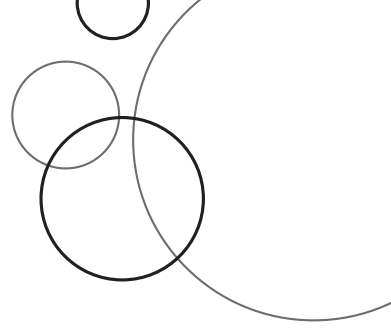
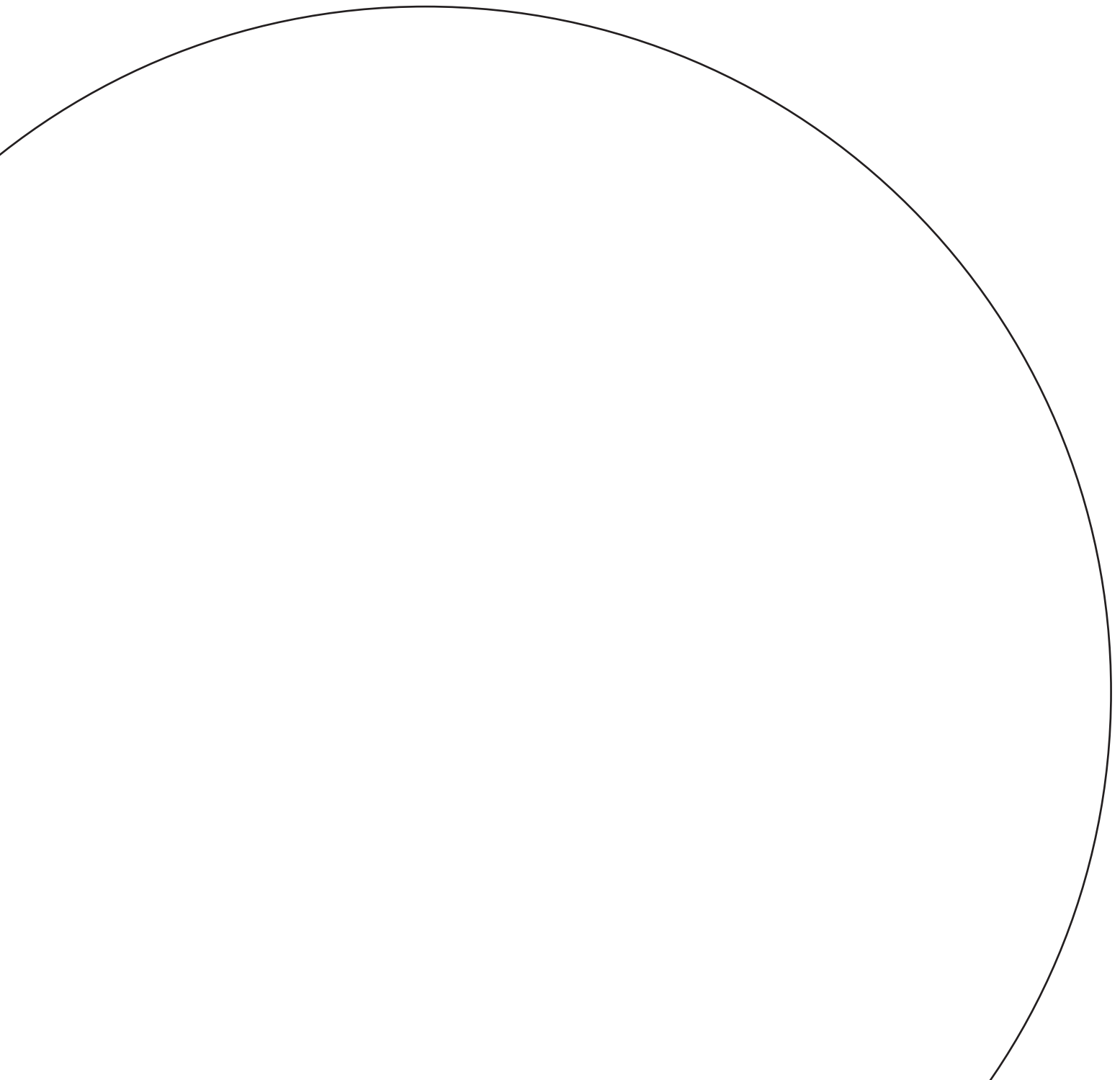




City West Water
LIMITED

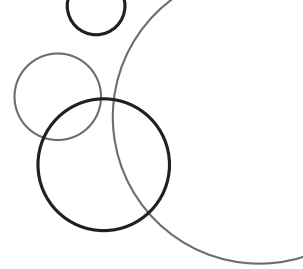


annual report 2005-2006



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A FOREWORD FROM THE CHAIRMAN

Annual Report for the year ended 30 June 2006.

The enclosed audited report is brief, containing only what is required to conform to the Department of Treasury and Finance guidelines and Corporations Act 2001, with the addition of three pages describing the financial statements in the accounts (see pages 11, 13 and 15), an outline of company highlights, greenhouse gas and water use statistics and the information required under the *Whistleblowers Protection Act 2001* and the *Freedom of Information Act 1982 (Vic)*.

The broader business information usually accompanying annual accounts and Auditor's Reports is contained in our comprehensive Sustainability Report which can be found at www.citywestwater.com.au. However it is appropriate and suffice to say that the company met all but two of its regulated targets and produced a satisfactory performance.

Alan E. Seale
Chairman

Melbourne
22 August 2006

COMPANY HIGHLIGHTS

In 2005/06, City West Water continued to achieve success across the triple bottom line through the following initiatives and key performance areas:

Economic

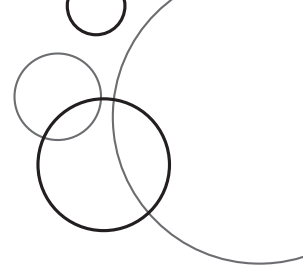
- Recorded an operating profit before tax of \$62.4m (2004/05 \$77.7m).
- Dividend and tax paid during 2005/06 were \$27.7m (2004/05 \$41.6m) and \$11.3m (2004/05 \$19.2m) respectively, being \$39.0m in total (2004/05 \$60.8m).
- All quality standards and certifications were maintained.
- Customer numbers grew by 2.5 percent.
- Unbilled water of 9.8 percent was consistent with last year's 9.7 percent.

