchased. A buffer of up to 800 metres (to the west and north west) had been proposed by the Corporation to permit odour management for eventual primary treatment and energy recovery but this was not accepted by the Government.

A giant tunnel-boring machine is lifted into place to begin work on extending the Quinns Main Sewer to the proposed Alkimos Wastewater Treatment Plant.

In Broome, planning for a second wastewater treatment plant and effluent reuse system to manage the town's increasing wastewater volumes was completed. The new plant is to be commissioned by 2009.

Construction of a new \$16 million wastewater scheme for Hopetoun's growing population commenced in April. It will cater for around 1,100 people and is expected to be operating early in 2009.

Due for completion in July 2008, the Narngulu wastewater treatment plant near Geraldton will ease pressure on the area's existing plants. With 3.5 million litres a day capacity, the plant will provide high-performance processing of domestic wastewater which can be pumped back into the ground or recycled after treatment.

Wastewater Treatment Plant upgrades continue

Our W2W Alliance is upgrading wastewater treatment plants at Woodman Point and Beenyup. A new odour control facility and capacity increase is in progress at Woodman Point and construction of four new clarifiers at the Beenyup plant has begun, with sludge and primary treatment upgrades due to commence mid-2008. Preliminary studies are also being conducted to increase the Subiaco plant capacity to around 75 million litres a day.

Work valued at \$15 million is in progress to upgrade the Bunbury Wastewater Treatment Plant to cater for local growth until 2020, improve the level of treatment and reduce odour.

Trial biosolids facility approved

Final approval for a trial biosolids storage facility near Moora was achieved and this is now scheduled to be constructed and operational by October 2008. The 18-month trial will monitor and assess the effectiveness of fly control measures, odour impacts, leachate control and structural durability of the facility.

Works continue to protect river from overflows

The \$230 million, 15-year Wastewater Overflow Risk Management Program was introduced in 2004 to reduce the risk of wastewater overflows statewide and achieve our target of no overflows under normal operating conditions.

Works concentrated on Perth and the South West and included the construction of six overflow storage tanks, refurbishing pressure mains, relining reticulation sewers, improving alarm systems and providing more standby generator capacity.

We also completed the final section of a 15-year program of upgrades to the Perth Main Sewer in December 2007.

87,000 properties now connected to sewerage

Since 1994, our Infill Sewerage program has been installing wastewater schemes in areas that previously relied on septic tanks. So far, \$777 million has been spent connecting around 87,000 properties in 30 country centres from Esperance to Port Hedland and 92 suburban areas of Perth. This year, projects in Hamersley, Busselton, Albany, Eaton, Spearwood, Falcon and Margaret River were completed. Over the next four years, approximately 13,000 more properties across Western Australia will be connected to complete the program.

DRAINAGE

By managing flooding to minimise property impacts, our drainage services allow for the best use of land and help protect the natural environment.

Urban drainage systems consist of roadside drains, piped drains and open channels for stormwater and groundwater. We have responsibility for some 940 kilometres of main drains across 40 per cent of the Perth metropolitan area. Additional drainage services within the remainder of the metropolitan area, some of which connect to our main drains, are managed by local government.

We also provide a rural drainage service to help make land viable for agriculture in Mundijong, Waroona, Harvey, Roelands, Busselton and Albany.

To meet the urgent need to supply new residential lots, we are working with the Department of Water, the Department of Environment and Conservation, land planning agencies, industry and developers and have funded an arterial drainage study to facilitate sustainable subdivision in Gosnells and Armadale. This was completed in June.

Our *Forrestdale Main Drain Arterial Drainage Management Strategy* has been produced to facilitate development in the rapidly growing areas of Gosnells and Armadale. The strategy incorporates significant environmental requirements and the potential for public usage of areas both within and adjacent to proposed drainage facilities.

We are also working with the Swan River Trust, local governments and community groups to achieve improved water quality, habitat value and aesthetic amenity in some of our existing drainage facilities in Cannington, Bayswater, Armadale, Kalamunda and Noranda.

Roadside drains such as that pictured right are managed by local governments. Some of these connect to our main drains across the metropolitan area.



BUSINESS EXCELLENCE

Behind the scenes we are continuously improving the processes we use to monitor and manage our complex operations across Western Australia.

700 employees educated on sustainability

In 2007 we made good progress in implementing our three-year sustainability strategy, holding education and awareness sessions with more than 700 employees. Their suggestions on issues such as reducing our greenhouse gas emissions are being implemented, and we are now examining other areas with the greatest potential to develop a vision and goals for improved performance in each of the key areas of the strategy.

One area in which we've made significant progress is asset planning. In 2008 we are working with consultants to better understand the economic implications of different approaches to key strategic infrastructure issues and ensure funds are allocated to preserve natural resources.

Asset management guidelines developed

We have developed guidelines for the successful handover and commissioning of new infrastructure assets, ensuring they are fit to meet the needs of our customers. Comprehensive standards are also being implemented so that we consistently apply the best approach to maintaining our billions of dollars of existing assets across the State.

We maintain our collaborations with other Australian water utilities through the Water Services Association of Australia (WSAA) and this year worked with its members, the CSIRO and other experts on projects to improve condition analysis and predictive modelling of pipelines and water and sewerage mains.

We also worked on behalf of the WSAA to develop the Asset Configuration Management guideline and are implementing this guideline across our operations to create a safer and more efficient working environment.

In early 2008 we commenced a four yearly study that allows us to measure our asset management processes against other water industries, nationally and internationally. This independent and rigorous exercise means that we can regularly measure ourselves against industry best practice and focus on areas where we can improve, resulting in better asset management and more reliable and efficient services to customers.

Awards and commendations

Year	Award by	Awarded for	Outcome
2008	Australian Teleservice Association (ATA)	Call Centre of the Year (under 50 employees category)	Winner
2008	Lonnie Awards (for 2007 Report)	Margaret Nadebaum Trophy – The best annual report submitted by an agency from the Government Enterprises. Award for Human Resource Management reporting	Winner
2008	International Association for Impact Assessment – Corporate Award	In recognition of environmental and sustainability efforts	Winner
2007	Global Water Awards	Desalination Plant of the Year - Perth Seawater Desalination Project	Winner
2007	Project Management Achievement Award	Construction and Engineering Category – State Winner and National Category Commendation – Perth Seawater Desalination Plant	State Winner and Special Commendation
2007	Banksia Awards	Built Environment Category and Water Category – Perth Seawater Desalination Plant	Finalist
2007	Engineering Excellence Awards	Control Systems, Reports and Procedures Category Winner – Integrating Perth's Water Supplies (joint submission with GHD Pty Ltd)	Winner
2007	Engineering Excellence Awards	Building and Infrastructure Category and Environment Category Finalist - Perth Seawater Desalination Project	Finalist



SECTION 3 **OUR CONTRIBUTIONS AND IMPACTS**

SECTION 3 OUR CONTRIBUTIONS & IMPACTS

| 1. Achieved Gold accreditation in health and safety | 2. More than \$810 million invested in capital works | 3. Water Forever seeks your input to develop a plan for services to 2060 | 4. Home water use is now 105.4 kL per person, just slightly above our target of 100kL per capita in 2012 | 5. Three-year sponsorship of Clontarf Foundation Academy will provide traineeships for graduates.

| 6. New wastewater treatment plants support the State's growth | 7. We revitalised our values by asking our 2,500 employees across the State what they value | 8. Our programs target businesses, homes and schools to reduce water use | 9. 100% compliance with health and water quality standards | 10. Treated wastewater re-used to irrigate the Albany tree farm | 11. Rigorous management systems minimise our impact on the environment | 12. Our regions support a range of community projects, like this artwork in Broome.





SECTION 3 OUR CONTRIBUTIONS & IMPACTS

USING WATER WISELY

Significant reductions in water use can be made, not just at home, but at work, on holidays and from smart use of recycling.

Domestic per capita use down to 105.4 kilolitres

We have achieved a 17 per cent reduction in Perth household scheme water consumption since 2001, saving on average 45 gigalitres of water, equivalent to the output of the Perth Seawater Desalination Plant each year.

Annual domestic per capita consumption in 2007-08 was 105.4 kilolitres; the State Government's target is to reduce this to less than 100 kilolitres per person by the year 2012.

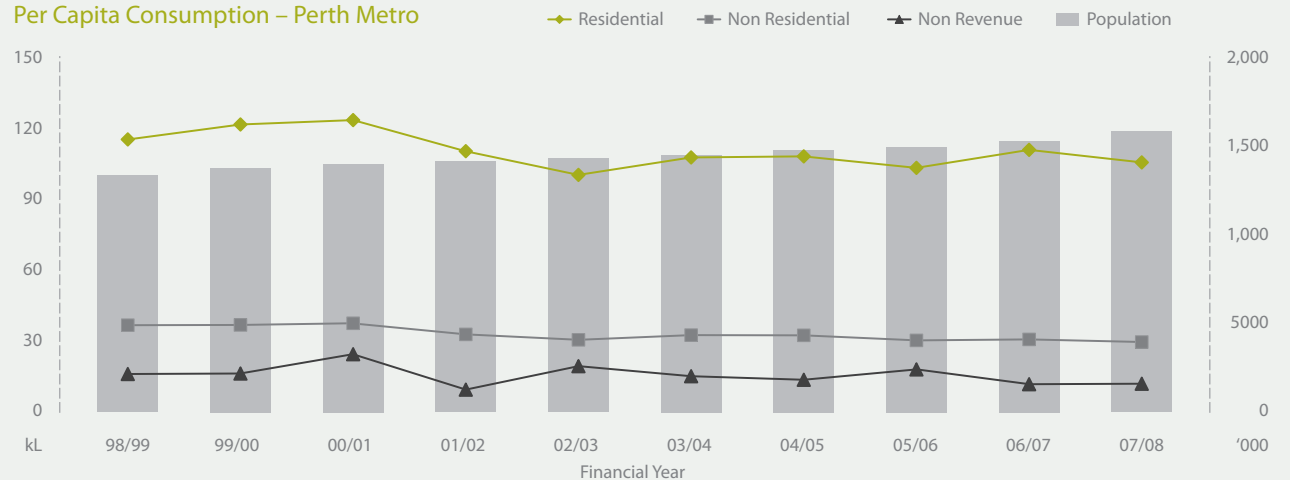
We have many programs in place which will assist with achieving the 100 kilolitre target, these include behavioural change programs targeted at home owners, Waterwise schools programs, which encourage the efficient use of water from an early age, and more than one million people each year visit endorsed Waterwise specialists around the State where they are offered advice, products and services that promote the efficient use of water.

The Waterwise program is being extended to encompass local government authorities. Three councils, Perth, Mandurah and Kalgoorlie, have taken up the challenge to pilot the process. We are looking forward to extending the program statewide and further reducing per capita consumption.

We are also conducting a trial to reduce water used by homes and wasted as a result of bursts and leaks by lowering water pressure in selected areas around Perth that have high water pressure. Preliminary results in Waterford show a reduction of at least ten per cent in domestic water use.



Per Capita Consumption – Perth Metro



Perth household per capita water consumption has dropped significantly since 2001 through a combination of the Water Corporation's water efficiency measures and community support.

Non-residential: Billed scheme water used by businesses and government.

Non-revenue consumption: Includes use by the Fire and Emergency Services Authority, theft, metering inaccuracies, losses through bursts and leaks, or used to maintain our operations.



Case Study

PROGRAM CUTS USE BY WATER INTENSIVE BUSINESSES

Challenge: Businesses have a key role to play in helping to protect the State's water resources and there is huge demand for information on how to save water.

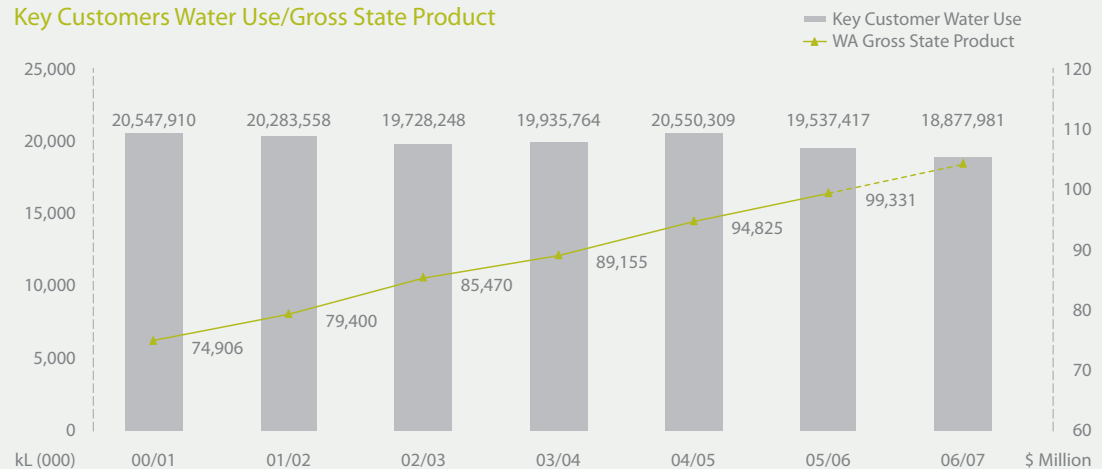
Solution: We offer a Waterwise Business Program which provides free water management assessments to water-intensive businesses, helping them evaluate their water management practices, be more water efficient and save money.

Results: More than 200 businesses have participated in the Waterwise Business Program. The graph below shows the reduction in scheme water use since 2001 by large business customers in the Perth metropolitan area. This is a commendable achievement in light of the substantial business growth indicated by the Gross State Product line.

In July 2007, the Western Australian Government made it mandatory for all businesses using more than 20,000 kilolitres of scheme water a year and all Government agencies to have an annual water management assessment and submit annual Water Efficiency Management Plans (WEMPs) to the Water Corporation. When the new mandatory measures are fully implemented in July 2009, 344 business customers and 74 Government agencies will have WEMPs in place.

Looking Ahead: Plans will be reviewed each year and as water management practices improve as a result of these mandatory measures we anticipate a further 10 per cent reduction in scheme water use by business customers and Government agencies by 2014.

Key Customers Water Use/Gross State Product





Campaign sees Denmark water use drop 10 per cent

Waterwise behaviours have taken hold at home but water-wasting habits seem to return when people are on holiday.

With the busy summer holiday period approaching and Denmark's main water supply, the Quickup Dam in danger of drying up, we began a local campaign to raise awareness and encourage water conservation to make sure that Denmark didn't 'run dry'.

When stage 5 water restrictions were introduced in January, limiting sprinkler and reticulation use to one day per week, we offered free water saver kits to householders, targeting the top 10 per cent of users. We also visited tourist accommodation to fit water saver kits and used signage in shop windows throughout the town to highlight the water shortage.

Community cooperation brought water use over the peak Australia Day and Easter holiday periods down 10 per cent. We are now considering expanding this approach to other areas around the State.

12.5 per cent of wastewater recycled for community use

There are 60 water recycling schemes across the State supplying water for parks, gardens and recreational facilities including McGillivray Oval in Floreat and golf courses in Derby, Broome and Busselton.

The latest is Saint Mary's College in Broome, which now uses recycled water to irrigate its ovals. Broome is leading the way with 100 per cent of wastewater recycled for greening the community.

In line with the State Water Plan 2007, our target is for 30 per cent by 2030.

So far, we've achieved wastewater recycling of about 17 gigalitres or 12.5 per cent of wastewater produced, up from 11.6 per cent in 2006 and this is increasing annually.

Recycled water from the Subiaco Wastewater Treatment Plant is used to irrigate McGillivray Oval in Floreat.

Key initiatives that will help us meet this target include the expansion of our Kwinana Water Reclamation Plant and a three-year groundwater replenishment trial, which will commence late 2009.

The groundwater replenishment trial will see very highly treated wastewater injected into the Leederville aquifer to test the technical feasibility and demonstrate to the community and environmental and health regulators that groundwater replenishment is a safe and sustainable water source option.

Water from the trial will not be used for drinking; it will only be used for research. The outcomes of this trial will influence any further decision about recycled water use in the drinking water supply.

Preparation for the trial is progressing, and in June the W2W Alliance was awarded the contract to design and build the trial plant, to be located adjacent to the Beenyp Wastewater Treatment Plant in Craigie.

Kwinana Water Reclamation Plant at full capacity

To take pressure off our drinking water supplies, we supply treated wastewater to a number of businesses from the Kwinana Water Reclamation Plant. The plant began operating in late 2004 and is running at full capacity, providing 16.7 million litres of high-quality, industrial-grade water a day for local industry.

One of the largest plants of its kind in Australia, it reduces scheme and bore water demand by six gigalitres a year, or about two per cent of Perth's total use.

The expansion of the plant was announced in June 2008, which will see capacity increase from 16.7 million litres to 26.7 million litres of water a day in 2010.

ENVIRONMENT

Water and the environment are interlinked, and so in our activities we are careful to manage our influence on the natural surroundings.

New system improves environmental management

With every new significant project or water source, the Water Corporation is required to add another set of licences and conditions on our operations.

Currently we have 75 operating licences and 25 sets of Ministerial conditions, adding up to more than 2500 requirements. In addition there are 43 items of environmental legislation that apply.

To help meet the challenge of improving our environmental performance and these many legal requirements we have developed an Environmental Management System (EMS) which is being progressively applied to all of our operations.

Our EMS encompasses all these conditions and through regular monitoring and auditing will allow us to be more transparent about our impacts on the environment. It will be independently audited against the international standard for Environmental Management Systems (ISO 14001) during 2008-09.

Managing our biodiversity

We manage around one million hectares of land, about half of which is in the Southwest Ecoregion, one of only 34 Biodiversity Hotspots in the world and the only one in Australia.

To protect biodiversity we minimise land clearing and aim to maintain green corridors for habitats, catalogue flora and fauna on our land, revegetate purchased land to restore natural land values, control feral animals, manage weeds, annually inspect land to ensure adequate fencing and maintain fire breaks.

We are also conducting feasibility trials for the Ellenbrook Environmental Sustainability Initiative, aimed at changing local farming practices to reduce nutrient overload to the Swan River, which contribute to algal blooms and fish kills.

Case Study

ENERGY USE CUT TO HELP INDUSTRY IN CRISIS

The gas explosion on Varanus Island in June 2008 saw a dramatic and immediate 30 per cent reduction in Western Australia's available energy supplies.

We joined a general Government call for major organisations to reduce energy where possible. As at June 30, our main contribution was to reduce the operation of the Perth Seawater Desalination Plant to one sixth of its capacity at a time of the year when there would be no impact on water supply. This action resulted in a freeing up of critical supplies of carbon dioxide for use by other industries. It also meant that 18 megawatts of energy was also able to be diverted to other uses.

We conducted a thorough review of our other operational demands to identify where we could further assist in the crisis without impacting on water security.

In this way, we were able to offer to shift 3 megawatts of our load to off-peak times. Gas and distillate are the primary fuels used to satisfy the peak time demands, so shifting to off-peak frees up these fuels for other uses.

We applied energy-saving measures in our offices and encouraged our employees to reduce their home energy use.

We also investigated bringing forward maintenance on the Perth Seawater Desalination Plant to July 2008 to further save carbon dioxide and energy without impacting long-term water security.