Social

- Employee survey completed in November 2005 indicated an improvement in staff engagement levels.
- Provided assistance to residential customers in financial need through the company's Hardship Policy, at a cost of \$47,000.
- Non-financial indicators generally improved largely due to continued focus on asset performance.
- As at end of June 2006, for the first time in its history, the company had no customers on more than five unplanned water supply interruptions. No customers had experienced more than three sewer blockages. The key indicators of network health were also much improved.
- Implemented a new website to improve accessibility and availability of on-line information and services.
- Overdue debt, measured as 90 days debtors, was \$0.5m at 30 June 2006 (\$0.4m 2004/05).
- A process review of the company's Billings and Revenue Section resulted in a restructure and significant operating efficiencies.
- The company successfully implemented its Commonwealth Games Strategy to avoid disruption due to water and sewerage incidents, which was the culmination of over one year of planning.

Environmental

- Replacement of the Altona Treatment Plant is nearing completion and is on target to be commissioned by December 2006.
- Construction of dual reticulation pipe for recycled water for the first recycled stage of Bluestone Green and Manor Lakes Estate at West Werribee is completed, with approximately 120 homes connected to the dual water supply system.
- Received \$3.3m funding from the Victorian Water Trust for recycled water projects.
- All items in the Sustainability Covenant with the Environment Protection Authority (EPA) actioned.



PERFORMANCE MEASURES 2005/06

Licence standards	2005/06	2005/06
Performance measure	Target	Actual
<i>E-coli</i> compliance (%)	98.0	100.0
Unplanned water supply interruptions restored within 5 hours (%)	98.9	99.5
Sewer spills contained within 5 hours (%)	100.0	100.0

Business targets as at 30 June 2006

Performance measure	Target	Actual
Economic		
Debt > 90 days overdue (\$m)	0.45	0.49
Operating expenditure (\$m) - (Excluding bulk charges & one off expenses)	63.6	60.4
Capital expenditure (\$m)	63.9	59.3
ISO 9001:2000	Retain	Retained
ISO 14001	Retain	Retained
ISO 4801	Retain	Retained
HACCP	Retain	Retained
Social		
Customers receiving > 5 unplanned water supply interruptions in a year (no.)	0 - 250	0
Customers receiving > 3 unplanned sewerage interruptions in a year (no.)	0	0
Emergency calls answered within 30 seconds (%)	89.0	92.6
Correspondence answered within 6 working days (%)	99.0	100.0
Water quality complaints per 1000 households connected (no. in all zones)	1.30	1.45
Average time taken to attend bursts and leaks (priority 1) (minutes)	26.00	23.98
Average time taken to attend bursts and leaks (priority 2) (minutes)	38.00	36.71
Average time taken to attend bursts and leaks (priority 3) (minutes)	370.00	257.97
Average time to rectify water faults (days)	1.2	0.9
Average time of unplanned water supply interruption (mins)	106	96
Average time of planned water supply interruption (mins)	159	141
Customer satisfaction (%)	90.0	90.0
Environmental		
Average time to rectify a sewer blockage (mins)	141	116
Sewer blockages per 100km of sewer main (no.)	33.0	26.0
Water main breaks per 100km of water main (no.)	96.0	61.7
Interruptions to sewerage services restored within five hours (%)	95.0	97.2
Spills due to pump station equipment failure (no.)	0	0
Compliance with EPA licence (%)	100	59
Non-food waste customers non-compliant with trade waste agreements (%)	2.0	1.1

CORPORATE GOVERNANCE

City West Water Limited is incorporated under the Corporations Act 2001 and is a State Owned Company for the purpose of the State Owned Enterprise Act 1994 (Vic). The Board of Directors is appointed by the State Government as shareholder and the Board is responsible for setting and overseeing the policies, objectives and strategies of the business.

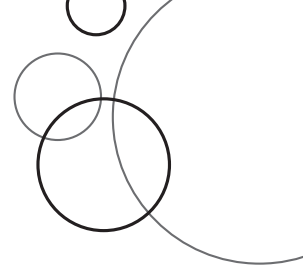
The Board meets monthly (excluding January) and is committed to performing its role in accordance with the highest standards of corporate governance. It has four committees – the Audit Committee, Environmental Audit Committee, and Occupational Health and Safety Audit

Committee, which meet quarterly, and the Executive Remuneration Committee, which meets as required. The Board approves expenditure programs, reviews company policies and strategies, and oversees progress on key issues affecting the business.

The Board comprises six non-executive Directors and the Managing Director who each bring specialist skills to City West Water.

The Board reviews its own performance on a regular basis. As part of this process, the Board seeks feedback on its performance from company executives.