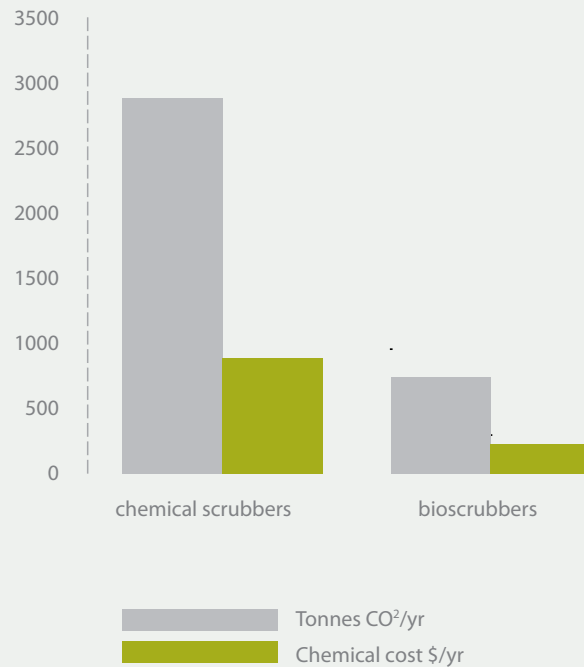
Cutting energy use has been a major focus because a lot of energy is required to treat and pump water and wastewater across vast distances.

In addition to starting a program of energy assessments in 2008 as part of the Energy Efficiency Opportunities Program, we fully funded a joint research project with the University of Western Australia aimed at optimising our pump maintenance to maximise energy savings.

To help avoid rolling blackouts in summer, we have an agreement as part of the wholesale electricity market where we reduce our energy consumption by turning off infrastructure or powering it from alternative sources during periods of high energy demand. This is beneficial to the whole community.

In the long-term, we aim to reduce our facilities' environmental footprint through sustainable design and operation.

Emissions by odour treatment technology



Using biological odour treatment technology (bioscrubbers) at the Woodman Point Wastewater Treatment Plant has significant long-term benefits, including reduced chemical costs and significant reductions in carbon dioxide (CO₂) emissions.

Buffer zones improve environmental outcomes

While the land around our facilities provides an important buffer for nearby residents, it can also be used to help increase local biodiversity, grow trees or re-use treated wastewater, offsetting the impact of our operations.

In January 2008 we signed a contract with the Forest Products Commission to rent the land around our wastewater treatment plants at York and Toodyay for growing trees.

This follows on from our successful arrangement with another forestry company at the Albany treefarm, where more than 500,000 Tasmanian blue gum trees have been irrigated with water from the Albany Wastewater Treatment Plant since 1995. A second tree farm was established at Albany this year, to receive recycled water from the treatment plant in summer 2008-09.

Using the land for forestry benefits the environment by greening the area, increasing biodiversity, screening out the treatment plant from view and helping us minimise the impact of our facilities on their surroundings.

Additionally, trees grown on these sites absorb carbon dioxide, offsetting some of our greenhouse emissions and reducing our environmental footprint. This is another small step towards our aspirational target of zero net greenhouse emissions by 2030.

Improvements cut odours from our wastewater treatment plants

This year we have employed innovative biological technology using natural bacteria to remove odorous compounds as part of improvements at the Woodman Point Wastewater Treatment Plant.

The combination of biological and traditional chemical odour control reduces chemical use, less carbon dioxide is released as a result of chemical manufacture, and the plant's greenhouse gas emissions are significantly reduced.

The new facility at Woodman Point will be one of the largest biological odour scrubber systems in Australia and is a key part of our commitment to reduce odour emissions from the plant by 50 per cent by the end of 2008.



WATER QUALITY

We employ hundreds of people across Western Australia to manage our 244 water supply schemes ensuring that our water meets stringent national guidelines.

Full marks for water quality

To ensure the quality of our water supplies, we follow strict requirements set by the Department of Health that are based on the Australian Drinking Water Guidelines (ADWG) developed by the National Health and Medical Research Council (NHMRC).

The Department of Water protects and manages drinking water sources in Western Australia and we work closely with it to protect drinking water supplies.

While potentially many factors can degrade the quality of water sources, including contaminated runoff from urban, agricultural and industrial areas, the multiple barriers we use ensure the provision of safe drinking water. Barriers against contamination include catchment protection (to minimise the need for extensive treatment), water treatment and disinfection before it is distributed to customers.

Our microbiological performance this year has seen 100 per cent of metropolitan and country localities meeting the extremely high standard set by the Department of Health. For chemical-health (this includes metals and pesticides), similar high performance was achieved.

Key achievements for regional water quality this year saw the development of new treatment plants in Yalgoo, Wyndham and upgrades to the Denmark water treatment plant. See page 13 for more detail.

We also purchased two farms within the Mundaring Dam catchment area, replanting the land with native vegetation. This will help improve water quality as well as restore habitats for local fauna.

Case Study

ENSURING CLEAN WATER SUPPLIES ACROSS WESTERN AUSTRALIA

Challenge: Due to climate change and growth in regional areas, we are increasingly required to use alternative water sources, such as groundwater, dams with low water level or temporary sources. For example, at Denmark additional water was required from the Denmark River to supplement low levels in Quickup Dam.

Solution: In line with the implementation of the Australian Drinking Water Guidelines (2004), we have adopted a knowledge-based approach to the management of drinking water quality. This includes conducting a risk assessment from catchment to customer at Denmark and then identifying any potential hazards that could compromise drinking water quality. We then use a multiple barrier approach to ensure that for any single hazard there are at least two barriers to prevent the hazard affecting water quality.

Prior to bringing Denmark River online we engaged with the Department of Health to re-sign in November 2007 the Memorandum of Understanding which guides how our agencies work together. A strong relationship with the Department of Health is vital to achieving our fundamental aim of supplying safe water.

Results: This approach led to upgrades to the Water Treatment Plant at Denmark, to ensure that the drinking water supplied to our customers is safe 100 per cent of the time.

Looking Ahead: In the future, we are committed to meeting the requirements of the *Framework for the Management of Drinking Water* developed by the NHMRC. This involves completing risk assessments to ensure the adequacy of our barriers, delivering capital improvements to improve robustness of barriers and extending monitoring of our barriers to ensure that they are effective.



EMPLOYEES

We are dedicated to keeping our people safe, healthy and satisfied in their work.

More than 2500 employees across Western Australia

We have more than 2500 employees across the State in occupations including engineering, finance, science, communications, customer service, information technology and human resources.

Values revitalised to support positive culture

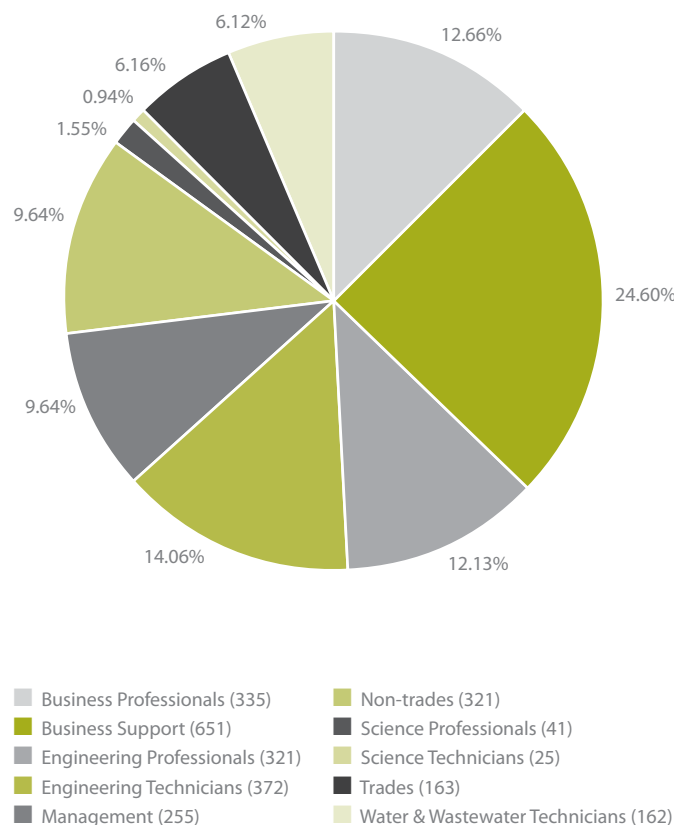
This year we continued to implement our Strategic People Management Plan which has five areas of focus to improve our culture further over the next two years, as identified in our 2006 Culture Survey:

- Becoming clear about what we value as a business and as individuals.
- Improving the way we assess and reward performance.
- Developing a stronger customer service focus.
- Developing more constructive styles of leadership.
- Improving how we recruit and promote so that we match people and their skills in their jobs.

We released our re-energised values in October 2007 and ran a series of *Living our Values* workshops to enable our people to learn about our values and consider how they can *live the values* in their roles. Now that we have completed these workshops, we will work in the coming years to *embed our values* into our organisation.

Performance management tools and processes have been revised to focus on the development of behaviours aligned to our values, and we have also developed line manager training, incorporating goal setting and performance management skills, to enable our managers to support and encourage their people to achieve their potential.

Employees by Job Family



This chart shows the breakdown of our workforce according to Australian and New Zealand standard classifications. Such information is used to assist in workforce planning.

Attracting and retaining talented people

Recruiting and keeping our employees is an important current focus, particularly given the demand for capable people from the booming mining and energy sectors and the growth and age structure of our organisation.

Guided by our Board's Human Resources and Remuneration Committee, we are giving this high priority. Programs currently in operation include:

- Apprenticeships and Traineeships that help create a pool of skilled and 'job-ready' trades people, water industry workers, and other para professionals. We currently have 30 apprentices and 25 trainees in business areas including engineering, construction, business administration, drafting and customer service. To support our commitment to building workforce diversity, over 20 per cent of the apprenticeships and traineeships are held by people from an Indigenous background.
- Our graduate development program that sees graduates rotate through different areas of our business over three years, with guidance and mentoring to develop their skills and help them reach their full potential. Currently 92 graduates are participating in the program.

Equity and Diversity

Representation (%)	Community Representation	2005 Actual	2006 Actual	2007 Actual	2008 Target	2008 Actual	2009 Target
Women in executive management	n/a	28.6	28.6	28.6	28.6	28.6	28.6
Women in senior management	n/a	9.1	6.8	9.3	15.5	10	17.0
People from culturally diverse backgrounds	17.0	17.5	9.3	12.6	17.5	10.2	17.5
Indigenous Australians	3.2	1.2	1.2	1.3	2.0	1.5	2.4
People with disabilities	4.0*	2.9	1.6	1.6	3.2	1.6	3.4
Youth (17-24)	11.5	3.8	4.3	5.2	4.8	6.1	5.5

* People with disabilities include people with a mild disability aged 16-64 years.

Employee volunteering program expanded

Our *Wavemakers* program has grown this year to reflect our employees' desire to live our values and commitment to our community, locally and globally. It now offers career and development opportunities through volunteering and support roles in communities both overseas and here in Western Australia.

There are four projects within the program:

1 Employee giving

This project was developed by Water Corporation staff in 2004 and enables our people to give pre-tax donations to a range of charities. The charities involved in our Employee Giving project are United Way, RSPCA, Carbon Neutral, World Wildlife Fund, World Vision and Water Aid.

2 SIM Ethiopia

In partnership with SIM Australia, a not for profit non-government organisation, we have sent two deployments to work with local people to develop an irrigation scheme in the remote settlement of Tufa, about 300 kilometres south west of the Ethiopian capital, Addis Ababa. The project plans to irrigate 40 hectares of farming land which will provide a broad range of crops to feed more than 18,000 people.

3 Engineers without Borders Australia

We have selected four volunteers to work on a design project to assist the community of Tenganan in eastern Bali to work with Engineers Without Borders to improve the quantity and quality of water delivered through their water supply system. We will send the first of our volunteers to Bali in July 2008.

4 Indigenous Healthy Communities

Indigenous Healthy Communities partners with remote indigenous communities in areas outside our operating licence, leveraging basic water and waste water services to provide health benefits to the community.

In our first project we will be working with the Ardyaloon Community (220 kilometres north of Broome) to use recycled wastewater to irrigate the football field so that the community can reinstate their local football team.

We have sent two teams to help the Ethiopian community of Tufa develop an irrigation scheme.





OCCUPATIONAL SAFETY AND HEALTH

We are committed to providing a safe and healthy working environment for all people associated with our activities and to providing injury management support to all employees who sustain a work related injury or illness.

Our focus is on maintaining employees at work or facilitating their earliest possible safe return to work in accordance with the requirements of the *Workers Compensation and Injury Management Act 1981*.

In accordance with the *Premier's Guidelines for reporting OSH and Injury Management Performance in Annual Reports 2008 and 2009*, we have reported on Lost Time Injury/ Disease (LTI/D) incidence and severity rates, in addition to the existing Significant Injury Frequency Rate.

Significant Injury Frequency Rate below target

Our significant injury frequency rate for 2007-08 is 7.61, below the target of 8.5.

The number of hazards and incidents reported in our SiteSafe corporate reporting system for 2007-08 was 2,185. This is a significant number, indicating an improved occupational safety and health culture.

OSH Reporting Significant Injury Frequency Rate (SIFR)



Please note: there has been an increased focus on reporting of hazards and incidents since 2006.

OSH PERFORMANCE 2007-08	TARGET	ACTUAL
Number of fatalities	0	1 (contractor)
Lost time injury/diseases (LTI/D) incidence rate	0 or 10% reduction on previous year	0.92
Lost time injury severity rate	0 or 10% improvement on previous year	0

Lost time injury/diseases (LTI/D) incidence rate: the number of lost time injuries/diseases where one day/shift or more was lost, in this financial year per 100 employees.

Lost time injury severity rate: the number of severe injuries (actual or estimated 60 days/shifts or more lost from work), in this financial year per 100 employees. It is a measure of incident/accident prevention and the effectiveness of injury management.

Occupational Safety and Health accreditation

This year we received the WorkSafe Plan Gold certificate of achievement for completion of whole of Corporation accreditation. The results of our preliminary assessment were: management commitment 84 per cent, planning 83 per cent, consultation 90 per cent, hazard management 76 per cent and training 85 per cent. These ratings indicate that we are well on our way to achieving Platinum recognition, requiring 90 per cent in each element. This score highlights the effectiveness of our OSH Representatives and the system for consultation on OSH matters.

Improving the health of our workers

Cancer prevention is a major focus, given many of our staff work outdoors. A mobile skin cancer program screened over 600 employees while educating them about risk factors, prevention strategies and treatment options for common cancers.

Flu vaccinations were provided for employees wishing to make use of this service.

We also launched the 'Fruit at Work' initiative which includes regular fresh fruit deliveries to offices and depots to encourage employees to eat more fruit and raise awareness of the importance of a balanced diet in preventing bowel cancer.

Continuous improvement of all work systems

The Water Corporation's Fatigue Management standard will be launched in October 2008 and implemented across the business. All employees exposed to fatigue will participate in a Fatigue Management education program. A Fatigue Management Plan will be required from all areas of risk, and from contractors involved in work where fatigue risks are likely.

Prevention of falls in the workplace was a key area of focus over the past year. A significant capital program over 10 years will also manage the broader risk of falling from heights.

Safety network formed with alliance partners

We developed a network of OSH professionals and safety representatives from the Water Corporation, our alliance partners and contractors strengthening relationships and discussing shared challenges such as fatigue management, health promotion and OSH in design. These meetings and workshops were highly successful and we will maintain a close working relationship with our contractors in implementing and sharing OSH programs.

WORK SAFETY PRACTICES CHANGED

Sadly our safety performance this year was not fatality free. Unfortunately a contractor died whilst attending to a routine inspection of a sewer. The incident is being investigated by WorkSafe.

Following the incident, all employees and contractors were ordered to cease all non-emergency work involving working around sewer access chambers as well as other situations where there was a fall risk, including all CCTV work. For emergency work, strict rules were applied when working near an opening. This was followed up with an Interim Operating Instruction issued to staff, our contractors and the industry.

Work practices continue to improve in relation to working in and around access chambers, valve pits, pumping stations and in other locations where there is a fall risk.

Looking Ahead: In July 2008 the Corporation will launch a new occupational safety and health campaign, around the concept of Zero Harm.

Zero Harm aims to eliminate incidents that cause injury to our people and will focus on changing our behaviour so that safety is a priority.

CUSTOMER SERVICE

We aim to provide excellent customer service, promptly responding to enquiries and complaints and provide timely advice of works that may disrupt services.

Our Performance

Over the past year our Call Centre and Operations Centre received 739,000 calls from customers, and a further 27,000 customers contacted us in writing or in person.

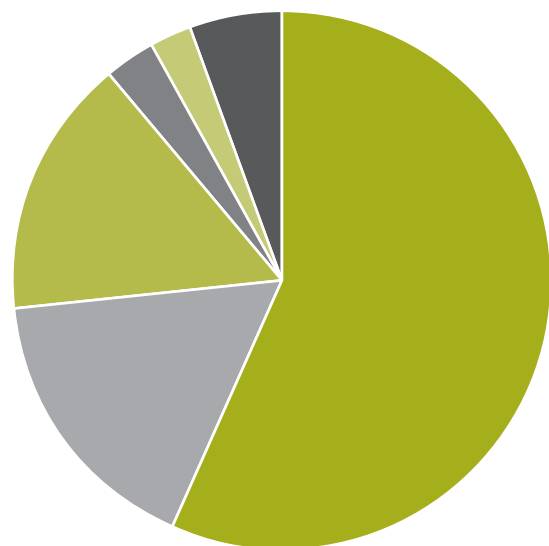
Around 32,000 of the contacts made by customers were complaints. Our formal complaints handling process includes a dedicated Correspondence and Complaints Coordinator with responsibility for monitoring response times and ensuring the highest level of compliance with our Customer Charter.

It is our aim to resolve all complaints within 21 days, and we achieved this in 99 per cent of cases during 2007-08. We also responded to 96 per cent of correspondence within ten business days.

Our Customer Service Record

Action/Commitment	2007-08	2006-07
Calls received by Operations Centre	169,000	167,000
Calls received by Call Centre	570,000	577,000
Complaints received	33,749	36,000
Complaints resolved within 21 calendar days (%)	99.7	99.0
Complaints resolved within 2 business days (%)	94.6	97.0
Written correspondence answered within 10 business days (%)	96.3	97.0

Customer Complaints by Category



- Water Operations (e.g. pressure and flow, no water, property connections)
- Wastewater Operations (blockages, overflows, odour)
- Water Quality (e.g. dirty water, stained laundry, taste and odour)
- Billing Response (explanation of account, customer or account details)
- Water Conservation (sprinkler roster breaches or exemptions)
- Other (consists of a further 19 categories)

Customer Advisory Council

Our Customer Advisory Council continues to help us better understand community attitudes towards our planning, development and delivery of products and services. This year, the Council provided advice on our promotional campaigns, the Water Forever program, tariff reforms and the review of industrial waste charges.