Director	Experience	Committee membership
Alan E. Seale Chairman BE Chem (Hons), FIE Aust, MAICD	Alan Seale was appointed Chairman of City West Water on 1 September 2005. Mr Seale has had 38 years experience in the chemical industry, 13 of those at general management level. He worked for several years in the USA and Hong Kong. More recently Mr Seale has consulted to the CSIRO, EPA Victoria, and several universities and chemical companies. He is currently a Director of Gippsland Water, the Australian Sustainable Industries Research Centre and of his own consultancy business. Mr Seale was a director of South East Water from January 2004 to August 2005. He is an Honorary Professor at Monash University, teaching in the Department of Chemical Engineering.	Executive Remuneration Committee (Chair) Ex-officio member of all other Board committees
Anne Barker Managing Director LLB	Anne Barker was appointed as City West Water's Managing Director in November 2002. Ms Barker practised law before gaining broad management experience with Myer Stores and the ANZ Banking Group. Prior to joining City West Water, Ms Barker was the Executive Manager of the Commercial and Revenue divisions at SPI Powernet where she gained extensive experience working in a regulated utility environment. She is currently a member of the Board of the Water Services Association of Australia, and a member of the Committee for Learning and Innovation West.	Environmental Audit Committee Occupational Health and Safety Audit Committee
Richard Seddon LLB, Dip Ed	Richard Seddon was appointed as a director of City West Water Ltd in 2000 after his retirement as an Executive Director of the Australian Industry Group. Before that he was the National CEO of the Australian Chamber of Manufactures, Australian Investment Commissioner for North America based in New York, consultant with Middletons Moore and Bevans, Commissioner of the AFL, consultant to the Department of Industry Technology and Resources, Executive Director of the Melbourne Football Club, and Managing Partner of Seddon & Witt. After his retirement from AiGroup, Dick was Chairman of both the Environmental Assessment Review Advisory Committee, the Latrobe Valley Energy Park Taskforce and director of the Advanced Engineering Centre for Manufacturing. Currently he is Chairman of Earth Systems, Intelligent Manufacturing Systems Australia, Browne and Co, and director of Intelligent Manufacturing Systems International Inc (USA), Intelligent Manufacturing Systems International Inc (Korea), Fielding Family Foundation, and a member of the Industry TechLink Advisory Committee.	Audit Committee (Chair) Occupational Health and Safety Audit Committee Environmental Audit Committee
Julie Garland McLellan BSc (Hons) Civil Engineering, MBA (ceased to be a director on 31 August 2005)	Julie Garland McLellan became a director in July 2002. She is a former director of Melbourne Water Corporation, VENCORP, The Melbourne University Engineering Foundation and the Victorian Minerals and Energy Council.	Audit Committee Environmental Audit Committee Occupational Health and Safety Audit Committee



CORPORATE GOVERNANCE cont.

Christine Wardle BEng (Environmental) (Hons), Master Environmental Management	Christine Wardle was appointed a director on 1 January 2004. A former bank manager and qualified environmental engineer, she is currently an independent environmental consultant specialising in strategic environmental management and policy advice across water, waste, greenhouse and renewable energy issues. She is also a director of Blue Environment Pty Ltd, an environmental consulting company.	Environmental Audit Committee (Chair)
Peter Hansen BEc	Peter Hansen was appointed as a director in February 2005. He was the former Agent-General for Victoria in London 2000-2004. Previously, he held a range of senior management positions at ACI including responsibility for the company's environment and corporate affairs programs. He is also a director of PALTECH Pty Ltd, corporate affairs consultants, and Southern Health.	Environmental Audit Committee from 22/03/05
Stephen Vaughan MB.BS, FRACP, FRCPA, MRACMA, FAICD	Stephen Vaughan was appointed a director in February 2005. Dr Vaughan conducts a part-time practice as a Locum Consultant Physician in Haematology/Medical Oncology in various public and private clinics throughout Victoria and New South Wales. He has also worked as a consultant to the Health Insurance Commission on high-cost drugs and for the Department of Health and Human Services on pathology accreditation. He is a part-time Director of the Grampians Integrated Cancer Strategy. Dr Vaughan is currently Chairman of Barwon Water and was previously a Director of the Peter MacCallum Cancer Institute and member of its Research Advisory and Ethics Committees. He is a Member of the Committee for Geelong and Chairman of Cell Therapies Pty Ltd, a biotechnology company. He also works as an expert witness in the areas of cancer, blood diseases and transfusion medicine.	Occupational Health and Safety Audit Committee (Chair)
Deborah Radford B.Ec, Grad. Dip. Finance and Investment	Deborah Radford was appointed a director on 1 September 2005. Ms Radford is an independent consultant and director of Deb Radford & Associates, a consultancy firm specialising in commercial advice to government. Deborah has worked across a range of industries including forestry, water, waste and property where she specialises in institutional design, business improvement, corporate strategy and governance. She is a director of Bendigo Bank Ltd, Forestry Tasmania and the Melbourne Market Authority. Ms Radford's experience includes seven years in the Victorian State Treasury where she was responsible for privatisations, corporatisations and managing commercial transactions for the State. Between 1979 and 2001 Ms Radford worked in merchant banking where she specialised in credit, acquisitions and property transactions.	Audit Committee

CORPORATE GOVERNANCE cont.

Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its corporate governance responsibilities by reviewing the financial reports and other financial information produced as well as the company's internal control systems, legal and regulatory compliance processes, auditing, reporting processes and risk management systems.

Environmental Audit Committee

The Environmental Audit Committee assists the Board in fulfilling its environmental responsibilities by reviewing the company's policies and procedures for environmental compliance, processes for management of environmental risk, environmental auditing and reporting processes, environmental reports and other environmental information produced.

Occupational Health and Safety Audit Committee

The Occupational Health and Safety Audit Committee assists the Board of Directors in fulfilling its corporate governance responsibilities in terms of workplace health and safety, by reviewing the company's processes for compliance with relevant workplace legislation, workplace health and safety policies/procedures, processes for identifying and managing occupational health and safety as well as other workplace risks and hazards, and occupational health and safety auditing and reporting processes.

Executive Remuneration Committee

The Executive Remuneration Committee is made up of all non-executive Directors of the Board. The committee is responsible for setting the company's policy on executive remuneration and individual remuneration packages for senior executives.

Directors' meetings – Number attended

	Board of Directors meetings	Audit Committee meetings	Environmental Audit Committee meetings	OH&S Audit Committee meetings
Alan Seale *	8 of 8	2 of 2	3 of 3	4 of 4
Anne Barker	10 of 10	5 of 5 #	4 of 4	4 of 4
Julie Garland McLellan **	2 of 2	3 of 3	1 of 1	N/A
Richard Seddon	10 of 10	5 of 5	4 of 4	4 of 4
Christine Wardle	10 of 10	5 of 5 #	4 of 4	4 of 4 #
Peter Hansen	10 of 10	3 of 5 #	4 of 4	3 of 4 #
Stephen Vaughan	10 of 10	1 of 5 #	N/A	3 of 4
Deborah Radford *	7 of 8	1 of 2	N/A	N/A

* Commenced as a director on 01/09/2005

** Ceased to be director on 31/08/2005

The Directors attended but were not members of the committee

INSURANCE POLICIES

In order to manage the company's exposure to loss, a number of comprehensive insurance policies are in place with appropriate cover and deductibles.

FREEDOM OF INFORMATION

City West Water is subject to the Freedom of Information Act 1982 (Vic).

Access to Documents

In 2005/06, City West Water received fifteen requests for access to documents under the Freedom of Information Act 1982.

Request	No.
Access in full	2
Access in part	13
Access denied	0
Other – no documents found	0
Not finalised	0

Total **15**

Requests for access to City West Water documents under the Freedom of Information Act may be made in writing to:

Freedom of Information Officer

City West Water Limited
Locked Bag 350
Sunshine VIC 3020

Each application for information attracts a \$21.00 fee (\$21.50 from 1 July 2006). Applications must identify clearly the documents required.

General enquiries relating to Freedom of Information may be made by contacting the Freedom of Information Officer on (03) 9313 8320. City West Water staff authorised to make decisions on requests for access to documents are:

Stephen Robertson (Principal Officer)
Company Secretary and General Counsel

Andrew Jessop (Authorised Officer)
Freedom of Information Officer

Whistleblowers Protection Act

The Whistleblowers Protection Act 2001 came into effect on 1 January 2002. The Act is designed to protect people who disclose information about serious wrongdoing within the Victorian Public Sector and to provide a framework for the investigations of these matters.

The protected disclosure coordinator for City West Water Limited is authorised to receive disclosures under the Act, and applies the company's procedures in managing disclosures. The company has adopted the Model Procedures set out in the Ombudsman Victoria Guidelines published in November 2001. A copy of our procedure is included in this report for your reference.

Disclosures of improper conduct by the company or its employees may be made to the following:

The Company Secretary, Protected Disclosure Coordinator

City West Water Limited
Locked Bag 350
Sunshine Vic 3020
Telephone: 9313 8422
Facsimile: 9313 8648
Email: srobertson@citywestwater.com.au

or

The Ombudsman Victoria
Level 22, 459 Collins Street
Melbourne Vic 3000

Telephone: 9613 6222
Toll free: 1800 806 314

Number of disclosures made to the company	0
Number of disclosures referred to the Ombudsman for determination	0
Number of disclosures referred to the company by the Ombudsman	0
Number of disclosures referred to the Ombudsman by the company for investigation	0
Number of investigations taken over by the Ombudsman from the company	0
Number of requests from a Whistleblower to the Ombudsman to take over an investigation by the company	0
Number of disclosed matters that the company had declined to investigate	0
Number of disclosures that were substantiated and action taken	0
Number of recommendations made by the Ombudsman that relate to the company	0

Additional Information

The Department of Sustainability and Environment have requested that we report on our business' greenhouse gas emissions and office water-use per employee. This information can be found below.

For related information, our Sustainability Report provides a comprehensive outline of our performance across the triple bottom line and can be found at www.citywestwater.com.au.

Greenhouse Gas Emissions

The greenhouse gas emissions per employee by City West Water Limited and our maintenance contractor, Infraser are:

	City West Water Ltd	Infraser
2002/03	31.19 tonnes of CO2 per employee	11.10 tonnes of CO2 per employee
2003/04	29.41 tonnes of CO2 per employee	11.18 tonnes of CO2 per employee
2004/05	27.33 tonnes of CO2 per employee	11.32 tonnes of CO2 per employee
2005/06	29.43 tonnes of CO2 per employee	10.80 tonnes of CO2 per employee

Water used

	2005/06
Litres of water used per employee, per year	10,860*

*Note: Includes water used by all employees, contractors and tenants on-site.

DIRECTORS' REPORT

The directors of City West Water Limited (A.B.N. 70 066 902 467), present their report on the company for the financial year ended 30 June 2006.

Directors

The following persons were directors of City West Water Limited at any time during or since the end of the financial year:

A Seale	Chairman since September 2005
R Seddon	Director since December 2000
D Radford	Director since September 2005
C Wardle	Director since January 2004
A Barker	Managing Director since November 2002
S Vaughan	Director since February 2005
P Hansen	Director since February 2005
J Garland McLellan	Ceased to be a Director August 2005

The Directors have no share holding in the company nor are they entitled to receive options in the company.

Principal activities

The company's principal continuing activities during the year consisted of:

- provision of water services
- provision of sewerage services
- provision of trade waste services.

Results

The company made a profit before income tax of \$62.4m (2004/05 \$77.7m). Profit after tax was \$38.8m (2004/05 \$49.4m).

Dividends

Final dividend of \$12.4m in respect of 2004/05 was paid on 31 October 2005 (2003/04 \$21.8m) and an interim dividend of \$15.3m (2004/05 \$19.8m) was paid on 28 April 2006. As the final dividend for 2005/06 was not formalised by June 2006, no provision for final dividend has been made at balance date. Nevertheless, based on the shareholder's dividend policy, the Board's preliminary estimate of final dividend in respect of 2005/06 is \$15.2m (2004/05 \$12.4m), payable in October 2006.

Review of operations

A review of the operations of the company during the year and the results of those operations is set out in the analysis of the financial statements, the company highlights and the performance measures section of this report. Further in-depth details and review of the company's operations is contained in the company's 2005/06 Sustainability Report. There have been no significant changes in the state of affairs of the company during the year.

Environmental regulation and performance

The company is subject to particular and significant environmental regulation in respect of its operations. The company carries out its functions pursuant to the Environment Protection Act 1970 (Victoria). The company holds a licence under that Act, permitting it to treat sewage at, and discharge from, its Altona Treatment Plant into Port Phillip Bay.

The company has in place an Environment Improvement Plan and its environmental management system is certified under ISO 14001.

During the year, the company exceeded two EPA Victoria licence parameters; namely ammonia and maximum weekly average chlorine level in the final effluents, from the Altona Treatment Plant. The plant is currently being replaced, which will remedy the situation and achieve more stringent licence requirements from the EPA.

There were no other known environmental breaches during the financial year.

Further details of the company's performance in relation to environmental regulation is contained in the 2005/06 Sustainability Report.