Making services and information more accessible

Our Disability Access and Inclusion Plan (DAIP) ensures that facilities, events and information are easily accessible to all customers. This year we introduced a training program for all employees and contractors to ensure they understand issues customers face and how to best resolve them. Our approach has been commended by the Disability Services Commission, which is promoting our on-line training program as a model for all State Government departments and agencies.

Customer Service Excellence Award

In 2007, our Customer Services Division received the Customer Service Institute of Australia award for Service Excellence for a division within a large organisation in Western Australia. The award acknowledged our commitment to community engagement, understanding customers' expectations and range of water saving strategies to sustain one of the lowest levels of water restrictions in Australia.

Service links customers with approved plumbers

Nearly 90 per cent of sewer blockages reported to us are in internal pipe work. For all work inside your property boundary, a licensed plumber is needed, but with few in Perth working after-hours it can be difficult to have the blockage attended to quickly. Our SewerSmart service allows us to immediately provide customers with contact details for available, specially-trained plumbers. Since August 2007, the program has dealt with around 300 problems and reduced call outs for our field crews. We plan to expand SewerSmart to major regional centres and seek further partnerships with the plumbing industry.



Case Study

LIAISON ROLE PROVIDES CUSTOMER CARE DURING INCIDENTS

Challenge: Historically, when infrastructure problems affected customers, our primary focus was on repair or replacement. As such our management of customer issues was often ad hoc. This was highlighted by several incidents in 2005.

Solution: As an organisation we wish to demonstrate to our customers and communities our willingness to help and offer understanding for any inconvenience or concern caused by these incidents. A Customer Liaison role was established to coordinate our future efforts, providing a single contact point for customers for help and information, freeing our operational teams to identify and solve the issue without interruptions. Our first Customer Liaison Coordinator has assisted with major sewage flooding incidents and a major water distribution main burst in Victoria Park in March this year.

Results: During this incident, the Customer Liaison Coordinator acted as our 'face' for affected customers, arranging emergency accommodation for one resident whose home was flooded and coordinating information for surrounding residents about the repairs and later follow-up works. Daily contact with affected customers on issues of insurance, transport and accommodation continued for weeks after the incident.

Looking Forward: Although we aim to minimise infrastructure problems that affect customers, it is inevitable that some will occur in systems as large and wide-ranging as those we manage. We aim to provide a single point of contact for customers who are adversely impacted by incidents, with the objective being to provide whatever post incident support and customer care that is required.

COMMUNITY AND STAKEHOLDERS

We maintain close ties with the community, listening to people's concerns and aspirations through support of a range of cultural and indigenous partnerships.

New partnership with Kings Park

Our partnership program supports many community events and activities throughout Western Australia. It's about putting something back into the communities in which we operate, with a focus on community education. Major partners include Kings Park Botanical Gardens, the Art Gallery of Western Australia, Perth Zoo, WA Symphony Orchestra, Swimming WA and Scitech.

This year we launched The Wilderness project with Kings Park, committing \$1 million over three years to develop an educational facility within the park.

A six hectare area will be transformed into five themed precincts and will feature a dedicated discovery learning precinct and four interactive bushland and wetland areas.

The project aims to change water usage attitudes and behaviours of current and future generations of Western Australians towards positive environmental action, sustainable management practices and long term water conservation.

Community art project promotes a positive message

In 2007, Port Hedland resident Suzanne Pollard approached us with a proposal to display paintings on a water tank in South Hedland. Schools and community groups submitted artwork associated with water and life in the Pilbara and seven winning paintings were unveiled on our South Hedland tank in November. We supported this one-off trial for 12 months through our community sponsorship program.

Community helps select site for Mundaring Water Treatment Plant

After lengthy and intensive community consultation, the Department of Environment and Conservation (DEC) depot site off Mundaring Weir Road has been selected for a new water treatment plant to supply the Goldfields and Agricultural Water Supply Scheme. The new water treatment plant is scheduled to be operating in 2013.

There is broad community support for the DEC depot site, but it was not a unanimous choice. However, a decision needed to be made and analysis of the various site options and of the consultation finding indicated that this site was highly satisfactory. It performed well in the key areas of environmental, social and economic considerations.

The decision to build the facility at this location resolves the original concerns of many Mundaring community members who did not want the water treatment plant to be located at Sawyers Valley Hill.

Assessing the social impact of our activities

When the State Government announced in May 2007 that the Southern Seawater Desalination Plant (SSDP) would be constructed on a site at Binningup, the local community was surprised and angry. This was understandable, because no community consultation had taken place during the site selection process. Through meetings and workshops the community told us that it was concerned for the environment, and the impact the project could have on their way of life. Extensive community consultation will continue throughout the planning, construction and operational phases of the SSDP project.

To better understand the social issues, we commissioned a Social Impact Assessment (SIA) in August 2007. This identified that both the Water Corporation and the local community agreed that community identity and sense of place must be retained and supported, that the natural environment should be protected and enhanced for future generations, that the project should cause minimal impact on residents and that the safety of both the community and our people are of utmost importance during the construction and operation of the plant.

One of the key recommendations adopted from the SIA was that the Water Corporation establish a Community Reference Group (CRG) to enhance communication between the community and the project. The purpose of the CRG is to help build our relationship with the impacted communities, providing advice on local projects we may support as part of our long-term commitment to Binningup and Myalup. The Water Corporation genuinely wants to understand the community's priorities and concerns that exist currently, through construction and on to operation. The CRG is a formal way for us to draw on local knowledge to help build the most environmentally and socially sustainable plant possible.

Indigenous Engagement

Our Indigenous Engagement strategy focuses on Native Title and Indigenous Heritage management, Indigenous employment opportunities and enhanced community relations.

A one year Indigenous Community Relations Officer trial was completed in the Mid West Region in March 2008. The role focused on stakeholder engagement, increasing our own cultural awareness and creating employment opportunities for local Aboriginal people. Recent research shows Mid West stakeholders have responded positively and the success of this pilot program will see it expanded across the state.

We have established guidelines for Aboriginal cultural heritage monitors. The monitors were employed to identify Aboriginal heritage sites during the construction of the Geraldton to Northampton pipeline.

We also entered into a three-year, \$150,000 a year sponsorship partnership with the Clontarf Foundation Academy that provides Water Corporation traineeships for graduates.



Case Study

COMMUNITY SUPPORT HELPS SECURE NORTHAMPTON'S SUPPLIES

Challenge: Like many other regional towns, Northampton's water supplies have declined following several years of low rainfall. Following an unsuccessful drilling program to increase production from the town's borefields, Northampton was placed on Stage 5 water restrictions in early 2006 to focus the community on water efficiency while a new, long-term source was developed.

Solution: This source was the 44-kilometre pipeline from Geraldton to Northampton, targeted for completion by Summer 2007-08.

To manage demand during construction, we retrofitted more than 300 residential homes and business premises with water efficient products such as low-flow shower heads, dual-flush toilets and tap flow regulators and provided free mulch for Northampton residents. Regular community updates, including water saving ideas for both inside the home and in the garden were also provided.

Results: Despite challenges including a shortage of construction companies and labour, the Geraldton-Northampton pipeline became fully operational in February 2008, securing future supplies to the Northampton community.

The community's support and consultation with the Shire of Northampton, local landowners and indigenous stakeholders, including four registered Native Title claim groups (the Hutt River, Naaguju, Amangu and Mullewa Wadjjarri) was crucial to achieving completion of the project three months ahead of schedule. All stakeholders worked together amicably through the Native Title process, heritage surveying and monitoring of ground disturbance works during construction.

Looking Forward: While Northampton now enjoys the benefits of a consistent and reliable water supply, the ongoing water conservation initiatives adopted by the local community have also substantially improved the town's water efficiency.



Note: This photograph was taken prior to the introduction of brims on safety helmets.

WESTERN AUSTRALIA'S ECONOMY

We make a significant contribution to the Western Australian economy, stimulating and supporting the State's continued growth.

Continued positive financial results

We achieved an after-tax profit in 2007-08 of \$527 million, up 2.6 per cent on the previous year.

Total revenue grew by 7.2 per cent to \$1.7 billion, attributable for the most part to continued growth and price increases, and Community Service Obligations (CSO) contributions. CSOs are contributions from the State Government that subsidise water services provided by the Corporation for community benefit that do not raise sufficient revenue to fund their costs.

Revenue growth increased net cash inflows from operating activities by 9.4 per cent to \$819 million.

Operating expenditure also increased, by 8.6 per cent to \$821 million, reflecting the continuing growth in the number of properties serviced, external cost pressures due to the booming Western Australia economy, and costs associated with the operation and maintenance of our increasing capital infrastructure, most notably the Perth Seawater Desalination Plant.

The average general price increase approved for the year totalled 7.1 per cent. This included a general price increase of 4.8 per cent, as well as additional specific price increases for our water, wastewater and drainage businesses to provide for the significant capital investment.

Returns to the State

The Board approved dividend payments totalling \$391 million to the State Government, our sole shareholder.

Our dividend policy is to pay 85 per cent of after-tax profits (excluding developers' take-over asset contributions) to the State Government. This policy returns value to our shareholder while ensuring there is sufficient cash to meet our business needs. Our dividend forms part of the State's Consolidated Revenue and is used to meet broader State commitments.

We are also required by the Australian Taxation Office to lodge an income tax return and pay tax equivalents to the State, separate from any dividends.

We received a CSO payment from the Government of \$399 million to provide non-profitable services, mostly in rural and remote areas of the State. The CSO contributions received from Government partially offset the dividends and tax payments we provide.

The separation of tax and dividends payments and CSO receipts provides transparency of payments to and from Government.

Investing in infrastructure

The significant infrastructure investments we make directly benefit the community and a wide range of local private industry partners who assist us in their construction, maintenance and operations. In so doing, we employ, both directly and indirectly, a significant number of Western Australians.

Through our Partner Delivery Program we were able to deliver a record \$810 million capital investment program for 2007-08, that included investment of \$342 million in our water business and \$311 million in our wastewater business.

Key partner delivery projects

Project Bundle	Partners	Bundle Value (\$m)	2007-08 Expenditure (\$m)	Timeframe
Risk Overflows and Sewer Relining	Parsons Brinkerhoff	\$92m	\$18m	2006-2008
Kalgoorlie Reservoir	Clough, KBR	\$85m	\$20m	2006-2008
Alkimos Wastewater Scheme	Multiplex, McMahon, Zublin	\$334m	\$93m	2007-2009
Large Steel Tanks	GHD	\$131m	\$12m	2005-2009
SCADA Integration Services	ABB Australia	\$22m	\$3m	2006-2009
SCADA Systems Integrator Services	Serck Controls	\$94m	\$8m	2003-2009
South Metropolitan Wastewater Treatment Plants	Sunset Coast Alliance (John Holland, Worley Parsons, KBR)	\$140m	\$64m	2006-2009
Pipelines and Pump Stations	PPS Partnership (Transfield Services, SKM)	\$318m	\$67m	2006-2011
Metropolitan Wastewater Treatment Plants	W2W Alliance (Black & Veatch, Thiess, SKM)	\$450m	\$56m	2006-2011
Metropolitan Groundwater Treatment Plants – Automation and Centralisation	A+Ction Alliance (Leicon Notley, GHD, Serck Controls)	\$98m	\$16m	2005-2013
		\$1764m	\$357m	

Debt and borrowings

The considerable capital investment program over recent years has resulted in a significant increase in our level of debt. Almost half of our 2007-08 capital investment program was funded from net operating cash flows, with \$393 million funded from new borrowings. Net debt increased by 22.1 per cent to \$2.2 billion as a consequence.

The additional borrowings resulted in an increase in our debt-to-total assets ratio to 18.9 per cent from 16.3 per cent in 2006-07. As a result, interest cover weakened to 5.2 times (2006-07: 5.8 times) but still remains at a level where we can comfortably service our debt.

Supporting the State's growth

The water and wastewater services we provide make possible the development of residential land, the growth of our towns and cities, and meet the needs of commerce and industry across Western Australia.

We've seen this in the form of continued land development and building activity, with 22,220 lots cleared generating total developer contributions of \$234 million (slightly lower than 2006-07 results of a record 25,349 lots, and \$264 million in contributions).

As a result of our Infill Sewerage Program, property owners throughout the State have also benefited from access to reticulated wastewater systems, reduced costs for maintaining their own septic systems and in some cases, increasing property value due to the potential subdivision of their land. The ongoing work it has provided since 1994 also helped create a new contracting industry. The program now uses more than 18 contractors who have developed specialised wastewater scheme construction skills. New trenchless technologies and methods have been developed, minimising disruption to customers and property rehabilitation costs.





Case Study

THE FUTURE OF WESTERN AUSTRALIA'S WATER INDUSTRY

Challenge: To maximise the benefit to our customers from competition and private sector participation in Western Australia's water and wastewater services sector.

We are continually seeking ways to improve the delivery of services, and this could extend to the private sector being positioned to build, operate and own new water sources and wastewater treatment facilities.

Currently more than 95 per cent of our annual capital works program (currently running at about \$1 billion) is delivered by the private sector through competitive processes.

There is also debate about whether reforms similar to those in electricity could be applied to the water industry. Proponents tend to underestimate the greater linkage between optimal water source operations and distribution compared to electricity, and the added complication of the uncertain value of retaining water in storage.

Solution: In consultation with the private sector in 2006-07, we developed a model to maximise the effective participation of the private sector in the provision of new water sources, while ensuring security of supply and the integration of source procurement with overall scheme planning.

Under this model, we would undertake planning and regulatory approvals for the most likely new sources, then initiate a bidding process where the private sector could bid to build, operate and own these sources. This process would ensure a viable private sector bid when a new source is required.

The Economic Regulation Authority (ERA) recently proposed an alternative model, following an inquiry into Competition in the Water and Wastewater Services Sector directed by the State Government.

In its final report provided to the Treasurer on 30 June 2008, the ERA recommended an Independent Procurement Entity (IPE) be established to undertake the procurement of new water sources.

While this model closely parallels our own, the initiation and assessment of new sources would be undertaken by an independent body.

We believe this model has major implications for the delivery of services to customers because it separates decision making on future water sources from the overall planning and provision of water and wastewater services.

We have argued that our model should be adopted in preference to the proposed IPE model as it has several significant advantages:

- It eliminates the conflict of interest that arises if we develop a source proposal. Under the ERA's model we would be both a competitor and a party to the negotiation of any water supply agreement for a private sector project.
- Companies have already indicated a willingness to participate and allocate their best teams under our source prequalification process.
- The ongoing cost of our model would be much less than establishing an IPE, and support people would be productively retained within the Water Corporation during the periods between source developments.

Looking Forward: We will argue for and continue to progress the implementation of our preferred private sector participation model, which will encourage future private sector ownership of new water sources and wastewater treatment plants.



SECTION 4 CORPORATE INFORMATION

SECTION 4
CORPORATE INFORMATION



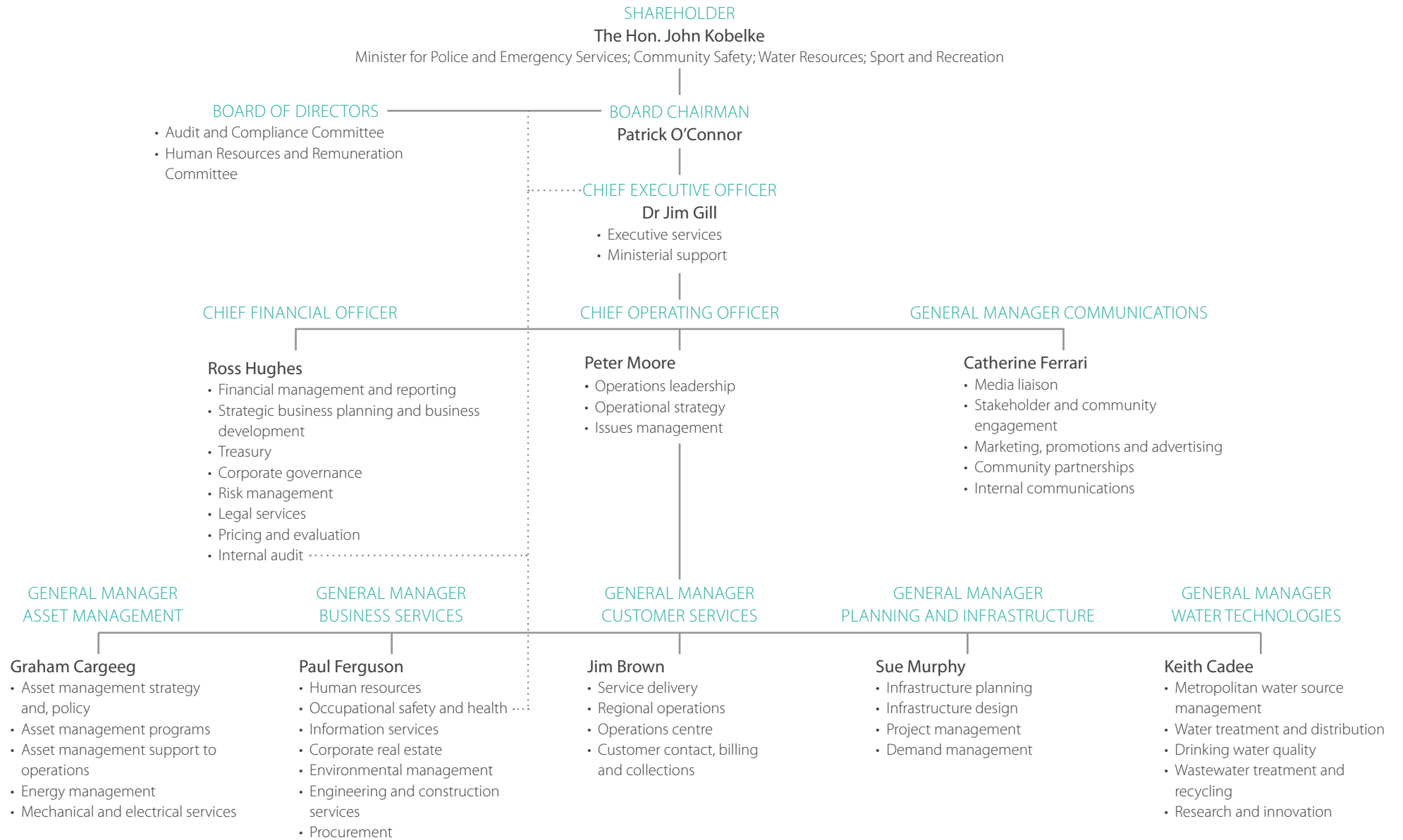
Water Corporation Board members L-R: Brian Hewitt, Karen Field, Zelinda Bafle, Chief Executive Officer Jim Gill, Robert Harvey and Chairman Patrick O'Connor. Andrew Bantock (inset).