Matters subsequent to the end of the financial year

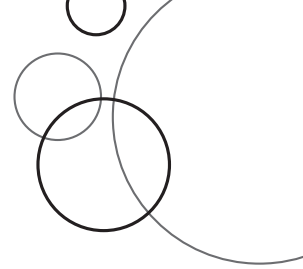
No matter or circumstance which has arisen since 30 June 2006 has significantly affected or may significantly affect:

- a) the company's operations or
- b) the results of those operations or
- c) the company's state of affairs, in the financial year subsequent to 30 June 2006.

Likely developments and expected results of operations

Lower than expected demand for water due to water conservation efforts from our customers will continue to have an impact on the company's operating results. The company will commence implementation of the first stage of the Melbourne-wide Water Supply - Demand Strategy, with the aim of maintaining the existing level of reduction in consumption.

The construction of the Altona Treatment Plant upgrade is nearing completion and is expected to be commissioned later this year.



City West Water Limited

DIRECTORS' REPORT cont.

Company Secretary

The Company Secretary is Stephen Robertson (LL.B (Hons), B.Sc). Mr Robertson was appointed to the position upon joining City West Water in July 2003. Before joining the company, Mr Robertson was Legal Counsel (Commercial) for United Energy Limited, a listed energy distribution business, and prior to that he spent four years as a solicitor with the law firm Arthur Robinson & Hedderwicks (now Allens Arthur Robinson).

The alternate company secretary is Mr David Heeps BE (Agric), M Eng Sci. Mr Heeps was appointed as company secretary on 4 April 2003 and acts as alternate to Mr S Robertson when authorised to do so in writing from the Chairman. Mr Heeps has six years experience with City West Water as General Manager, External Affairs, and completed a Graduate Diploma in Applied Corporate Governance through Chartered Secretaries Australia.

Directors' benefits

No director has received, or has become entitled to receive, a benefit (other than a remuneration benefit included in Notes 24 and 29 to the financial statements) because of a contract that the director, a firm of which the director is a member, or an entity in which the director has a substantial financial interest, has made (during the year ended 30 June 2006 or at any other time) with the company.

Directors are not entitled to retirement benefits.

Directors' and Officers' insurance

During the financial year the company paid a premium in respect of an insurance contract to insure against certain liabilities of each of the directors, whose names appear earlier in this report, and officers (as defined) of the company.

The terms of the insurance contract prohibit the disclosure of the nature of the liability and the amount of the premium.

No amount has been paid pursuant to this indemnity during or since the end of the financial year.

Auditor

The Victorian Auditor-General continues in office as the company's auditor in accordance with Section 327 of the Corporations Act 2001 and the Audit Act 1994.

Non-Audit services

The company did not employ the auditor on assignments additional to their statutory audit duties.

Rounding of amounts to nearest thousand dollars

As the company is of a kind referred to in regulation 3.6.05(6) of the Corporations Act 2001 relating to the "rounding off" of amounts in the directors' report and financial statements, the company has applied the relief available to it in Class Order 98/0100 issued by the Australian Securities and Investments Commission and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars, or in certain cases to the nearest dollar.

This report is made in accordance with a resolution of the board of directors.

For and on behalf of the Board of City West Water Limited.

Alan E. Seale
Chairman

Anne Barker
Managing Director

Melbourne
22 August 2006



AUDITOR GENERAL
VICTORIA

**AUDITOR-GENERAL'S INDEPENDENCE
DECLARATION**

To the Members of City West Water Limited

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

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

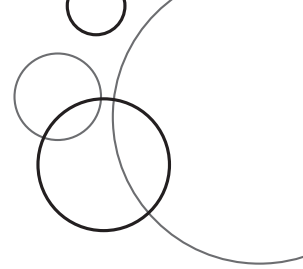
Independence Declaration

As auditor for City West Water Limited for the year ended 2006, I declare that, to the best of my knowledge and belief, there have been:

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

MELBOURNE
22 August 2006


JW CAMERON
Auditor-General



INCOME STATEMENT

For the year ended 30 June 2006	Notes	30 June 2006 \$'000	30 June 2005 \$'000
Revenue from continuing operations	2	256,676	263,891
Total expenses, other than finance costs	3	(178,481)	(172,829)
Finance costs		(15,826)	(13,316)
Total expenses		(194,307)	(186,145)
Profit before income tax expense		62,369	77,746
Income tax expense	5	(23,606)	(28,338)
Profit after income tax	23(a)	38,763	49,408

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

INCOME STATEMENT REVIEW

Profit before income tax of \$62.4m (2004/05 \$77.7m) is 19.8 percent or \$15.3m below last year's level. Lower area contributions from development activities together with increased expenditure associated with asset write-offs, and environmental contributions contributed to the reduction in profits. Higher finance charges and depreciation also contributed to the reduction in profit.

Review of Revenue from Continuing Operations

- Revenue from continuing operations includes sales of goods for water sewerage and recycling services \$211.9m (2004/05 \$202.7m) and other revenue \$44.8m (2004/05 \$61.2m).
- Revenues from land development activities decreased by \$22.7m or 44.5 percent from last year's levels.
- Sales revenue for water and sewerage services was 4.6 percent above last year's level, which reflects the regulated price increases effective from 1 July 2005.
- Regulated prices increased by 4.2 percent on 1 July 2005.
- The company recorded growth of 2.5 percent in the number of connected properties across the company's licence area compared to last year.
- Unbilled water of 9.8 percent was consistent with last year's level of 9.7 percent.
- Sales revenues include variable volumetric charges (71 percent) and fixed system connection charges (29 percent).

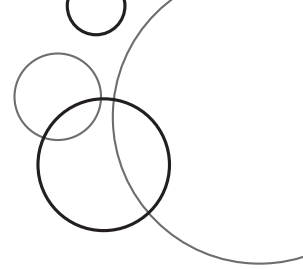
Review of Expenditure

- Total expenses, other than finance costs increased by 3.3 percent in 2005/06 (refer note 3), due mainly to increased payments of environmental contributions, asset write off associated with the Altona Treatment Plant upgrade and increase in depreciation charges.
- Finance costs increased by 18.9 percent to \$15.8m due largely to an increased borrowing level. The borrowing portfolio carries a weighted average interest cost of 5.78 percent at June 2006 compared to 5.77 percent at June 2005.
- Since June 1996 (the company's first full year of operation), total expenses (excluding finance costs) has been reduced by 20.3 percent and finance costs have reduced by 43.0 percent respectively.