BOARD MEMBERS

Director	Experience	Committee Membership
<p>Mr Patrick O'Connor Chairman (Age: 45) <i>BCom, FAICD, SEP Stanford</i></p>	<p>Mr O'Connor is a professional Company Director and has been a member of the Water Corporation Board since 2003. Currently: Director of St George Capital Pty Ltd. Executive Chairman of Perilya Limited and Non-Executive Chairman of Xceed Capital Limited. Appointed January 2003, term expires 31 December 2008.</p>	Human Resources and Remuneration Committee
<p>Dr Brian Hewitt Deputy Chairman (Age 63) <i>BE(Hons), PhD, MBA, FIE Aust, CPEng FAIM, FAICD</i></p>	<p>Dr Hewitt has a depth of experience in the areas of corporate development, strategic planning, corporate governance, project management and property development. Currently: Chairman of the Advisory Board of the Georgiou Group. Non-executive director of the PCH Group. Chairman, State Infrastructure Strategy Reference Group. Adjunct professor at the University of Western Australia. Councillor and Board member, Chamber of Commerce Industry, Western Australia. Board Member, Australian Chamber of Commerce and Industry. Previously: Chief Executive Officer and Managing Director of Clough Limited. President of the Chamber of Commerce and Industry, Western Australia. Appointed January 2004, term expires 31 December 2009.</p>	Audit and Compliance Committee
<p>Dr Jim Gill (Age 61) Chief Executive Officer <i>BE(Hons), PhD (Cambridge), MPA (Harvard), FTSE, FIE Aust, CP Eng, FAICD</i></p>	<p>Dr Gill has been Chief Executive Officer of the Water Corporation since 1996. Previously: Chief Executive Officer of Western Australia's state railway system. President of WA Division, Australian Institute of Company Directors. Chairman of WA Division of Engineers Australia. Chairman of Advisory Board, Graduate School of Management, University of Western Australia; Member of Senate, University of Western Australia. Chairman of Water Services Association of Australia. Chairman of Railways of Australia.</p>	
<p>Mrs Karen Field (Age 60) <i>BEc</i></p>	<p>Mrs Field has spent over three decades in the mining industry and has a strong background in human resources and project management. Currently: Non-executive director of Sipa Resources Limited, Perilya Limited, Electricity Networks Corporation and the Cooperative Research Centre for Sustainable Resource Processing. Voluntary director, Amana Living (formerly Anglican Homes Inc). Previously: President of Minera Alumbrera Limited (Argentina) Appointed January 2006, term expires 31 December 2010.</p>	Chair: Human Resources and Remuneration Committee
<p>Mr Andrew Bantock (Age: 42) <i>B.Com ACA</i></p>	<p>Mr Bantock is a Chartered Accountant with extensive professional, corporate and commercial experience in the resources, resource contracting and infrastructure sectors. Currently: Executive Chairman of Chalice Gold Mines Limited. Managing Director of Lioatown Resources Limited. Corporate Director of Uranium Equities Limited. Previously: Director of GRD Ltd, GRD Minproc Ltd and Global Renewables Ltd. Appointed June 2006, term expires 31 December 2009.</p>	Chair: Audit and Compliance Committee
<p>Ms Zelinda Bafle (Age 52) <i>LLB, FAICD, FCIS, SF Fin</i></p>	<p>Ms Bafle has practised as a lawyer for over 30 years, and has over 20 years commercial experience and governance expertise in the banking and finance industry. Currently: Chairman of the John Curtin Gallery. Board member of the Forest Products Commission, Corporations and Markets Advisory Committee, Curtin University Council, Friends of the Perth International Arts Festival Board, and Podiatrists Registration Board. Previously: Chairman of the Resources Unit for Children with Special Needs Inc and the Francis Burt Law Education Centre; Executive, Home Building Society Ltd. President of the Corporate Lawyers Association (WA Chapter). Appointed July 2007, term expires 31 December 2010.</p>	Audit and Compliance Committee
<p>Professor Robert Harvey (Age 59) <i>BE (Hons), MBA</i></p>	<p>Professor Harvey is Executive Dean, Faculty of Business and Law and Pro-Vice-Chancellor (Engagement) at Edith Cowan University. Previously: Member of the State Water Planning Review Panel, providing independent advice to Government on the State Water Plan. Executive Director of the Department of Justice. Director, Department of Contract and Management Services. Manager, Planning, Water Authority of Western Australia. Appointed July 2007, term expires 31 December 2008.</p>	Human Resources and Remuneration Committee



ORGANISATIONAL STRUCTURE



EXECUTIVE TEAM



Peter Moore

Age 57

Assoc Civil Eng, GradDip Mgmt, CP Eng, FIE Aust, GAICD, MAWA

Chief Operating Officer

Mr Moore has a long history in the water industry commencing in 1970. His career with the Corporation spans operations, water supply and treatment, planning, regional management and project delivery.

He has played a significant role in shaping Western Australia's water industry, as project manager for the establishment of the Corporation in 1996 and as part of the Corporation's executive team for the last 12 years.

Mr Moore joined the executive team as a general manager in 1996 and attended Harvard University's Advanced Management Program in 1998. He has held the position of Chief Operating Officer since October 2006.

Mr Moore is a past State President of the Australian Water Association and former association board member.



Jim Brown

Age 62

GradDip Bus and Admin, CP Eng, FIE Aust, GAICD, MAWA

General Manager, Customer Services

Mr Brown is Chairman of the Water Corporation's Customer Advisory Council and the two major metropolitan Alliance Contracts. As General Manager, Customer Services he oversees the delivery of the Water Corporation's services to all customers in the State.

He is past President of the WA Division of Engineers Australia, a member of its Committee for the Centre for Engineering Leadership and Management, and a member of the Golden Pipeline Council.

Mr Brown resigned effective 1 July 2008 and is replaced by Ashley Vincent, former North West Region Business Manager.



Keith Cadee

Age 54

BE (Hons), ME, CP Eng, MIE Aust, GAICD, MAWA
General Manager, Water Technologies

Mr Cadee has more than 30 years' experience in the water industry. In his current role, he is responsible for water and wastewater treatment, drinking water quality management, water production and water recycling. He is also responsible for research and innovation in the Corporation.

Mr Cadee is a member of the Water Services Association of Australia's Water, Health, Environment and Sustainability Committee, and was a board member of the Cooperative Research Centre for Water Quality and Treatment from 1995 to 2008. He has been a board member of Water Quality Research Australia since 2007.

He is also a member of the Fluoridation Advisory Committee and the Advisory Committee for the Purity of Water established by the Department of Health.



Graham Cargeeg

Age 57

Assoc Applied Geology, Assoc Civil Eng, MBA, CP Eng, MIE Aust, MAWA

General Manager, Asset Management

Mr Cargeeg has more than 30 years experience in the water industry. Prior to his current appointment in November 2005, he was the Water Corporation's Regional Business Manager for the Perth Region for 10 years. In this role he was a member of the Alliance Leadership Team for each of the two Metropolitan Operation & Maintenance Alliance contracts.

He is currently a member of several of the Alliance Leadership Teams for Water Corporation Alliance Contracts and the Water Services Association of Australia's Asset Management Committee.



Paul Ferguson

Age 59
Assoc Civil Eng
General Manager, Business Services

Mr Ferguson is a civil engineer who has worked in the water industry for more than thirty years and has extensive operational, construction and strategic planning experience in both regional Western Australia and metropolitan Perth.

His career with the Corporation has seen him hold a leadership role in the water industry restructure in Western Australia of 1995, direct the implementation of SAP within the Corporation and manage other major restructuring and business improvement projects.



Catherine Ferrari

Age 49
BBus, PGradDipBus, MLM, FCPA, GAICD
General Manager, Communications

Ms Ferrari has a strong record in the strategic positioning of organisations and of engagement with key stakeholders and the community. She was appointed General Manager, Communications in 2004.

Since joining the Corporation she has built a team dedicated to changing the way the Corporation engages with all of its communities of interest.

Ms Ferrari was previously Chief Executive Officer of the West Australian Symphony Orchestra and Western Australian Director of the Australian Society of Certified Practising Accountants.

She is a board member of Screenwest, the West Australian Opera, and a trustee of the Legal Contribution Trust.



Ross Hughes

Age 47
BBus FCPA FAICD
Chief Financial Officer

Mr Hughes was appointed Chief Financial Officer in 2006 after a long career with HBOS Australia and BankWest.

Since joining the Corporation, he has led substantial reviews of the Balance Sheet, the corporate risk framework and development of the private sector model for selected ownership of the Corporation's assets and has championed the project to send teams to Ethiopia to help a community establish its irrigation scheme.

Mr Hughes' major roles at BankWest included positions as CFO of the Bank and the wider HBOS Australia.

He is a member of the Murdoch University Resources Committee, the Audit & Finance Committee of Baptist Homes WA and the Boards of Mandurah, Somerville & Winthrop Baptist Colleges.



Sue Murphy

Age 50
BEng (Hons), CP Eng, FIE Aust, GAICD
General Manager, Planning and Infrastructure

Mrs Murphy is a civil engineer, with many years experience in the field as a site engineer and project manager for Clough Ltd. In 1998, she was appointed the first female board member of Clough Engineering Ltd.

Mrs Murphy joined the Corporation in 2004 as General Manager Business Services and took up her current role as General Manager Planning and Infrastructure in 2005.

She has delivered a threefold increase in our capital program in this period using an innovative alliance style of contract partnering with the private sector to deliver projects such as the Perth Seawater Desalination Plant.

Mrs Murphy is deputy Chair of the Rottne Island Authority.

SECTION 4.1 CORPORATE GOVERNANCE

Good corporate governance is a fundamental part of the culture and business practices of the Corporation.

We will continue to pursue excellence in our processes with a focus on optimising asset management, delivering effective and efficient services, and providing quality products to our customers.

This section of the report includes a description of our main corporate governance practices during 2007-08. These form a framework to ensure that we act with high standards of corporate behaviour and in the best interests of our stakeholder.

The Board of Directors

The structure of the Board is subject to the following parameters:

- the Board must comprise at least six and not more than seven directors (one of whom is the Chief Executive Officer);
- the Chief Executive Officer is the only executive director;
- the directors are appointed for terms of up to three years and are eligible for re-appointment;
- the Governor, on the Minister's nomination, appoints the Chairman and Deputy Chairman from the non-executive directors;
- the Board should comprise directors with a broad range of skills and experience; and
- Board meetings are generally held once a month at the Water Corporation's head office in Perth.

Governance framework

As our governing body, the Board has the legislative authority to perform the functions and determine the policies that control our activities. It is responsible for our overall corporate governance and approves our goals, strategic directions and budgets. It ensures that legal compliance; ethical behaviour and proper risk management processes are in place and operate

effectively. Comprehensive monthly reports are provided to the Board to enable it to monitor performance.

Key activities

The Board, in consultation with Management, develops strategic direction for the Corporation for the immediate and long term horizons. The immediate horizon is considered in the Statement of Corporate Intent which covers the following financial year, and the Strategic Development Plan which covers the following five financial years.

Strategic direction for the long term horizon is considered specifically at the annual Strategic Planning day, and regularly at strategic discussion sessions during the monthly Board meetings.

Through its Audit and Compliance Committee and its Human Resources and Remuneration Committee, the Board fulfils its fiduciary duties and its responsibilities in reviewing the Corporation's human resources and remuneration policies and practices.

At its regular meetings, the Board considers:

- Strategy and risk issues.
- The capital program – current performance and proposed budget.
- The award of capital program projects.
- High level financial matters.

Appointment of Directors

The Governor has appointed non-executive directors on the nomination of the Minister for Water Resources. This is after consultation with, or on the recommendation of, the Board. Appointments are staggered to ensure that approximately one-third of the directors retire each year. Subject to reappointment, there is no limit on the time a director may serve on the Board. Their duties are not full-time.

The Minister appointed the inaugural Chief Executive Officer, with future appointments to be made by the Board, subject to the Minister's agreement. The Board can appoint a person to act in place of the Chief Executive Officer during a vacancy in that office.

During 2007-08, there were no changes to the composition of the Board.

Meetings

The Board held 11 meetings during 2007-08. Details of Directors' attendance at these meetings are set out in the table below:

	Board meetings attended*	Eligible to attend
Current Directors		
P O'Connor	11	11
J Gill	11	11
A Bantock	10	11
K Field	11	11
B Hewitt	10	11
Z Bafle	11	11
R Harvey	9	11

*The Board also held a Special Board meeting on 24 October 2007, which was attended by all Directors.

Independent advice and training

Directors can seek independent professional advice on Board matters at the Water Corporation's expense with the approval of the Chairman. No such advice was sought during the year.

Directors' and senior executives' remuneration

The Minister, on advice, approves the remuneration of non-executive directors. The Board, with the Minister's agreement, is responsible for the remuneration package of the Chief Executive Officer, with remuneration being reviewed annually. Non-executive directors receive no retirement benefits except for nine per cent superannuation guarantee payments.

The Chief Executive Officer has the delegated power to determine the terms and conditions of service for staff.

Accountability and independence

As prescribed in the Water Corporation Act 1995, directors are to act honestly, exercise due care and diligence, and disclose all material personal interest in matters involving the Corporation that are raised in Board meetings. The Board has complete

independence to determine the policies and control the affairs of the Corporation subject to restrictions imposed by the *Water Corporation Act 1995*. Ministerial approval is required for transactions that will have a material effect on the financial position of the Corporation.

Internal control

The Board through the Audit and Compliance Committee has overall responsibility for the Corporation's system of internal control and risk management. The Water Corporation maintains an effective internal control structure. It consists, in part, of organizational arrangements with clearly defined lines of responsibility and delegation of authority, and comprehensive systems and control procedures.

Management has the responsibility for establishing and maintaining the system of internal control that supports the achievement of the Water Corporation's objectives. This system of internal control is designed to manage and mitigate rather than eliminate the risks of failure to achieve business objectives. The system of internal control can only provide reasonable and not absolute assurance of the effectiveness of the systems of internal control implemented by management. An important element of the control environment is an ongoing internal audit program, managed by our Risk and Assurance Branch.

Risk management

Risk management is a key element of our governance framework.

We have an established risk management framework that provides a common understanding of risk and a set of processes for managing risk in accordance with Australian Standard AS/NZS 4360 Risk Management. The Framework ensures a formalised, structured and corporate-wide approach to the identification, evaluation and control of risks which have the potential to threaten the achievement of our objectives and our ability to provide services.

All managers are responsible for the identification and management of risks that will impact upon their business processes. The management of risk within the business is supported by process risk profiles. The process profiles consist of a register of process risks, key risks and associated action plans to ensure that risks are managed to an acceptable level.

A comprehensive commercial insurance program is maintained covering insurable risks which may have a significant impact on our assets, construction activities and legal liability.

Board effectiveness

The Board undertakes an annual review of its effectiveness through Directors' interviews and questionnaires. Areas for improvement are identified and implemented for future Board meetings.

Incoming Directors receive an informal induction, provided by the Chief Executive Officer, which includes familiarisation tours of some of the Corporation's facilities such as the Perth Seawater Desalination Plant and the Woodman Point Wastewater Treatment Plant.

Board committees

Committees of the Board that operated during the year ended 30 June 2008 were:

- Audit and Compliance Committee
- Human Resources and Remuneration Committee

Audit and Compliance committee

The Committee is chaired by Mr Andrew Bantock and includes Directors Dr Brian Hewitt and Ms Zelinda Bafle. Each member has lengthy corporate and/or financial experience in private enterprise and the necessary skills to undertake the Committee's responsibilities to oversee the Corporation's financial reporting principles and policies, controls and procedures and its auditing and risk activities.

Attendance at meetings

During 2007-08, the Committee met on seven occasions. The Committee is assisted by the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Office and the Manager Risk and Assurance. Other senior management attend as requested by the Committee to enable it to discharge its duties.

External attendees at various meetings during the year include staff of the Office of the Auditor General (OAG) and the external auditors appointed by the OAG to undertake the annual audit of the Corporation.

	Committee meetings attended	Eligible to attend
Current Members		
Mr A Bantock	7	7
Dr B Hewitt	6	7
Ms Z Bafle	4	5

Principal activities and duties

The Audit and Compliance Committee assists the Board in fulfilling its fiduciary, corporate governance and legislative responsibilities.

The committee's primary task is to monitor the effectiveness of internal controls and management reporting relating to financial and compliance matters and risk management. It oversees the financial management reporting process and ensures that external reports are prepared in accordance with the relevant standards.

The committee oversees the internal audit function and liaises with the external auditor.

A particular focus this year has been on the development of a Board Charter and the review of the Directors' Deed of Indemnity.

Management Review & Audit

The Corporation's internal audit function is managed by the Risk and Assurance Branch's Management Review and Audit section, which has the power to examine any matters referred to it by the Audit & Compliance Committee, the Board of Directors or the Chief Executive Officer. The group supports the Audit and Compliance Committee, General Managers and Senior Executives by reviewing independently and objectively the effectiveness of the controls and risk environment.

The scope of the group's work is to:

- Provide assurance that the systems of internal control are adequate, are able to perform efficiently and economically, and function effectively to achieve the desired goals and objectives.
- Evaluate compliance with applicable laws, legislation, corporate policy and procedures.

- Evaluate the reliability and integrity of financial and operational information and associated information management systems.
- Assess the adequacy of the means employed to safeguard assets.
- Undertake special projects as required.
- Provide reasonable assurance that the Corporation is ethical in its business dealings and is maintaining effective controls against conflict of interest, fraud, theft and corruption.

External auditors

In accordance with the *Water Corporation Act 1995*, the Corporation must have the financial report for a financial year audited by the Auditor General.

The Auditor General has outsourced the audit to KPMG for a three year period. Total auditor remuneration is shown in Note 16 to the Financial Statements on page 81.

Human Resources and Remuneration Committee

The Committee is chaired by Mrs Karen Field and includes Directors Mr Patrick O'Connor and Prof Robert Harvey. Each member has extensive experience in the corporate sector at a senior level and bring to the Committee the human resource skills necessary for the Committee to undertake its role.

Attendance at meetings

During 2007-08, the Committee met on seven occasions. The Committee is assisted in its duties by the Chief Executive Officer, the Chief Operating Officer, the General Manager Business Services and the Manager Human Resources. Other senior management attend as requested by the Committee.

	Committee meetings attended	Eligible to attend
Current Members		
Mrs K Field	7	7
Mr P O'Connor	7	7
Prof. R Harvey	4	4

Principal activities and duties

The key areas of focus include remuneration processes and practices, proposing criteria for selection of new Board members, and Board and Committee performance evaluation.

This year, the Committee has focused on the establishment of a revised remuneration and performance management system for common law contract employees and the general reinvigoration of the Corporation's human resources services.

Regulatory framework

A number of organisations regulate or have a significant impact on our operations. The principal organisations are:

- Economic Regulation Authority
- Department of Water
- Department of Environment and Conservation
- Environmental Protection Authority
- Department of Health
- Australian Competition and Consumer Commission (ACCC)
- National Water Commission.

Strategic Development Plan and Statement of Corporate Intent

We have a five-year Strategic Development Plan (SDP), reviewed every year, and a Statement of Corporate Intent (SCI) covering 12 months. The SCI is a public document and is in the form of an agreement with the Minister for Water Resources. It contains an outline of the Corporation's objectives and performance targets for the year.

These plans were developed for the 2007-08 year and presented to the Minister.

Performance monitoring and reporting

We provide written quarterly reports and this annual report to the Minister for Water Resources detailing our performance and progress made in fulfilling the SCI. Written quarterly reports on compliance with performance standards specified in the Operating Licence are also provided to the ERA. In addition, the Board and Corporate Executive receive written monthly performance reports covering a diverse range of financial and non-financial matters.