BALANCE SHEET

As at 30 June 2006	Notes	30 June 2006 \$'000	30 June 2005 \$'000
CURRENT ASSETS			
Cash	8, 32	1,747	586
Receivables	9, 32	32,859	33,650
Other	10	836	1,176
Total current assets		35,442	35,412
NON-CURRENT ASSETS			
Receivables	11, 32	30	32
Infrastructure, property, plant and equipment	12	823,086	761,544
Deferred tax assets	13	4,316	5,509
Other	1, 28	568	459
Total non-current assets		828,000	767,544
TOTAL ASSETS		863,442	802,956
CURRENT LIABILITIES			
Payables	14, 32	35,761	30,090
Interest bearing liabilities	15, 32	56,000	16,550
Tax liabilities	16	1,781	2,973
Provisions	17	12,248	15,948
Other	18, 32	7,498	5,534
Total current liabilities		113,288	71,095
NON-CURRENT LIABILITIES			
Interest bearing liabilities	19, 32	212,500	218,500
Deferred tax liabilities	20	136,774	124,431
Provisions	21	347	488
Other	22	2,511	1,483
Total non-current liabilities		352,132	344,902
TOTAL LIABILITIES		465,420	415,997
NET ASSETS		398,022	386,959
SHAREHOLDER'S EQUITY			
Paid up capital	23	20,620	20,620
Capital reserve	23	196,987	196,987
Retained profits	23	180,415	169,352
TOTAL SHAREHOLDER'S EQUITY		398,022	386,959

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



ANALYSIS OF THE BALANCE SHEET

Review of Assets

- Total receivables decreased by 2.4 percent in 2005/06.
- Infrastructure, property, plant and equipment increased by 8.1 percent during the year and has grown by 78.8 percent since 1995, reflecting the company's commitment to investing in its infrastructure assets and the strong levels of growth within our licence area. Infrastructure assets are valued at historical cost and are subjected to the recoverable amount test in order to substantiate their carrying value against future cash flows.

Review of Liabilities

- Total borrowings increased by 14.2 percent or \$33.5m during 2005/06. Apart from the bank overdraft facility, all borrowings are made through the Treasury Corporation of Victoria.
- Provisions for tax liabilities decreased by \$1.2m in 2005/06.
- Other non-tax provisions decreased by \$3.8m to \$12.6m (2004/05 \$16.4m).
- Deferred tax liabilities increased from \$124.4m to \$136.8m which is the result of the continued difference in depreciation rates for infrastructure assets, property, plant and equipment for accounting and tax purposes.
- Developer cash contributions to fund the construction of new assets, or the augmentation of existing assets required by urban growth have been recognised as income in the income statement in accordance with accounting standards. City West Water's obligation to undertake such capital works in the future is not recognised in the balance sheet as a liability in accordance with accounting standards.

Review of Shareholder's Equity

Paid up capital and capital reserves remained at last year's levels while retained profits increased by \$11.1m in 2005/06.

Gearing

Gearing measured as interest bearing debt as a percentage of debt and equity increased from 37.8 percent last year to 40.3 percent in 2005/06.

Review of Financial Ratios

- Despite reduced profitability, the company's financial ratios as at 30 June 2006 remain at prudent levels.
- Return on shareholder equity decreased to 9.9 percent for the year (2004/05 12.6 percent).
- Return on assets decreased to 9.4 percent (2004/05 11.8 percent).
- Working capital ratio (excluding current borrowings) has decreased from 64.9 percent to 61.9 percent.
- Interest cover was 4.9 times at June 2006, compared to last year's 6.8 times.

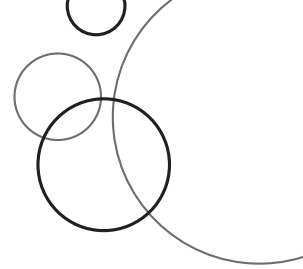
STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2006	30 June 2006 \$'000	30 June 2005 \$'000
Total Equity at the beginning of the Financial Year	386,959	399,109
Adjustments upon transition to AIFRS (Retained Earnings) Refer note 33	-	(19,958)
Restated Balance	386,959	379,151
Profit after income tax	38,763	53,361
Adjustments upon transition to AIFRS (Income Statement) Refer note 33	-	(3,953)
Total for the period	425,722	428,559
Dividends	(27,700)	(41,600)
Total Equity at the end of the Financial Year	398,022	386,959

CASH FLOW STATEMENT

For the year ended 30 June 2006	Notes	30 June 2006 \$'000	30 June 2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		231,705	226,481
Payments to suppliers and employees (inclusive of goods and services tax)		(164,405)	(153,065)
Goods and Services Tax refund		7,469	6,507
Interest received		255	79
Company tax payments		(11,261)	(19,173)
Finance costs		(14,788)	(12,924)
Net cash provided by operating activities	31	48,975	47,905
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant, equipment and capital works in progress		(53,629)	(41,380)
Proceeds from sale of property, plant and equipment		65	52
Net cash used in investing activities		(53,564)	(41,328)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		81,503	208,346
Repayment of borrowings		(48,053)	(173,238)
Dividends paid		(27,700)	(41,600)
Net cash provided by/(used in) from financing activities		5,750	(6,492)
Net increase/(decrease) in cash held		1,161	85
Cash at the beginning of the financial year		586	501
Cash at the end of the financial year	8	1,747	586

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



ANALYSIS OF THE CASH FLOW STATEMENT

Review of Cash Flows From Operating Activities

Net cash provided by operating activities increased by 2.2 percent to \$49.0m (2004/05 \$47.9m) due primarily to:

- An income tax payment of \$11.3m (2004/05 \$19.2m) paid under the National Tax Equivalent Regime (NTER) during the financial year.
- A 7.4 percent increase in payments to suppliers and employees (inclusive of goods and services tax).
- A 2.3 percent increase in receipts from customers which included a 79.2 percent decrease in cash contributions from land developers.

Finance costs increased by 14.4 percent during the year due to additional borrowings which was required to fund increased capital expenditure.

Review of Cash Flows from Investing Activities

Net cash used in investing activities increased by 29.6 percent or \$12.2m in line with an increase in capital investments from last year's level.

Review of Cash Flows from Financing Activities

The company continued to actively manage its debt portfolio throughout the year through debt refinancing. Net new borrowing for the year was \$33.5m compared to the 2004/05 net increase of \$35.1m.

The company paid a final dividend of \$12.4m in respect of 2004/05 and a 2005/06 interim dividend of \$15.3m to the State Government. The final dividend for 2005/06 is anticipated to be in the order of \$15.2m.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The following is a summary of the accounting policies adopted by the Company in the preparation of the Financial Report. The accounting policies have been consistently applied except where otherwise stated.

Basis of Preparation

The financial report is a general purpose financial report, prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards and other mandatory professional reporting requirements. The financial report has been prepared on an accrual and going concern basis.

Statement of Compliance

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ('AIFRS').

First Time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first City West Water Ltd financial statements to be prepared in accordance with AIFRS. *AASB 1 First Time Adoption of AIFRS* has been applied in preparing the financial statements. The financial statements of City West Water Ltd until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects to AIFRS and where applicable, comparatives figures in respect of 2005 have been restated accordingly.

Early adoption of standard

City West Water Ltd has elected to apply AASB 119 Employee Benefits (issued in December 2004) to the reporting period beginning 1 July 2005. This includes applying AASB 119 to the comparatives.

Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets, and certain classes of property, plant and equipment.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the entity's accounting policies.

Changes in accounting policy

There have been no changes in accounting policy except the mandatory changes to comply with AIFRS.

Income tax

City West Water Limited is subject to the National Tax Equivalent Regime pursuant to Section 88(1) of the State Owned Enterprises Act 1992 whereby City West Water Limited is required to pay to the Victorian State Government an amount equal to the tax liability applicable if the organisation was a private company. The tax equivalent rules are based on the Income Tax Assessment Act 1936 (as amended).

Income tax expense or revenue for the period is the tax payable on taxable income adjusted by changes in deferred assets and liabilities attributable to temporary differences between tax and accounting bases.

Deferred tax asset relating to tax losses is not carried forward as an asset unless it is probable the future taxable amount will be available to utilise those temporary differences. Income tax on cumulative temporary differences is set aside to the deferred tax liability or asset accounts at rates which are expected to apply when temporary differences reverse.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

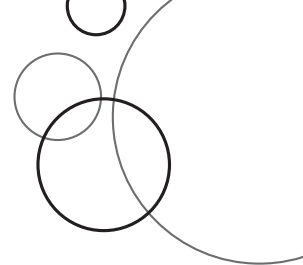
Acquisition of assets and construction of non-current assets

The cost method of accounting has been used for all acquisitions of assets during the year. Cost is determined as the fair value of the assets given up at the date of acquisition plus any costs directly attributable to the acquisition.

The cost of non-current assets constructed by the company includes all costs in respect of their construction. In the case of gifted assets, where actual cost is not available, cost is determined on the basis of a schedule of rates, which is based on a combination of the company's actual costs and a survey of industry averages.

Assets, regardless of their cost, are capitalised if they satisfy the requirements of an asset. This also includes the capitalisation of labour costs directly attributable to capital projects.

Assets which no longer meet the requirements of an asset are written off in the income statement as an asset write-off.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES cont.

Impairment of assets

At each reporting date the company reviews the carrying values of its assets to determine whether there is any impairment.

Where the carrying amount of a non-current asset is greater than its recoverable amount the asset is written down to its recoverable amount.

The recoverable amount of an asset is the higher of an asset's fair value less selling costs and value in use.

In assessing value in use, the identifiable cash flows from assets are discounted to their present value using the company's weighted average cost of capital.

Using the above methodology, the company's non-current assets exceeded their carrying amount and hence there was no requirement for an impairment write down.

Land and buildings valuation

Land and buildings are carried at cost.

It is the policy of the company to revalue land and buildings every three years to ensure that the carrying value of land and buildings does not exceed their recoverable amount.

Infrastructure, property, plant and equipment valuation

Infrastructure, property, plant and equipment are carried at cost.

Depreciation of infrastructure, property, plant and equipment

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method over the estimated useful life of the asset to the company. The useful lives and residual value of each group of assets are reviewed annually. The expected useful lives are listed below and are consistent with the prior year.

Buildings	10 - 50 years
Infrastructure assets	10 - 90 years
Plant and equipment	3 - 10 years

Depreciation of a new asset commences in the month subsequent to the practical completion of works.

Repairs and maintenance

Routine maintenance, repairs and minor asset renewal costs are expensed as incurred. Where the expenditure relates to the replacement of a component of an asset and the cost satisfies the requirements of an asset, the cost is capitalised and depreciated.

Leased non-current assets

Leases of property, plant and equipment where the entity controls the rewards and bears the risks incidental to the ownership are classified as finance leases. Leases in which a significant portion of the risks and rewards of ownership are

retained by the lessor are classified as operating leases.

Operating lease payments are expensed to the income statement in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

The company did not hold any finance lease arrangements during the financial year.

Cash and Cash Equivalents

For the purpose of the cash flow statement, cash includes cash on hand and deposits held at call with financial institutions which are readily convertible to cash on hand and are subject to insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities on the balance sheet.

Comparative information

Where necessary, figures for the previous year have been reclassified to facilitate comparison.

Employee benefits

In relation to services rendered by employees to balance date, provision is made for the company's liability for employee benefits.

(i) Wages and salaries, annual leave, and long service leave

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date.

Unconditional vested long service leave representing seven years continuous service is disclosed as a current liability, even when the Company does not expect to settle the liability within 12 months, as it will not have the right to defer the settlement of the entitlement should an employee take leave within 12 months.