Ethical standards

We require all directors, employees and contractors to exercise high standards of ethical behaviour in carrying out their duties. A code of conduct is published on our internal website and all managers are required to monitor adherence to the standards. A report on compliance is forwarded to the Office of the Public Sector Standards Commissioner.

Security & Public Safety (Critical Infrastructure Protection)

Critical Infrastructure Protection and the ongoing development of the strategic and operational 'resilience' concepts remains a priority activity for the Corporation, with executive representation within the Federal Trusted Information Sharing Network (TISN) on the Water Services Infrastructure Assurance Advisory Group (WSIAAG) and the integration of the Corporations critical infrastructure protection work and standards into the Water Services Association of Australia (WSAA) Asset Management processes. The Corporation's multi disciplinary, risk based program, focuses on the 'Protection of our People, our Information and our Infrastructure,' with active participation in national and international critical infrastructure security projects and exercises, including the worlds largest cyber security exercise in March 2008, and hosting the national water sector security meeting in Perth.

The Corporation's Security and Public Safety program embraces the national and international 'all hazards' approach, with a risk based approach based upon legislative and standards compliance, and is integrated with the incident management, emergency management and business continuity programs.

External benchmarking by Federal and State agencies continue to assess the program development as at the forefront of the State agencies and the national water sector.

Supporting the program are proactive Executive and operational liaison processes with Western Australia Police, Federal and State agencies, including the Department of Premier and Cabinet security team, and the National Security Division of The Department of the Prime Minister and Cabinet.

2008-09 will see the ongoing integration of the evolving international and national body of knowledge and concepts of 'resilience' into our business continuity and multi-disciplinary planning processes.

Managing incidents

Our incident management process is based on national guidelines that have been adopted by emergency services and utilities throughout Australia.

This process encompasses all actions required to prevent controllable incidents and minimise the severity of those that do occur.

Incidents are reported in accordance with approved procedures and the requirements of Acts and Regulations. During 2007-08, we managed some 135 significant and major incidents.

Managing financial exposures

We have a central Treasury function to manage financial exposures in accordance with our Treasury Policy. Regular reporting ensures the Board can monitor financial risk management.

Information security management system

We maintain a security management framework that is based on the Australian Standard for Information Technology – Security Techniques – Code of Practice for Information Security Management AS/ NZS ISO/IEC 17799.2006.

State Records Act 2000

In accordance with Section 61 of the State Records Act 2000 and the State Records Commission Standards (Standard 2 – Principle 6), the Corporation has an approved Recordkeeping Plan that describes how records are created, maintained, managed and disposed of in accordance with the Corporation's Standards and Principles. Previous retention and disposal schedules; RD1999-013 and Ad Hoc schedule RD96-008 were replaced by a new approved schedule, RD2004278 in October 2006.

The Corporation conducted an evaluation of the efficiency and effectiveness of its recordkeeping system whilst preparing the Recordkeeping Plan and during the Corporate Document Management System (CDMS) upgrade project in 2006. A further evaluation will be conducted in 2009 on completion of a corporate-wide document management system deployment project.

Regular in-house records and document management training is conducted with feedback and evaluations sought from all attendees. All training material was reviewed and updated as part of the corporate deployment project in 2007.

The Corporation has implemented an online induction process for all new staff which includes employee's roles and responsibilities with regard to compliance with the approved Recordkeeping Plan, and includes 'information on record keeping and information management compliance for the Water Corporation' and 'information security awareness'.

Information management, including records management, is acknowledged as critical to the effectiveness and success of the business and the Corporation is committed to continuously improving its management.

Public interest disclosures

The *Public Interest Disclosures Act 2003* has been enacted to protect the privacy and confidentiality of both the individual making a public interest disclosure and the subject of that disclosure.

Public Interest Disclosure Officers for the Corporation have been appointed. Internal procedures relating to the Corporation's obligations under the Act have been developed and implemented in accordance with the guidelines provided by the Office of the Public Sector Standards Commissioner.

There were no public interest disclosures in the period under review.

Conflicts of interest

We have established procedures to identify, prevent, or resolve conflicts of interest, which are outlined in our procurement standards.

All our personnel with duties related to the negotiation of a contract must disclose current or prospective interests to their immediate supervisor. If known, they must also disclose the interests of members of their immediate family.

In such cases, we will assess the appropriateness of the situation and determine if the basis of that interest should be discontinued, or if the person should cease the duties involved, or if it is proper and ethical to continue the transaction.

Advertising codes

We comply with the Advertising Federation of Australia Code of Ethics. In addition, our advertising agencies have full compliance policies with the ACCC. There were no breaches or complaints recorded in the reporting year.

Reportable expenditure

The *Electoral Act 1907* (S. 175 ZE) requires the disclosure of certain categories of expenditure. Details of the organisations contracted and the amounts paid for the financial year are as follows:

Advertising agency

(The Brand Agency)	\$183,529
(303 Advertising)	\$2,634,995 #

Media advertising

(Media Decisions)	\$3,385,733 #
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Market research

(Synovate)	\$628,867
(Data Analysis Australia)	\$92,489

These amounts include costs incurred for the State Government funded Water Efficiency Measures program.

Freedom of information

We met our obligations under the *Freedom of Information Act 1992*.

During 2007-08 we received 25 applications. 17 were provided full access, three were provided with edited access, two were denied access, one was provided outside the Act and two were on hand at the end of the year. One internal review was requested and full access was provided.

Fees and charges totalling \$949.00 were received for processing these applications with 26.7 days being the average processing time.

SECTION 4.2 DIRECTORS' REPORT

The directors of the Water Corporation present their report for the 12 months ended 30 June 2008.

Directors

The following persons were directors of the Water Corporation at the date of this report:

Mr Patrick O'Connor, Director since 1 January 2003 (Chairman)

Dr Jim Gill, Chief Executive Officer since January 1996

Mr Andrew Bantock, Director since 1 June 2006

Mrs Karen Field, Director since 1 January 2006

Dr Brian Hewitt, Director since 1 January 2004

Ms Zelinda Bafle, Director since 1 July 2007

Professor Robert Harvey, Director since 1 July 2007

Directors' biographies are shown on page 40.

Principal activities

The Water Corporation was established as a body corporate under the provisions of the *Water Corporation Act 1995* and is the principal water utility in Western Australia. Water, wastewater, drainage and irrigation services are provided under this Act and other legislation and subsidiary legislation, which controls the water industry.

The principal functions of the Corporation in the course of the financial year were to:

- acquire, store, treat, distribute, market and otherwise supply water for any purpose;
- collect, store, treat, market and dispose of wastewater and surplus water;

- undertake, maintain and operate any works, system, facilities, apparatus or equipment required for any of these purposes;
- develop and turn to account any technology, software or other intellectual property that relates to any of these functions;
- manufacture and market any product or by-product that relates to any of these functions; and
- use expertise and resources to provide consultative, advisory or other services for profit.

There has been no significant change in the nature of these activities during the year.

Operating results

We made a profit before income tax of \$755 million (2007: \$731 million). On an after-tax basis, profit was \$527 million (2007: \$513 million).

Dividends

Dividends paid or declared by the Water Corporation since the end of the previous financial year were:

Declared and paid during the year 2007-08

	Total Amount \$M	Date of payment
Final 2006-07	46	31 Oct 2007
Interim 2007-08	345	30 June 2008
Total Amount	391	

Declared after end of year

After the balance sheet date, the directors have proposed a final dividend of \$37 million for the 2007-08 year, payable on or before 31 October 2008. The dividend has not been provided and there are no income tax consequences. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2008 and will be recognised in subsequent financial reports.

Review of operations

The Water Corporation operates in a regulatory framework comprising the ERA, the DoW and the DEC. Clear commercial objectives and strict environmental targets and accountabilities have been established through the SCI and a system of licences through the various regulators.

During the year, the Corporation supplied 352,355 megalitres of water and treated 148,257 megalitres of wastewater.

Environmental performance

The Water Corporation is subject to particular and significant environmental regulations under both Commonwealth and State laws. These include:

- *Environment Protection and Biodiversity Conservation Act (Cwlth) 1999*
- *Environmental Protection Act 1986*
- *Contaminated Sites Act 2003*
- *Aboriginal Heritage Act 1972*
- *Dangerous Goods Safety Act 2004*
- *Poisons Act 1964*

Under the *Environmental Protection Act 1986*, we are required to report any unplanned incidents that have the potential to do harm to the environment.

It is inevitable with significant infrastructure across the State that unplanned incidents will occasionally occur and that some of these will affect the environment, public health and public amenity. Our incident management process ensures a fast and effective response to such accidents or incidents.

Our environmental performance is underpinned by our Environmental Policy and Environmental Management System which enable systematic identification of environmental risks, setting of targets and development of environment improvement plans to reduce risks and ensure our activities are sustainable. This system is based on implementing best practice, meeting our legal requirements and rigorous monitoring and reviewing of our performance. (See also page 24)

Ministerial directions

Under section 64 (1) of the *Water Corporation Act 1995* the Minister may give directions in writing to the Corporation, generally with respect to the performance of its functions and, subject to section 65, the Corporation is to give effect to any such direction. During the period under review, the Minister directed that the Corporation include the Act for the Future State Government branding on all broadcast media, website and print advertising issued as part of the Water Corporation's Water Forever campaign.

State of affairs

There were no significant changes during the year ended 30 June 2008 in the state of affairs of the Water Corporation not otherwise disclosed in this report, or the financial statements.

Events subsequent to balance date

Since the end of the financial year on 30 June 2008 and the date of the release of this report, the directors are not aware of any matter or circumstance not otherwise dealt with in the report or financial statements that has significantly, or may significantly, affect the Corporation's operations, the results of those operations, or the Corporation's state of affairs in subsequent financial periods.

Likely developments

Likely developments in our operations are covered elsewhere in this report. Any further information regarding likely developments in the operations and expected results of those operations in subsequent financial years has not been included in this report because, in the opinion of the directors, it would prejudice our interests.

Directors' interests and benefits

In the 12 months to 30 June 2008, no director received, or became entitled to receive, any benefit (other than a benefit included in the total amount of remuneration received or due and receivable by directors) by reason of a contract made by the Water Corporation with the director, or with a firm of which the director is a member, or with an entity in which the director has a substantial interest.

Indemnification of directors and auditors

In the 12 months ended 30 June 2008, the Water Corporation has not indemnified against a liability, a person who is, or has been, a director or auditor of the Corporation. During the period ended 30 June 2008, we paid insurance premiums in respect of directors' and officers' liability insurance for any past, present or future commissioner, director, board/committee member, secretary, executive officer or employee of the Water Corporation.

This statement is made in accordance with a resolution of the Board.



P. O'Connor
Chairman

J. I. Gill
Chief Executive Officer

PERTH, 19 August 2008



Serpentine Dam.

PERFORMANCE SUMMARY

Performance against key indicators

	Units	2008		Historical Performance				
		Target	Actual	2007	2006	2005	2004	2003
Social Performance								
<i>Employment and Workforce</i>								
Employee initiated turnover	No.	8.5	9.5	7.3	7.2			
Women in senior management – tier 2	%	28.6	28.6	28.6	28.6	28.6		
Women in senior management – tier 3	%	15.5	10.7	9.3	6.8	9.1		
People from culturally diverse backgrounds	%	17.5	10.2	12.6	9.3	17.5		
Indigenous Australians	%	2.0	1.5	1.3	1.2	1.2		
People with disabilities	%	3.2	1.6	1.6	1.6	2.9		
Youth (17-24)	%	4.8	6.1	5.2	4.3	3.8		
Significant Injury Frequency Rate	No.	8.5	7.2	7.5	9.0	9.0	11.0	17.4
<i>Public Amenity</i>								
Wastewater Odour Complaints – Major Metro WWTPs	No.	na	117	61	96	151	206	380
<i>Public Health – Safe Drinking Water</i>								
Metropolitan analyses meeting requirements for thermotolerant coliforms	%	95	100	100	100	100	100	100
Metropolitan analyses meeting requirements for amoebae (Thermophilic Naegleria)	%	95	100	100	100	100	100	99.7
Metropolitan analyses meeting requirements for health-related chemical quality	%	100	100	100	100	100	100	100
Metropolitan analyses meeting requirements for radiological performance	%	100	100	100				
Country localities meeting requirements for thermotolerant coliforms	%	100	100	100	100	100	100	100
Country localities meeting requirements for amoebae (Thermophilic Naegleria)	%	100	100	100	100	100	100	100
Country localities meeting requirements for health-related chemical quality	%	100	98.4	99.5	99.5	97.3	99.4	97.0
Country localities meeting requirements for radiological performance	%	100	100	98.9				
<i>Essential Service Provision</i>								
Continuity – properties not affected by interruption > 1 hr	%	75	88.7	88.6	86.6	88.9	87.2	86.2
Water pressure and flow standards	%	99.80	99.96	99.95	99.95	99.94	99.96	99.95
Water quality faults responsiveness	%	95	96.0	96.6	96.8			
Installation of new water connections	%	94	95.7	97.2	96.6			
Water service faults per 1000 connections	%	62	45.2	45.1	46.4			
Properties without wastewater overflow	%	99.8	99.9	99.8	99.8	99.9	99.9	99.9
<i>Demand-Supply Balance</i>								
Water trading	GL	16.0	16.0	13.8	10.0			
Number of waterwise schools	No.	370	369	309	270			
Drought response (number of schemes on restrictions)	No.	Improve	1	8	8	7	3	12

	Units	2008		Historical Performance				
		Target	Actual	2007	2006	2005	2004	2003
Environmental Performance								
<i>Ecosystem Protection</i>								
Overflows to Swan-Canning – conveyance system	No.	0	4	6	5	6	3	3
Overflows to Swan-Canning – pump stations only	No.	0	1	0	0	0	2	1
<i>Energy and Greenhouse Gases</i>								
Electricity consumption per unit of output for water	MWh/ML	na	1.2	1.00	0.79	0.80	0.78	0.76
Electricity consumption per unit of output for wastewater	MWh/ML	na	0.66	0.64	0.61	0.60	0.64	0.64
Net direct energy consumption	TJ	na	2,232	1,920	1,507	1,530	1,571	1,523
Indirect energy consumption	TJ	na	3,925	3,800	2,666	2,755	2,801	2,618
Reported net greenhouse gas emissions (CO ₂ equivalent)	kT	na	448	414	393	384	373	367
<i>Materials Use Efficiency</i>								
Biosolids re-use (Perth metro)	%	100	95.9	100	99.9	96.4	99	98
<i>Demand-Supply Balance</i>								
Water consumption per capita (Perth metro)	kL	155	147	154.2	151.4	154	155	150
Economic Performance								
<i>Financial Efficiency</i>								
Operating cost per property	\$	568	573	535	479	461	423	404
Total cost per property	\$	1518	1,537	1,438	1,329	1,320	1,283	1,262
Operating profit before income tax	\$m	622	754	731	676	601	554	469
Return on assets	%	4.35	4.31	4.26	4.5	4.3	4.1	4.0
Return on assets targeted	%	4.68	4.54	4.49	4.5	4.5	4.5	4.4
Return on equity	%	5.0	6.0	6.0	5.6	5.0	4.7	4.0
Debt to equity	%	25.5	25.1	20.9	17.4	12.7	13.0	12.0
Interest cover	Times	5.23	5.16	5.8	7.9	7.6	7.5	5.8
<i>Asset Performance</i>								
Blockages per 100km of sewer	No.	40	19.9	20.8	17.6	18.5	19.4	21.9
Leaks and bursts per 100km of main	No.	20	17.7	18.1	16.9	18.0	16.9	16.3
Drainage systems operating in accordance with guidelines	%	100	100	100	100	100	100	100

PERFORMANCE SUMMARY continued

	Units	2008		Historical Performance				
		Target	Actual	2007	2006	2005	2004	2003
Stakeholder Performance								
<i>Customer Service</i>								
Customer complaints – total	No.	na	33,749	36,000	35,000	36,000		
Written customer complaints (responsiveness) < 21 days	%	90	99.7	99.5	99.7	99.1	99.4	97.1
Customer complaints resolved within 2 days	%	na	94.6	97.0	97.0	97.0		
Written correspondence answered within 10 days	%	90	96.3	97.0	98.0	97.0		
Telephone calls to '13' numbers answered within 20 seconds	%	70	72.0	74.8	74.8	76.6	75.3	76.2
Telephone calls to '13' numbers abandoned after 5 seconds	%	5	3.9	2.9	2.8	2.7	2.7	2.3
Telephone calls to '13' numbers first call resolution	%	90	97.2	96.5	95.6			
Water supply services provided by agreement – customer notification	%	95	Compliance			-- Compliance --		
Water supply services provided by agreement – documented	%	90	Compliance			-- Compliance --		
Effectiveness of water supply management	No.	Improve	3.3	3.1	3			
Customer satisfaction measure	%	Improve	88	90	86	85	81	79
<i>Shareholder Accountability</i>								
Responsiveness to priority one enquiries	%	85	96.0	93.0	87.3			
Ethical & Governance Performance								
<i>Compliance</i>								
Country water allocation licence compliance	%	100	99.3	99.2	100			
Number of enforcement actions from ERA for non-compliance with operating licence	No.	0	0	0	0			
Number of environmental non-compliances reported by DEC	No.	0	2	3	0			
Number of legal sanctions for environmental breaches	No.	0	0	0	0			

PRINCIPAL STATISTICS

Water supply

Region	Properties Served	Properties Connected	Water Supply Services	Length of Mains (Kilometres)	Water Supplied ¹ (Megalitres)	Metered Water Consumption ² (Megalitres)
Perth	804,155	693,494	603,761	12,737	233,839	214,784
Agricultural	22,813	18,662	23,780	8,475	11,806	10,308
Goldfields	25,612	22,597	21,111	1,017	15,624	14,262
Great Southern	37,175	31,363	31,510	3,772	13,298	10,128
Mid West	46,426	36,284	32,766	2,618	19,336	17,097
North West	34,271	29,388	22,612	1,382	33,279	29,298
South West	96,512	78,742	71,908	2,634	25,173	23,590
Total	1,066,964	910,530	807,448	32,635	352,355	319,467

1. Water supplied is the quantity recorded by master meters from 1 July to 30 June.

2. Metered water consumption is the total of consumers' meter readings for a period which may differ slightly to the above.



Mundaring Weir.

Metropolitan sources supply

Source	Area of Catchment (Square km)	Storage Capacity (Megalitres)	Storage at 30/06/08 (Megalitres)	Percentage of Maximum Storage (%)	Output to 30/06/08 (Megalitres)
Dams					
Stirling	251	36,500	14,807	40.6	30,765
Samson WTP	0	6,000	1,860	31.0	9,571
South Dandalup	311	205,344	25,730	12.5	22,255
North Dandalup	153	74,849	22,259	29.7	7,524
Serpentine and Serpentine Pipehead	692	140,200	53,516	38.2	28,397
Canning	789	90,353	28,837	31.9	13,640
Wungong	134	59,795	19,569	32.7	6,713
Churchman	16	2,241	844	37.7	1,609
Victoria	37	9,463	3,568	37.7	4,426
Mundaring Weir	1,470	63,596	27,820	43.7	1,655
Total	3,853	688,341	198,810	28.9	126,555
Total Hills Sources Output					126,555
Groundwater					
Artesian Bores					29,911
Mirrabooka					18,387
Gwelup					13,798
Wanneroo					34,714
Jandakot					8,896
Neerabup					30,923
Lexia					5,062
Yanchep/Two Rocks					1,106
Total Groundwater Output					142,797
Desalination					
Perth Seawater Desalination Plant					38,142
Total Desalination Output					38,142
Gross Output					307,494
Less Internal Transfers (Mundaring Weir, Victoria Dam, Canning Dam, Serpentine P/H & Jandakot ASR)					57,540
Less Output to South West Region (including Mandurah)					13,319
Less System Losses (including riparian releases)					2,796
Water Supplied to Metropolitan Area					233,839

Wastewater

Region	Properties Served	Properties Connected	Total Length of Sewers (Kilometres)	Number of Pumping Stations	Number of Treatment Plants	Average Quantity of Wastewater Treated Daily (Megalitres)
Perth	680,080	621,938	10,716	646	9	336.7
Agricultural	8,573	7,036	243	20	15	3.0
Goldfields	6,624	5,401	148	18	4	2.7
Great Southern	21,428	17,490	535	54	15	8.1
Mid West	22,919	15,458	550	65	19	6.9
North West	28,197	25,421	478	57	15	14.8
South West	91,807	70,933	2,014	226	25	32.8
Total	859,628	763,677	14,684	1,086	102	405.1

Drainage

Region	Properties Served	Length of Drains Controlled (Kilometres)	Declared Drainage Area (Hectares)
Perth	332,371	940	91,456
Great Southern	n/a	124	39,321
South West	n/a	1,762	321,324
Total	332,371	2,826	452,101

Irrigation

Region	Irrigation Accounts	Length of Channels & Drains (Kilometres)	Area Irrigated (Hectares)	Water Supplied (Megalitres)
South West (Preston Valley) ¹	n/a	n/a	n/a	821
South West (SWID) ²	n/a	n/a	n/a	85,407
Mid West ³	n/a	n/a	n/a	4,962
North West ⁴	111	34	603	261,250
Total	111	34	603	352,440

1. Preston Valley District was transferred to a farmer-run co-operative in July 1998.

2. South West Irrigation District (SWID) was transferred to a farmer-run co-operative in August 1996.

3. Mid West irrigation district was transferred to the Gascoyne Water Co-operative on 1 July 2003.

4. North West irrigation is managed by the Ord Irrigation Co-operative (established in 2002). However, the Water Corporation maintains responsibility for a number of customers.

Employees (FTEs as at 30 June 2008)

Metropolitan	1,769
Country	738
Total	2,507

FIVE-YEAR STATISTICAL SUMMARY

	Units	2007-08	2006-07	2005-06	2004-05	2003-04
FINANCIAL DATA						
Total Revenue	\$'000	1,671,549	1,562,377	1,416,940	1,305,144	1,231,249
Community Service Obligations	\$'000	399,363	359,953	339,821	288,253	268,393
Operating Expenses	\$'000	538,788	495,825	434,918	398,659	383,014
Depreciation / Amortisation	\$'000	282,258	259,837	251,642	255,492	242,619
Net Interest Expense	\$'000	96,468	75,834	55,657	52,446	45,089
Income Tax Expense	\$'000	227,771	217,718	202,160	179,879	168,034
Operating Profit After Tax	\$'000	526,663	513,488	473,831	421,395	386,440
Transfer to / (from) Reserves	\$'000	76,801	67,685	57,144	55,060	43,446
Long-Term Debt	\$'000	2,160,044	1,775,306	1,443,473	1,010,425	1,010,000
New Works Investment (excluding developers take-over works)	\$'000	809,800	674,300	648,000	340,300	440,600
Short-Term Liquidity Facility	\$'000	55,000	35,000	35,000	63,000	72,000
New Borrowings	\$'000	405,000	332,000	433,000	–	33,000
OPERATING DATA						
Water Supply Services						
Annual Volume of Water Supplied	ML	352,355	355,468	342,886	342,173	338,168
Number of Properties Served	No.	1,066,964	1,038,336	1,008,553	981,492	956,835
Number of Properties Connected		910,530	890,285	868,983	846,867	826,670
Length of Mains	km	32,635	32,269	31,760	30,776	30,188
Wastewater Services						
Average Volume of Wastewater Treated Daily	ML	405	385	386	371	353
Number of Properties Served	No.	859,628	829,225	793,697	765,903	739,134
Number of Properties Connected		763,677	737,195	710,885	685,074	661,388
Length of Sewers	km	14,684	14,261	13,865	13,417	13,023
Drainage Services						
Number of Properties Served (Metropolitan)	No.	332,371	325,182	319,900	313,511	308,577
Length of Drains	km	2,826	2,826	2,814	2,780	2,783
Irrigation Services						
Volume of Water Delivered	ML	352,440	373,696	357,277	319,029	423,823
Employees						
Total number of full-time equivalents (FTEs)	No.	2,507	2,406	2,287	2,116	2,004
Total number of FTEs (year-end average)	No.	2,461	2,349	2,147	2,047	1,999

All financial figures are expressed in dollars of the day.

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2008



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INCOME STATEMENT

for the year ended 30 June 2008

	Note	2008 \$M	2007 \$M
Revenue	2	1,672	1,563
Expenses	3	(821)	(756)
Results from operating activities		851	807
Financial income		7	4
Financial expenses		(103)	(80)
Net financing costs	4	(96)	(76)
Profit before income tax		755	731
Income tax expense	5	(228)	(218)
Profit for the year		527	513

The above income statement is to be read in conjunction with the accompanying notes.





BALANCE SHEET

as at 30 June 2008

	Note	2008 \$M	2007 \$M
Current assets			
Cash and cash equivalents		44	29
Trade and other receivables	6	126	127
Inventories		9	15
Total current assets		179	171
Non-current assets			
Trade and other receivables	6	12	12
Property, plant and equipment	7	11,476	10,859
Intangible assets	8	102	60
Total non-current assets		11,590	10,931
Total assets		11,769	11,102
Current liabilities			
Trade and other payables		200	144
Interest-bearing loans and borrowings	9	55	36
Income tax payable		99	52
Provisions	11	1	–
Employee benefits	12	67	61
Other liabilities	13	23	18
Total current liabilities		445	311
Non-current liabilities			
Interest-bearing loans and borrowings	9	2,160	1,775
Deferred tax liabilities	10	288	283
Provisions	11	3	1
Employee benefits	12	47	48
Other liabilities	13	17	11
Total non-current liabilities		2,515	2,118
Total liabilities		2,960	2,429
Net assets		8,809	8,673
Equity			
Contributed equity	14	7,327	7,327
Reserves		471	394
Retained earnings		1,011	952
Total equity		8,809	8,673

The above balance sheet is to be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2008

	Contributed Equity	Retained Earnings	Developers' Contribution Reserve	Hedge Reserve	Total
	\$M	\$M	\$M	\$M	\$M
Opening balance at 1 July 2007	7,327	952	394	–	8,673
Profit for the year	–	527	–	–	527
Effective portion of changes in fair value of cash flow hedges (net of tax)	–	–	–	–	–
Net hedge gains/losses transferred to income statement (net of tax)	–	–	–	–	–
Total recognised income and expense for the year	–	527	–	–	527
Dividends paid	–	(391)	–	–	(391)
Transfer to developers' contribution reserve (net of tax)	–	(77)	77	–	–
Closing balance at 30 June 2008	7,327	1,011	471	–	8,809

for the year ended 30 June 2007

	Contributed Equity	Retained Earnings	Developers' Contribution Reserve	Hedge Reserve	Total
	\$M	\$M	\$M	\$M	\$M
Opening balance at 1 July 2006	7,327	864	325	1	8,517
Profit for the year	–	513	–	–	513
Effective portion of changes in fair value of cash flow hedges (net of tax)	–	–	–	(1)	(1)
Net hedge gains/losses transferred to income statement (net of tax)	–	–	–	–	–
Total recognised income and expense for the year	–	513	–	(1)	512
Dividends paid	–	(356)	–	–	(356)
Transfer to developers' contribution reserve (net of tax)	–	(69)	69	–	–
Closing balance at 30 June 2007	7,327	952	394	–	8,673

The above statement of changes in equity is to be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

for the year ended 30 June 2008

	Note	2008 \$M	2007 \$M
Cash flows from operating activities			
Cash receipts from customers		944	844
Interest received		7	4
Interest paid		(112)	(86)
Cash paid to suppliers and employees		(557)	(506)
Income taxes paid		(175)	(195)
Government grants		10	12
Community Service Obligation (CSO) contributions		399	360
Developers' contributions		123	165
GST received		99	79
Other fees and charges		81	72
Net cash from operating activities	15	819	749
Cash flows from investing activities			
Acquisition of property, plant and equipment		(781)	(689)
Acquisition of intangible assets		(48)	(33)
Loan to Harvey Water		7	(12)
Proceeds from sale of property, plant and equipment		3	2
Deposits		2	4
Net cash used in investing activities		(817)	(728)
Cash flows from financing activities			
Repayment of borrowings		(105)	(147)
Proceeds from borrowings		510	479
Dividends paid		(391)	(356)
Payment of finance lease liabilities		(1)	–
Net cash from financing activities		13	(24)
Net increase/(decrease) in cash and cash equivalents		15	(3)
Cash and cash equivalents at 1 July		29	32
Cash and cash equivalents at 30 June		44	29

The above cash flow statement is to be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL REPORT

for the year ended 30 June 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Reporting entity

Water Corporation (the "Corporation") is a corporation domiciled in Australia. The address of the Corporation's registered office is 629 Newcastle St Leederville WA 6007. The Corporation is primarily involved in the provision of water and wastewater services.

1.2 Basis of preparation

1.2.1 Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Water Corporation Act 1995*.

The financial statements were approved by the Board of Directors on 19 August 2008.

1.2.2 Basis of measurement

The financial report is prepared on the accrual accounting basis and in accordance with the historical cost convention, except for certain financial assets and financial liabilities which are stated at their fair value. The methods used to measure fair values are discussed further in Note 1.29.

1.2.3 Functional and presentation currency

The financial report is presented in Australian dollars, which is the Corporation's functional currency.

In accordance with the *Water Corporation Act 1995*, all financial information presented in Australian dollars has been rounded to the nearest million unless otherwise stated.

1.2.4 Use of estimates and judgements

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below:

1.2.4.1 Impairment of intangible asset with indefinite useful life

The Corporation assesses whether the intangible asset with an indefinite useful life is impaired at least annually in accordance with the accounting policy in Note 1.17. These calculations involve an estimation of the recoverable amount of the intangible asset with an indefinite useful life.

1.2.4.2 Provision for long service leave

The method used in calculating the Provision for Long Service Leave is discussed in Note 1.22.1.

1.2.4.3 Defined benefit superannuation fund obligations

Various actuarial assumptions are utilised in the determination of the Corporations defined benefit superannuation fund obligations. These assumptions are discussed in Note 1.22.6.2.

1.2.4.4 Valuation of financial instruments

The methods used in determining the fair values of financial instruments are discussed in Note 1.29.

1.3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

1.4 Revenue

- (a) Revenue from annual service charges and volume charges is shown in the income statement as the amounts levied and billed for the period, including interest on overdue amounts, less discounts allowed for prompt payment and rebates/concessions allowed to entitled customers. Revenue also includes an estimate for the value of water consumed but not billed at balance date.
- (b) Other fees and charges include design fees, building fees, industrial waste charges, plumbing inspection fees, sewerage testing fees, fire service charges and other miscellaneous revenue received.
- (c) Government grants are recognised as revenue when evidence exists to support the passing of control of the benefit and there is reasonable assurance that they will be received.
- (d) Rental income is recognised in the income statement on a straight-line basis over the term of the lease.
- (e) Community Service Obligation (CSO) Contributions and subsidies are recognised as revenue when there is reasonable assurance that they will be received and the Corporation has complied with the conditions attached to them. CSOs are received from the State Government for:
 - costs in respect of country water, sewerage, drainage and irrigation services;
 - infill sewerage program; and
 - revenue foregone, plus agreed administration costs, from rebates and concessions to Pensioners, Seniors and various exempt bodies on annual service charges, water consumption charges and other fees and charges.
- (f) Developers' contributions are recognised as revenue at fair value when received. The Corporation receives capital contributions from external parties in the form of either assets or cash. These are commonly referred to as Developers' Contributions and consist of:
 - headworks contributions – developers are required to make standard contributions towards the cost of headworks necessary to provide reticulation services within a subdivision;

- handover works – as a condition of subdivision, developers are required to provide water, and in most areas sewerage services, to individual blocks. These services are connected to the existing system and handed over to the Corporation free of charge;
- work performed for developers – as an alternative to developers arranging for the installation of reticulation services, the Corporation may be requested to provide these with the developer paying the cost at an agreed quotation; and
- notional capital surcharge – companies supplied water through special agreements are required to make additional capital payments if they exceed the quota of water they have paid for.

The after-tax value of handover works is excluded from the base used to calculate dividend payments and is annually appropriated to a reserve.

1.5 Net gain on disposal of property, plant and equipment

Net gain on disposal of property, plant and equipment is included at the date control passes to the buyer, usually when an unconditional contract of sale is signed.

1.6 Leases

Leases under which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

1.6.1 Finance leases

Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

1.6.2 Operating leases

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

1.7 Net financing costs

1.7.1 Financial income

Financial income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

1.7.2 Financial expenses

Financial expenses comprise interest expense on borrowings calculated using the effective interest method and net losses on re-measurement of cash flow hedges at fair value (see Note 1.25.1). The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

1.7.2 Financial expenses continued

Borrowing costs are expensed as incurred except where they relate to the financing of projects under construction where they are capitalised up to the date of commissioning.

Foreign currency gains and losses are reported on a net basis.

1.8 National Taxation Equivalent Regime (NTER)

The Corporation is exempt from the Commonwealth of Australia's *Income Tax Assessment Act 1936* but makes income tax equivalent payments to the Western Australian Government. The Corporation entered into the NTER environment on 1 July 2001 having previously operated under the state-based Taxation Equivalent Regime. While tax equivalent payments are remitted to the Department of Treasury and Finance, the Corporation's tax is subject to Australian Tax Office (ATO) administration. The calculation of the liability in respect of these taxes is governed by the Income Tax Administration Acts and the NTER guidelines as agreed by the State Government.

1.9 Income tax

The Corporation uses the balance sheet approach of tax-effect accounting under AASB 112 *Income Taxes*. Under the balance sheet approach, income tax on the profit or loss for the year comprises current and deferred tax.

Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by balance sheet date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

1.10 Dividends

Dividends are recognised as a liability in the period in which they are declared.

1.11 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in banks.

1.12 Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses

(see Note 1.17) and are normally settled within 30 days.

1.13 Inventories

Inventories consist of consumable engineering supplies and spares required for maintenance and operation of systems and general construction works. Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

1.13.1 Diminution of inventories

An allowance is maintained to allow for the diminution in the value of inventories due to obsolescence and items being surplus to requirements.

1.14 Land held for sale

Land held for sale is valued at the lower of cost and fair value less costs to sell. Cost does not include rates and local government tax equivalents, which are expensed as incurred.

1.15 Property, plant and equipment

1.15.1 Recognition and measurement

1.15.1.1 Owned assets

Property, plant and equipment represent the capital works and plant required for the operation of the Corporation and comprises:

- (a) works carried out under the capital investment program, which are initially recorded at cost. Cost includes direct materials and labour together with a proportion of management expenses directly related to bringing the asset to its working condition, and capitalisation of interest directly attributable to major works with an estimated cost greater than \$5 million. Interest costs incurred on external borrowings specifically raised for the acquisition or construction of qualifying assets are capitalised;
- (b) works carried out by developers or going concerns, which are taken over by the Corporation free of charge are recorded at cost, being the fair value at the date of acquisition; and
- (c) other property, plant and equipment, which are initially recorded at cost of acquisition plus incidental costs directly attributable to the acquisition.

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see Note 1.15.3) and impairment losses (see Note 1.17).

1.15.1.2 Leased assets

Property, plant and equipment acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see Note 1.15.3) and impairment losses (see Note 1.17).

The Corporation adopted Interpretation 4 *Determining whether an Arrangement Contains a Lease*, which is mandatory for annual periods beginning on or after 1 January 2006, in its 2008 financial statements.

1.15.2 Subsequent costs

The Corporation recognises in the carrying amount of an item of property, plant and

equipment the following:

- (a) the cost of replacement parts of an item is included when that cost is incurred, if it is probable that the future economic benefits embodied within the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amounts of those parts that are replaced are derecognised.
- (b) the cost of regular major inspection if it is probable that the future economic benefits embodied within the item will flow to the Corporation and the cost of the item can be measured reliably. Any remaining carrying amount of the cost of the previous inspection is derecognised.

All other costs are recognised in the income statement as an expense when incurred.

1.15.3 Depreciation

In order to recognise the loss of service potential of property, plant and equipment, depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, making allowance where appropriate for residual values. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The asset lives are reviewed annually, taking into account commercial and technical obsolescence, as well as normal wear and tear.

Property, plant and equipment, excluding freehold land, are depreciated over the following useful lives:

	Life (years)
Pipelines and fittings	3 – 151
Dams, reservoirs, bores and tanks	10 – 200
Ocean outfalls	40 – 100
Pump stations and treatment plants	3 – 120
Drains and channels	20 – 150
Other structures	5 – 120
Plant and equipment	1 – 85
Buildings and associated works	10 – 100
Computer equipment	2 – 15
Vehicles and mobile plant	3 – 35
Plant and equipment under lease	3

1.16 Intangible assets

1.16.1 Computer software

Computer software consists of software which is not integral to the hardware, such as SAP and Grange. Computer software is stated at cost less accumulated amortisation (see Note 1.16.6) and accumulated impairment losses (see Note 1.17).

1.16.2 Intellectual property

Expenditure on internally generated intellectual property is recognised at cost less accumulated amortisation (see Note 1.16.6) and accumulated impairment losses (see Note 1.17).

1.16.3 Water entitlement

Water entitlements have been purchased by the Corporation and have been recognised initially at the cost of acquiring the entitlements plus incidental costs directly attributable to the acquisition. As the water resources pertaining to the entitlements are considered to be indefinite, these entitlements are considered to have an indefinite useful life and are tested annually for impairment (see Note 1.17).

1.16.4 Renewable energy certificates

Expenditure on renewable energy certificates is recognised at market valuation when earned (this occurs on registration) less accumulated impairment losses (see Note 1.17).

1.16.5 Subsequent expenditure

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

1.16.6 Amortisation

Amortisation of computer software and intellectual property is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite. Intangible assets with indefinite useful lives are systematically tested for impairment at each balance sheet date.

Intangible assets, excluding water entitlements, are amortised over the following useful lives:

	Life (years)
Computer software	2 – 15
Intellectual property	10

1.16.7 Research and development expenditure

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

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Corporation intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in the income statement when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation (see Note 1.16.6) and accumulated impairment losses (see Note 1.17).

1.17 Impairment

1.17.1 Financial assets

A financial asset is assessed at each balance sheet date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the income statement.

1.17.2 Non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is determined using the depreciated replacement cost of the asset.

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

1.18 Pensioner rate deferrals

Pensioner rate deferrals are annual service charges deferred by eligible pensioners, which will be realised on sale of property or from the estate. Interest at market rates is not charged to customers on the deferred amounts, but is recouped from the State Government in the form of CSOs.

1.19 Trade and other payables

Trade and other payables are stated at amortised cost and are normally settled within 30 days.

1.20 Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are recognised at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

1.21 Provisions

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

1.21.1 Insurance

A provision for insurance is recognised when an incident occurs and a claim is received from an external party. The amount provided for is up to the agreed deductible level which is determined with the Corporation's insurer.

1.21.2 Workers' compensation

The Corporation self-insures for risks associated with workers' compensation for claims relating to pre 1 July 1997 events. Outstanding claims are recognised when an incident occurs that may give rise to a claim and are measured at the cost that the Corporation expects to incur in settling the claims, discounted using a government bond rate with a maturity date approximating the terms of the Corporation's obligation.

1.22 Employee benefits

1.22.1 Long service leave

A Provision for Long Service Leave is maintained to provide for employee long service leave benefits which are assessed on the basis of calculated leave liabilities for employee service to balance sheet date.

These liabilities include 100 per cent of the value of outstanding entitlements available to employees at balance date plus 95 per cent of the value of pro-rata long service leave liability accrued to balance date. Values are calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and are discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating the terms of the Corporation's obligations.

1.22.2 Annual leave

A Provision for Annual Leave is maintained to provide for annual leave benefits which are assessed on the basis of calculated leave entitlements at balance sheet date.

Values are calculated at undiscounted amounts based on wage and salary rates that the Corporation expects to pay as at balance sheet date including related on-costs.

1.22.3 Purchased leave

A Provision for Purchased Leave is maintained to provide for purchased leave benefits which are assessed on the basis of calculated leave entitlements at balance sheet date.

This scheme allows employees to purchase up to 12 additional weeks leave per annum by agreeing to a reduced salary rate over 52 weeks of the year. The minimum amount of leave available to be purchased is 1 week.

Values are calculated at undiscounted amounts based on wage and salary rates that the Corporation expects to pay as at balance sheet date including related on-costs.

1.22.4 Termination benefits

Termination benefits are recognised as an expense when the Corporation is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Corporation has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

1.22.5 Non-monetary benefits

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Corporation as the benefits are taken by the employees.

1.22.6 Superannuation

1.22.6.1 Defined contribution plans

The Corporation sponsors the following defined contribution plan:

- (a) Water Corporation Superannuation Plan (WCSP) for former non-contributory members of the West State Superannuation Fund and those employees who are not members of the Gold State Superannuation Scheme (GSSS).

The trustee company, Water Corporation Superannuation Pty Ltd, manages the WCSP which was established in November 1997. The company comprises six directors, three of whom are nominated by the Water Corporation and the other three are elected by the WCSP members.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution plans are recognised as a labour expense in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

1.22.6.2 Defined benefit plans

The Corporation sponsors the following defined benefit plans:

- (a) State Superannuation Pension Fund (Pension Scheme), which closed to contributory members on 15 August 1986; and

- (b) GSSS, a lump sum scheme which was opened to contributory members on 1 July 1987 and closed on 29 December 1995.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Corporation's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any fund assets are deducted.

The discount rate is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the Corporation's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Corporation, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the fund or reductions in future contributions to the fund.

When the benefits of a fund are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

1.23 Reserves

1.23.1 Hedge reserve

The hedge reserve is used to record the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

1.23.2 Developers' contribution reserve

The developers' contribution reserve is used to record the non-cash developer contributions, net of tax, that form part of the funding of new assets acquired by the Corporation.

1.24 Foreign currency transactions

Transactions in foreign currencies are translated to Australian Dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at balance sheet date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

1.25 Derivative financial instruments

The Corporation uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational activities. In accordance with the treasury policy, the Corporation does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

1.25.1 Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the income statement in the same period that the hedged item affects the income statement.

1.26 Jointly controlled operations and assets

The interests of the Corporation in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

1.27 Goods and services tax

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

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

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

1.28 New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Corporation in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the 'statement of comprehensive income'. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Corporation's 30 June 2010 financial statements. The Corporation has not yet determined the potential effect of the revised standard on the Corporation's disclosures.
- AI 12 *Service Concession Arrangements* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. AI 12, which becomes mandatory for the Corporation's 30 June 2009 financial statements, may have an effect on the financial report.

1.29 Determination of fair values

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

1.29.1 Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

1.29.2 Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

1.29.3 Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect change in interest rates.

1.29.4 Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. The fair value of all other receivables/payables is estimated as the present value of future cash flows, discounted at the market rate of interest at balance sheet date.

NOTE 2 REVENUE

Revenue for the year includes:

	2008	2007
	\$M	\$M
Annual service charges	628	574
Volume charges	324	286
Other fees and charges	72	66
Government grants	10	9
Rental income	5	4
Community Service Obligation (CSO) contributions	399	360
Developers' contributions	234	264
Total revenue	1,672	1,563

NOTE 3 EXPENSES

Expenses for the year include:

	2008	2007
	\$M	\$M
Depreciation (note a)	270	251
Amortisation	12	9
Labour (note b)	186	169
Hired and contracted services	122	105
Energy	50	42
Discontinued capital projects	6	42
Information technology	29	27
Equipment hire charges	28	25
Corporate charges	26	24
Materials	20	19
Chemicals	20	18
Decommissioned assets	10	4
Other expenses	42	21
Total expenses	821	756

note a Depreciation expense relates to the following classes of assets:

	2008	2007
	\$M	\$M
System assets		
Pipelines and fittings	134	131
Dams, reservoirs, bores and tanks	19	19
Ocean outfalls	2	2
Pump stations and treatment plants	27	26
Drains and channels	1	1
Other structures	2	2
Plant and equipment	64	49
	249	230
Land and buildings		
Buildings and associated works	6	6
Plant and equipment		
Plant and equipment	5	4
Computer equipment and software	5	6
Vehicles and mobile plant	4	4
Plant and equipment under lease	1	1
	15	15
	270	251

note b Labour includes the following contributions to defined contribution plans:

	2008	2007
	\$M	\$M
Water Corporation Superannuation Plan	13	11



NOTE 4 NET FINANCING COSTS

Net financing costs for the year include:

	2008	2007
	\$M	\$M
Financial income		
Interest income	(7)	(4)
Financial expenses		
Interest expense	121	95
Capitalised interest (note a)	(18)	(15)
Total financial expenses	103	80
Net financing costs	96	76

note a The average capitalisation rate on interest is as follows:

	2008	2007
Capitalisation rate	6.43%	6.03%

Ranger John Liddington at Churchman Brook Dam.

NOTE 5 INCOME TAX EXPENSE

5.1 Recognised in the income statement

	2008 \$M	2007 \$M
Current tax expense		
Current year	223	209
Adjustments for prior years	–	(6)
	223	203
Deferred tax expense		
Origination and reversal of temporary differences	3	10
Adjustments for prior years	2	5
	5	15
Total income tax expense	228	218

5.2 Numerical reconciliation between income tax expense and profit before income tax

	2008 \$M	2007 \$M
Profit for the year	527	513
Total income tax expense	228	218
Profit before income tax	755	731
Income tax using the corporation tax rate of 30% (2007: 30%)	226	219
Over/(under) provided in prior years	2	(1)
Total income tax expense	228	218

NOTE 6 TRADE AND OTHER RECEIVABLES

Trade and other receivables at balance date were as follows:

	2008 \$M	2007 \$M
Current		
Trade and other receivables	122	124
Less impairment loss for doubtful debts	(2)	(2)
Prepayments	6	5
	126	127
Non Current		
Pensioner rate deferrals	12	12
	12	12
Total trade and other receivables	138	139

The Corporation's exposure to credit risk and impairment losses related to trade and other receivables are disclosed in Note 22.

NOTE 7 PROPERTY, PLANT AND EQUIPMENT

The assets comprising property, plant and equipment are detailed as follows:

	Gross Asset Value 2008 \$M	Accumulated Depreciation 2008 \$M	Net Asset Value 2008 \$M
System assets			
Pipelines and fittings	8,769	1,522	7,247
Dams, reservoirs, bores and tanks	1,220	197	1,023
Ocean outfalls	96	30	66
Pump stations and treatment plants	874	188	686
Drains and channels	83	18	65
Other structures	71	23	48
Plant and equipment	1,175	400	775
Total system assets	12,288	2,378	9,910
Land and buildings			
Land	157	–	157
Buildings and associated works	186	61	125
Total land and buildings	343	61	282
Plant and equipment			
Plant and equipment	73	44	29
Computer equipment	77	62	15
Vehicles and mobile plant	44	18	26
Plant and equipment under lease	6	5	1
Total plant and equipment	200	129	71
Works in progress	1,213	–	1,213
Value of property, plant and equipment	14,044	2,568	11,476

Comparative figures for 2007 are as follows:

	Gross Asset Value 2007 \$M	Accumulated Depreciation 2007 \$M	Net Asset Value 2007 \$M
System assets			
Pipelines and fittings	8,571	1,389	7,182
Dams, reservoirs, bores and tanks	1,153	181	972
Ocean outfalls	95	27	68
Pump stations and treatment plants	844	162	682
Drains and channels	83	17	66
Other structures	71	21	50
Plant and equipment	1,126	348	778
Total system assets	11,943	2,145	9,798
Land and buildings			
Land	154	–	154
Buildings and associated works	177	56	121
Total land and buildings	331	56	275
Plant and equipment			
Plant and equipment	64	41	23
Computer equipment	124	110	14
Vehicles and mobile plant	40	16	24
Plant and equipment under lease	6	4	2
Total plant and equipment	234	171	63
Works in progress	723	–	723
Value of property, plant and equipment	13,231	2,372	10,859

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial year are set out below.

	System Assets 2008 \$M	Land and Buildings 2008 \$M	Plant and Equipment 2008 \$M	Works in Progress 2008 \$M	Total 2008 \$M
Balance at 1 July	9,798	275	63	723	10,859
Additions	371	15	24	769	1,179
Disposals	(10)	(2)	(1)	–	(13)
Depreciation expense (Note 3)	(249)	(6)	(15)	–	(270)
Transfers between classes	–	–	–	(279)	(279)
Balance at 30 June	9,910	282	71	1,213	11,476

Comparative figures for 2007 are as follows:

	System Assets 2007 \$M	Land and Buildings 2007 \$M	Plant and Equipment 2007 \$M	Works in Progress 2007 \$M	Total 2007 \$M
Balance at 1 July	9,273	253	53	808	10,387
Additions	758	28	26	648	1,460
Disposals	(4)	–	(1)	–	(5)
Depreciation expense (Note 3)	(230)	(6)	(15)	–	(251)
Transfers between classes	1	–	–	(733)	(732)
Balance at 30 June	9,798	275	63	723	10,859



NOTE 8 INTANGIBLE ASSETS

The assets comprising intangible assets are detailed as follows:

	Gross Asset Value 2008 \$M	Accumulated Amortisation 2008 \$M	Net Asset Value 2008 \$M
Computer software	129	85	44
Intellectual property	1	–	1
Water entitlement	55	–	55
Renewable energy certificates	2	–	2
Total intangible assets	187	85	102

Comparative figures for 2007 are as follows:

	Gross Asset Value 2007 \$M	Accumulated Amortisation 2007 \$M	Net Asset Value 2007 \$M
Computer software	106	78	28
Intellectual property	2	–	2
Water entitlement	29	–	29
Renewable energy certificates	1	–	1
Total intangible assets	138	78	60

Reconciliations

Reconciliations of the carrying amounts of intangible assets at the beginning and end of the current and previous financial year are set out below.

	Computer Software 2008 \$M	Intellectual Property 2008 \$M	Water Entitlement 2008 \$M	Renewable Energy Certificates 2008 \$M	Total 2008 \$M
Balance at 1 July	28	2	29	1	60
Additions	27	–	26	1	54
Disposals	–	–	–	–	–
Amortisation expense (Note 3)	(11)	(1)	–	–	(12)
Transfers between classes	–	–	–	–	–
Balance at 30 June	44	1	55	2	102

Comparative figures for 2007 are as follows:

	Computer Software 2007 \$M	Intellectual Property 2007 \$M	Water Entitlement 2007 \$M	Renewable Energy Certificates 2007 \$M	Total 2007 \$M
Balance at 1 July	27	2	7	–	36
Additions	10	1	22	1	34
Disposals	–	–	–	–	–
Amortisation expense (Note 3)	(9)	–	–	–	(9)
Transfers between classes	–	(1)	–	–	(1)
Balance at 30 June	28	2	29	1	60

Impairment test for water entitlement

The Corporation has recognised its water entitlement to purchase water into perpetuity at cost. The water entitlement is considered to have an indefinite life and is therefore not amortised but tested annually for impairment by comparing its carrying value with its recoverable amount. The recoverable amount has been determined by assessing the replacement cost of the asset as outlined below.

The cost to replace the water entitlement would be determined against the other current potential water sources, such as bore extraction, desalination or water catchment.

Of the above three alternatives, the most cost effective alternative is bore extraction. The cost to source water from bore extraction is greater than the carrying value of the water entitlement.

NOTE 9 INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings at balance date were as follows:

	2008 \$M	2007 \$M
Current		
Unsecured:		
Western Australian Treasury Corporation liquidity facility	55	35
Finance lease liabilities (note b)	–	1
	55	36
Non-current		
Unsecured:		
Western Australian Treasury Corporation Portfolio Lending Arrangement (note a)	2,160	1,775
Finance lease liabilities (note b)	–	–
	2,160	1,775
Total interest-bearing loans and borrowings	2,215	1,811

note a Western Australian Treasury Corporation Portfolio Lending Arrangement (PLA)

The non current amount of \$2,160 million (2007 \$1,775 million) includes an amount of \$795 million (2007 \$654 million) that will become due and payable during the 2008-09 year. This amount will be refinanced rather than repaid and therefore is not recognised as current borrowings. An agreement is in place where the Corporation's borrowings are refinanced at regular intervals between 2008 and 2017.

note b Finance lease liabilities

Finance lease liabilities of the Corporation are payable as follows:

	Minimum Lease Payments 2008 \$M	Interest 2008 \$M	Principal 2008 \$M
Less than one year	–	–	–
Between one and five years	–	–	–
	–	–	–

Comparative figures for 2007 are as follows:

	Minimum Lease Payments 2007 \$M	Interest 2007 \$M	Principal 2007 \$M
Less than one year	1	–	1
Between one and five years	–	–	–
	1	–	1

The Corporation leases personal computers and laptops under finance leases, expiring from one to three years. At the end of the lease term, the Corporation has the option to purchase the computers at fair market value, renew the lease for a further 12 or 24 months or return the computers upon the expiry of the initial lease term.

NOTE 10 DEFERRED TAX LIABILITIES

10.1 Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2008 \$M	Liabilities 2008 \$M	Net 2008 \$M
Property, plant and equipment	–	316	316
Provisions	(35)	–	(35)
Receivables	–	12	12
Other items	(7)	2	(5)
Deferred tax (assets) / liabilities	(42)	330	288
Set off of tax	42	(42)	–
Net deferred tax liabilities	–	288	288

Comparative figures for June 2007 are as follows:

	Assets 2007 \$M	Liabilities 2007 \$M	Net 2007 \$M
Property, plant and equipment	–	312	312
Provisions	(37)	–	(37)
Receivables	–	11	11
Other items	(4)	1	(3)
Deferred tax (assets) / liabilities	(41)	324	283
Set off of tax	41	(41)	–
Net deferred tax liabilities	–	283	283

10.2 Movement in temporary differences during the year

	Balance 1 July 07 \$M	Recognised in income \$M	Balance 30 June 08 \$M
Property, plant and equipment	312	4	316
Provisions	(37)	2	(35)
Receivables	11	1	12
Other items	(3)	(2)	(5)
	283	5	288

Comparative figures for June 2007 are as follows:

	Balance 1 July 06 \$M	Recognised in income \$M	Balance 30 June 07 \$M
Property, plant and equipment	301	11	312
Provisions	(38)	1	(37)
Receivables	9	2	11
Other items	(4)	1	(3)
	268	15	283

NOTE 11 PROVISIONS

	2008 \$M	2007 \$M
Current		
Insurance (note a)	1	–
Workers' compensation (note b)	–	–
	1	–
Non-current		
Insurance (note a)	–	–
Workers' compensation (note b)	3	1
	3	1
Total provisions	4	1

note a Insurance

Reconciliation of the carrying amount of the Insurance provision is set out below:

	2008 \$M
Carrying amount at beginning of year	–
Provisions used during the year	1
Provisions reversed during the year	–
Carrying amount at end of year	1

note b Workers' compensation

Reconciliation of the carrying amount of the Workers' compensation provision is set out below:

	2008 \$M
Carrying amount at beginning of year	1
Provisions used during the year	2
Provisions reversed during the year	–
Carrying amount at end of year	3

NOTE 12 EMPLOYEE BENEFITS

	2008 \$M	2007 \$M
Current		
Long service leave	39	37
Annual leave	18	16
Superannuation (note a)	10	8
	67	61
Non-current		
Long service leave	6	5
Superannuation (note a)	41	43
	47	48
Total employee benefits	114	109

note a Superannuation

The present value of the Corporation's superannuation liability is based on a detailed actuarial assessment using the projected unit credit method. Based on that assessment, the Corporation's liability for superannuation benefits is as follows:

	2008 \$M	2007 \$M
Pension Scheme	17	14
Gold State Superannuation Scheme	34	37
	51	51

Changes in the present value of the defined benefit obligation are as follows:

	2008 \$M	2007 \$M
Opening defined benefit obligation	51	51
Interest cost	3	3
Actuarial losses and (gains) on liabilities	1	1
Benefits paid (including expenses and taxes)	(4)	(4)
Closing defined benefit obligation	51	51

Expense recognised in the income statement is as follows:

	2008	2007
	\$M	\$M
Interest cost	3	3
Actuarial losses and (gains) recognised throughout the year	1	1
	4	4

The expense is recognised in labour expenses.

Principal actuarial assumptions at the balance sheet are as follows:

	2008	2007
Discount rate at 30 June	6.5%	6.2%
Expected future salary increases	4.5%	4.5%
Expected future pension increases	3.0%	3.0%

Surplus/(deficit) for each defined benefit superannuation fund on a funding basis is as follows:

	2008	2007
	\$M	\$M
Pension Scheme	2	2
Gold State Superannuation Scheme	2	2
	4	4

Fair value of plan assets is nil (2007: nil)

NOTE 13 OTHER LIABILITIES

Other liabilities at balance sheet date were as follows:

	2008	2007
	\$M	\$M
Current		
Developers' deferred liabilities	10	5
Deposits	13	13
	23	18
Non-current		
Developers' deferred liabilities	6	3
Deposits	11	8
	17	11
Total other liabilities	40	29

NOTE 14 CONTRIBUTED EQUITY

Contributed equity at balance sheet date was as follows:

	2008	2007
	\$M	\$M
Share capital (note a)	–	–
Owner's initial contribution (note b)	7,327	7,327
	7,327	7,327

note a Share capital

Authorised capital of 1 ordinary share of \$1,000 has been issued to the Minister for Water Resources in accordance with Section 72 of the *Water Corporation Act 1995*. Consideration for the share was provided from Owner's initial contribution.

note b Owner's initial contribution

Owner's initial contribution is the portion of the residual interest in the Water Authority of Western Australia's assets, after deducting the liabilities that was transferred from the Water Authority of Western Australia to the Water Corporation on 1 January 1996. During 1998, \$1,000 was transferred from Owner's initial contribution to share capital to reflect the value of 1 ordinary share issued.

NOTE 15 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

15.1 Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks.

Cash held at bank is earning interest at rates determined by the Department of Treasury and Finance. For the year ended 30 June 2008 the average interest rate was 6.8% (2007: 5.9%).

The Corporation's exposure to interest rate risk for financial assets and liabilities is disclosed in Note 22.

15.2 Reconciliation of cash flows from operating activities

	2008	2007
	\$M	\$M
Profit for the year	527	513
Decommissioned assets	10	4
Developers' contributions	(111)	(99)
Capitalisation of interest expense	(18)	(15)
Impairment loss on receivables	(1)	-
Employee benefits:		
Long service leave – net	3	3
Annual leave – net	2	1
Provisions:		
Workers' compensation – net	3	(2)
Insurance – net	1	(1)
Depreciation	270	251
Amortisation	12	9
GST paid for property, plant and equipment	49	48
Decrease/(Increase) in trade and other receivables	22	(19)
Increase in income tax	53	23
Decrease/(Increase) in inventories	6	(2)
(Decrease)/Increase in trade and other payables and other liabilities	(9)	35
Net cash from operating activities	819	749

NOTE 16 AUDITORS' REMUNERATION

The total fees paid or due and payable to the Office of the Auditor General for the year are as follows:

	2008	2007
	\$M	\$M
Fees applicable for the annual audit of the year involved	236	241
Fees applicable for the review of the half-yearly accounts	64	59
	300	300

NOTE 17 KEY MANAGEMENT PERSONNEL DISCLOSURES

Remuneration of key management personnel is referred to as compensation as defined in AASB 124 "Related Party Disclosures" and includes directors and executives.

The compensation of the non-executive Directors of the Board is determined following independent advice from management remuneration consultants and the State Government's Salaries and Allowances Tribunal and is approved by the Minister. The compensation is in the form of salary and superannuation contributions. Other than compulsory superannuation contributions, the Water Corporation does not pay any other post-employment benefits to non-executive Directors. Other long term benefits include long service leave.

The Board, with the concurrence of the Minister, is responsible for the compensation of the Chief Executive Officer and his compensation is reviewed annually. The compensation is in the form of salary, non-monetary benefits and superannuation contributions. Non-monetary benefits include access to a fully maintained motor vehicle and fringe benefits tax.

The Directors of the Water Corporation, or their Director-related entities, conduct transactions with the Water Corporation that occur with a normal employee, customer or supplier relationship on terms and conditions no more favourable than those that it is reasonable to expect the Water Corporation would have adopted if dealing with the Director or Director-related entity at arm's length in similar circumstances.

Executive compensation is expressed as a total reward that includes salary, non-monetary benefits and superannuation and is benchmarked against comparative industry groups in order to remain competitive in the labour market. In making recommendations, the Chief Executive Officer receives annual salary survey data and advice from independent remuneration consultants regarding compensation practices. Non-monetary benefits include access to a fully maintained motor vehicle and fringe benefits tax. Other long term benefits include long service leave.

The Corporation introduced a short term incentive program for all common law contract employees from the commencement of the 2008-09 financial year. The Corporation does not provide any long term incentives, loans, grant options, rights or shares to key management personnel.

There were no termination benefits paid to key management personnel during the year.

Details of compensation provided to key management personnel are as follows:

Position		Salary & Fees	Short-Term	Post-Employment	Other Long	Total
		2008	Non-monetary Benefits	Superannuation	Term Benefits	2008
		\$'000	2008	2008	2008	2008
			\$'000	\$'000	\$'000	\$'000
Directors						
P O'Connor	Chairman (non-executive)	103	–	15	–	118
BE Hewitt	Deputy Chairman (non-executive)	9	–	49	–	58
Z Bafle	Director (non-executive)	17	–	41	–	58
AR Bantock	Director (non-executive)	53	–	5	–	58
KL Field	Director (non-executive)	45	–	13	–	58
RA Harvey	Director (non-executive)	53	–	5	–	58
JI Gill	Chief Executive Officer	273	26	161	14	474
		553	26	289	14	882
Executives						
JM Brown	General Manager, Customer Services	122	18	168	9	317
K Cadee	General Manager, Water Technologies	226	–	27	8	261
GC Cargeeg	General Manager, Asset Management	144	–	90	7	241
PA Ferguson	General Manager, Business Services	195	–	32	7	234
CM Ferrari	General Manager, Communications	158	–	49	7	214
RM Hughes	Chief Financial Officer	254	–	49	10	313
PD Moore	Chief Operating Officer	272	24	84	11	391
SL Murphy	General Manager, Planning and Infrastructure	237	–	66	10	313
		1,608	42	565	69	2,284
Total compensation		2,161	68	854	83	3,166

Comparative figures for June 2007 are as follows:

Position	Short-Term		Post-Employment	Other Long	Total	
	Salary & Fees	Non-monetary Benefits	Superannuation	Term Benefits		
	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000	
Directors						
P O'Connor	Chairman (non-executive) (appointed Chairman 19 Mar 07)	59	–	8	–	67
BE Hewitt	Deputy Chairman (non-executive)	–	–	46	–	46
AR Bantock	Director (non-executive)	42	–	4	–	46
KL Field	Director (non-executive)	7	–	39	–	46
TA Horton	Deputy Chairperson (non-executive) (resigned 31 Dec 06)	20	–	3	–	23
TM Ungar	Chairman (non-executive) (resigned 31 Jan 07)	57	–	5	–	62
JI Gill	Chief Executive Officer	317	24	108	13	462
		502	24	213	13	752
Executives						
JM Brown	General Manager, Customer Services	168	23	105	9	305
K Cadee	General Manager, Water Technologies	210	–	25	7	242
GC Cargeeg	General Manager, Asset Management	197	–	24	7	228
PA Ferguson	General Manager, Business Services (appointed 12 Feb 07)	69	–	11	3	83
CM Ferrari	General Manager, Communications	157	–	41	6	204
RM Hughes	Chief Financial Officer	240	–	41	9	290
PD Moore	Chief Operating Officer	271	23	52	10	356
SL Murphy	General Manager, Planning and Infrastructure	232	–	49	9	290
		1,544	46	348	60	1,998
Total compensation		2,046	70	561	73	2,750

Amounts receivable from key management personnel at balance sheet date arising from these transactions were as follows:

	2008 \$'000	2007 \$'000
Trade and other receivables:		
Prepayments	104	94

NOTE 18 NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

The Corporation operates in an economic regime currently dominated by entities directly or indirectly controlled by the Western Australian State Government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Transactions with other state-controlled entities include, but are not limited to, the following: depositing and borrowing money, sales and purchases of goods, property and other assets and use of utilities.

These transactions are conducted in the ordinary course of the Corporation's business on terms comparable to those with other entities that are not state controlled. The Corporation has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Corporation's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the Directors are of the opinion that there are no transactions that require disclosure as related party transactions as all are on arms-length terms.

NOTE 19 OPERATING LEASES

19.1 Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2008	2007
	\$M	\$M
Less than one year	13	12
Between one and five years	48	42
More than five years	6	1
	67	55

The Corporation leases property and motor vehicles under non-cancellable operating leases.

During the financial year ended 30 June 2008, \$13 million was recognised as an expense in the income statement in respect of non-cancellable operating leases (2007: \$12 million).

19.2 Leases as lessor

The future minimum lease payments under non-cancellable leases are as follows:

	2008	2007
	\$M	\$M
Less than one year	3	2
Between one and five years	7	4
More than five years	1	2
	11	8

The Corporation leases out property under operating leases.

During the financial year ended 30 June 2008, \$5 million was recognised as rental income in the income statement (2007: \$4 million).

NOTE 20 CAPITAL AND OTHER COMMITMENTS

Total capital and other expenditure contracted for at balance date but not provided for in the financial report, is payable as follows:

	2008	2007
	\$M	\$M
Capital and other expenditure		
Not later than one year	419	227
Later than one year but not later than five years	170	244
	589	471

NOTE 21 CONTINGENCIES

Currently the Corporation is a party to, or is potentially affected by, a number of native title claims and other legal claims. Until proceedings relating to these claims are finalised, uncertainty exists regarding the impact, if any, on the operations of the Corporation.

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

NOTE 22 FINANCIAL INSTRUMENTS

22.1 Overview

The Corporation has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Corporation's exposure to each of the above risks, objectives, policies and processes for measuring and managing risk, as well as quantitative disclosures.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation has a disciplined and constructive control environment in which all employees are clearly advised of their roles and obligations.

The Corporation's Audit and Compliance Committee oversees how management monitors compliance with the Corporation's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation. The Audit and Compliance Committee is assisted in its oversight role by the Risk and Assurance Branch, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Corporation's Audit and Compliance Committee.

22.2 Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from customers.

Management has a credit policy in place and the exposure to credit risk is monitored on a regular basis. The credit risk on financial assets, which have been recognised on the balance sheet, other than cash and other financial assets is generally the carrying amount, net of any impairment loss for doubtful debts. Most receivables relating to annual service charges and water charges are secured on the rated property. Other receivables are regularly reviewed and allowance is made for debts deemed to be doubtful.

The Corporation has established an allowance for impairment that represents its estimate of incurred losses in respect to trade and other receivables and comprises individually significant exposures.

At balance sheet date, there were no significant concentrations of credit risk.

Exposure to credit risk

The carrying amount of the Corporation's financial assets represents the maximum credit exposure. The Corporation's maximum exposure to credit risk at balance sheet date was:

	2008	2007
	\$M	\$M
Cash and cash equivalents	44	29
Trade and other receivables (Note 6)	138	139
	182	168

The Corporation is not materially exposed to any individual customer.

Impairment losses

The aging of the Corporation's trade and other receivables at balance sheet date was:

	Gross 2008 \$M	Impairment 2008 \$M	Gross 2007 \$M	Impairment 2007 \$M
Not past due	121	–	127	–
Past due 0 – 30 days	10	–	9	–
Past due 31 – 60 days	3	–	2	–
Past due 61 – 90 days	1	–	1	–
More than 90 days	5	2	2	2
	140	2	141	2

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2008 \$M	2007 \$M
Balance 1 July	2	2
Impairment loss recognised	–	–
Balance 30 June	2	2

Impairment losses are recognised when recovery of the debt is considered to be unlikely or of high risk due to circumstances such as the value of any security held is or becomes less than the value of the debt, the cost of recovery is approximate to or becomes greater than the value of the debt, the customer's financial position is unfavourable or the customer is deceased or whereabouts is unknown.

Based on historical default rates, the Corporation believes that no impairment allowance is necessary in respect of trade and other receivables not past due or past due by up to 90 days; 99 percent of the balance relates to customers that have a good credit history with the Corporation.

During the year ended 30 June 2008, the Corporation renegotiated the terms of trade and other receivables of \$8 million (2007: \$6 million) from customers. If it had not been for these renegotiations, the receivables would have been overdue by more than 90 days. No impairment loss was recognised (2007: nil).

The allowance account, in respect of trade and other receivables, is used to record impairment losses unless the Corporation is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the financial asset directly. At 30 June 2008, the Corporation does not have any collective impairments on its trade and other receivables (2007: nil).

22.3 Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

On an annual basis, the Board approves a long-term funding strategy based on the forward five-year forecast of cash flows incorporated in the Strategic Development Plan (SDP). On an annual basis, the Board approves a liquidity and funding strategy based on the projected monthly cash flows, for the current and next financial years, derived from the Statement of Corporate Intent (SCI). This strategy conveys the liquidity risk by reporting projected net debt levels with committed facilities. During the financial year, any significant divergence from the liquidity and funding strategy is reported to the Board.

The Corporation ensures that it maintains a liquidity buffer of \$4 million on a daily basis in approved liquidity instruments to cover cash flow volatility over the short-term and to provide time to arrange additional funding facilities in the event of a cash flow emergency. Funds held in excess of liquidity requirements may be used to retire debt, invest in approved liquidity instruments or invest in approved financial instruments other than approved liquidity instruments in a manner consistent with the approved liquidity and funding strategy.

The Corporation maintains the following lines of credit:

- \$3,000 million with the Western Australian Treasury Corporation (WATC) to provide finance for the repayment of maturing debt and ongoing capital expenditure.
- \$200 million with WATC that can be drawn down to meet short-term financing needs.

Outstanding lines of credit are regularly discussed and agreed with WATC. The type, currency and term of any new finance are determined at the time of draw-down between the Corporation and WATC.

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

30 June 2008	Carrying amount \$M	Contractual cash flows \$M	6 mths or less \$M	6 – 12 mths \$M	1 – 2 years \$M	2 – 5 years \$M	More than 5 years \$M
Non-derivative financial liabilities							
Trade and other payables*	200	(200)	(200)	–	–	–	–
Interest-bearing loans and borrowings:							
– WATC liquidity facility	55	(55)	(55)	–	–	–	–
– WATC PLA	2,160	(2,650)	(780)	(120)	(232)	(639)	(879)
– Finance lease liabilities	–	–	–	–	–	–	–
Derivative financial liabilities							
Forward exchange contracts used for hedging:							
– Outflow	–	(3)	–	(3)	–	–	–
– Inflow	–	3	–	3	–	–	–
	2,415	(2,905)	(1,035)	(120)	(232)	(639)	(879)
30 June 2007							
	Carrying amount \$M	Contractual cash flows \$M	6 mths or less \$M	6 – 12 mths \$M	1 – 2 years \$M	2 – 5 years \$M	More than 5 years \$M
Non-derivative financial liabilities							
Trade and other payables*	143	(143)	(143)	–	–	–	–
Interest-bearing loans and borrowings:							
– WATC liquidity facility	35	(35)	(35)	–	–	–	–
– WATC PLA	1,775	(2,160)	(638)	(97)	(189)	(520)	(716)
– Finance lease liabilities	1	(1)	(1)	–	–	–	–
Derivative financial liabilities							
Forward exchange contracts used for hedging:							
– Outflow	1	(9)	–	(9)	–	–	–
– Inflow	–	8	–	8	–	–	–
	1,955	(2,340)	(817)	(98)	(189)	(520)	(716)

* Excludes derivatives (shown separately)

22.4 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

The Corporation enters into derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out in line with risk management policies. Generally, the Corporation seeks to apply hedge accounting in order to manage volatility in profit or loss.

22.4.1 Currency risk

The Corporation is exposed to currency risk on purchases that are denominated in a currency other than Australian dollars. The currency in which these transactions primarily are denominated in is USD.

Where possible, the Corporation fully hedges identified foreign currency exposures into Australian dollars, subject to foreign exchange exposure limits. The Corporation uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from balance sheet date. When necessary, forward exchange contracts are rolled over at maturity.

In accordance with risk management policies, non-material exposures to an aggregate value of \$200,000 for any one project may be left unhedged. At any one time, unhedged exposures in a specific foreign currency cannot exceed an aggregate value of \$500,000 and unhedged exposures in all foreign currencies cannot exceed an aggregate value of \$1,000,000.

In relation to Alliances that the Corporation enters into with the private sector to deliver water and wastewater projects, foreign currency exposures arise when materials are sourced and/or labour costs are incurred outside of Australia for these projects. A target out-turn cost, which includes a discrete contingency amount for adverse exchange rate movements on uncertain items which cannot be hedged upfront, is agreed at the beginning of a project. The Corporation is responsible for managing foreign currency exposures with the co-operation of the Alliance participants and reserves the right to pass on to the participants any losses or take any gains arising from failure of the participants to identify material foreign currency exposures.

The Corporation has no material exposure to foreign currency risk.

22.4.2 Interest rate risk

The Corporation is exposed to interest rate risk through financial assets and financial liabilities and adopts a policy of ensuring the majority of its exposure to changes in interest rates on borrowings is on a fixed rate basis.

Profile

At balance sheet date the interest rate profile of the Corporation's interest bearing financial instruments was:

	2008 \$M	2007 \$M
Fixed rate instruments		
Financial assets	182	168
Financial liabilities	(2,215)	(1,811)
	(2,033)	(1,643)

Fair value sensitivity analysis for fixed rate instruments

The Corporation does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Corporation does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at balance sheet date would not affect profit or loss or equity.

22.5 Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Carrying Amount 2008 \$M	Fair Value 2008 \$M	Carrying Amount 2007 \$M	Fair Value 2007 \$M
Financial assets				
Cash and cash equivalents	44	44	29	29
Trade and other receivables	138	138	139	139
Financial liabilities				
Interest-bearing loans and borrowings:				
– WATC PLA	2,160	2,149	1,775	1,771
– WATC liquidity facility	55	55	35	35

The basis for determining fair values is disclosed in Note 1.29.

Interest rates used for determining fair value

The average interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at balance sheet date plus an adequate credit spread, and were as follows:

	2008	2007
Loans and borrowings	6.8%	6.2%
Finance lease liabilities	6.0%	6.0%

DIRECTORS' DECLARATION

In the opinion of the Directors of the Water Corporation (the "Corporation"):

- (a) the financial statements and notes are in accordance with the *Water Corporation Act 1995*, including:
 - (i) giving a true and fair view of the Corporation's financial position as at 30 June 2008 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporation Regulations 2001*.
- (b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



P. O'Connor
Chairman



J.I. Gill
Chief Executive Officer

PERTH, 19 August 2008.

AUDITOR GENERAL'S REPORT



AUDITOR GENERAL

INDEPENDENT AUDIT REPORT ON WATER CORPORATION

To the Parliament of Western Australia

I have audited the financial report of the Water Corporation, which comprises the Balance Sheet as at 30 June 2008, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year ended on that date, a summary of significant accounting policies, other explanatory Notes and the Directors' Declaration.

Directors' Responsibility for the Financial Report

The directors of the Water Corporation are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Water Corporation Act 1995*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Summary of my Role

As required by the *Water Corporation Act 1995*, my responsibility is to express an opinion on the financial report based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. Refer "<http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf>".

An audit does not guarantee that every amount and disclosure in the financial report is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial report.

Audit Opinion

In my opinion, the financial report of the Water Corporation is in accordance with schedule 3 of the *Water Corporation Act 1995*, including:

- (a) giving a true and fair view of the Corporation's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

A handwritten signature in black ink, appearing to read 'C. Murphy'.

COLIN MURPHY
AUDITOR GENERAL
19 August 2008

4th Floor Dumas House 2 Havelock Street West Perth 6005 Western Australia Tel: 08 9222 7500 Fax: 08 9322 5664

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