Annual and long service leave expected to be paid within 12 months has been measured at nominal value. Annual and long service leave expected to be paid after 12 months has been measured at present value.

(ii) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, workcover and superannuation payments, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(iii) Retirement Benefit Obligations

All employees of City West Water Ltd are entitled to benefits on retirement, disability, or death from either Equisuper, Vision Super fund or an approved fund.

The company has a defined benefits plan and a defined contributions plan.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES cont.

Defined Contributions

The amount charged to the income statement in respect of superannuation represents the contributions made by City West Water Ltd to the superannuation plan in respect of current services of current staff. Superannuation contributions are made to the plans based on the relevant rule of the plan.

Defined Benefits

A liability or asset in respect of defined benefits superannuation is recognised and measured as the difference between the present value of employees accrued benefits at the reporting date and the net market value of the superannuation plan's assets at that date. The present value of accrued benefits is based on expected future payments which arise from membership of the plans to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using rates of national government bonds with terms to maturity that match, as closely as possible, the future estimated cash outflows.

The company has adopted the deferral method of accounting for actuarial gains or losses for its defined benefit fund. Only gains or losses greater than ten percent of the value of plan assets or obligations are charged or credited to the income statement.

The amount charged to the income statement in respect of superannuation represents the contributions made to the superannuation plan, adjusted by the movement in the defined benefit plan liability or surplus.

Receivables and estimated doubtful debts

Receivables are carried at nominal amounts due less doubtful debts.

The value of estimated doubtful debts is reviewed regularly on an individual and group debtor basis. A provision for doubtful debts is recognised where the recovery of the outstanding debt is considered less than likely. Debts which are known to be uncollectable are written off.

Borrowing and Finance Costs

Interest bearing liabilities are carried at their principal amounts. Interest expense payable in arrears is accrued as incurred and is charged to the income statement.

Revenue recognition

Each form of revenue is brought to account as follows:

- Water and sewerage service charges, which are billed quarterly in advance, are brought to account evenly throughout the financial year to reflect the pattern of revenue being earned.
- Water and sewerage usage charges are recognised as income when the service has been provided.
- Area Contributions represent charges levied on developers to recover the costs of augmenting or constructing infrastructure assets to meet the future demands of urban growth. Recognition of income occurs upon receipt of contributions.
- Gifted assets arise where developers pay for the cost of construction of any new assets. Upon gaining control, City West Water Ltd assesses the value of the works based on approved construction rates and the assets are brought to account as revenue.
- Income receivable on investing activities is recognised as revenue when earned and is accrued in accordance with the terms and conditions of the underlying Financial Instruments.
- Government Grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Financial Liabilities

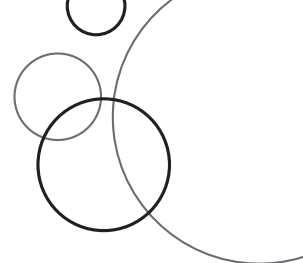
These amounts represent liabilities for goods and services provided to the economic entity prior to the end of financial year and which are unpaid. The amounts are unsecured and are paid in accordance with existing trading terms.

Dividend payable

The Balance Sheet does not include an estimated \$15.2m final dividend for 2005/06 (\$12.4m estimated 2004/05) as the amount was not formalised by balance date.

Rounding of amounts to nearest thousand dollars

Amounts in the financial statements have been rounded to the nearest thousand dollars, or in certain cases to the nearest dollar.



2. REVENUE

	30 June 2006 \$'000	30 June 2005 \$'000
Revenue from continuing operations:		
<u>Sales Revenue</u>		
Service charges, water	29,793	27,745
Volume charges, water	84,938	81,573
Service charges, sewerage	32,140	29,789
Volume charges, sewage	49,579	47,578
Trade waste charges	15,468	16,002
Total	211,918	202,687
<u>Other Revenue</u>		
Area contributions (Cash) (*)	4,781	22,936
Gifted assets (Non-cash) (**)	23,485	28,003
Works and services provided to third parties	3,650	3,505
Interest received/receivable	279	78
Miscellaneous fees and charges	6,407	6,352
Bank guarantee and retention security (***)	4,440	-
Lease income	278	278
Proceeds from sale of non-current assets	65	52
Movement in defined benefit superannuation	109	-
Other revenue (****)	1,264	-
Total	44,758	61,204
Total revenue from continuing operations	256,676	263,891

2. REVENUE cont.

(*) Area contributions

Developers are required to make a fair and reasonable contribution towards the cost of developing City West Water Limited's water supply distribution systems and sewage disposal systems.

Consistent with the requirements of AASB 118 Revenue, these cash contributions have been recognised as income in the income statement upon receipt.

As a consequence of receiving these cash contributions, City West Water Limited has a future commitment to invest in either the construction of new assets or the augmentation of existing assets to meet the needs of urban growth.

As the amount, timing, nature and location of the capital expenditure is not precisely known, it fails to meet one of the essential characteristics of a liability and therefore is not recognised in either the Balance Sheet or Note 27 to the accounts - commitment for expenditure.

() Gifted assets**

Developers are required to provide water supply and sewerage facilities to new subdivisions; these assets are subsequently gifted to City West Water Limited which maintains them in perpetuity.

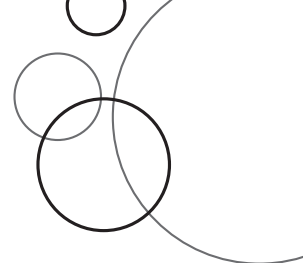
In accordance with the requirements of UIG 1017 Developer and Customer Contributions for Connection to a Price Regulated Network and AASB 118 Revenue, the fair value of these assets is recognised as revenue in the accounts when the risks and rewards of ownership have been transferred to City West Water Ltd. This non-cash revenue is recorded as 'gifted assets'.

(*) Bank guarantee and retention security**

The company drew down \$4.4m of bank guarantee and retention security during the year, in accordance with the project deed to upgrade the Altona Treatment Plant, following the administration of Simon Engineering Australia.

(**) Other Revenue**

Other revenue includes a write back of provisions previously expensed to the income statement. A full review of subsequent events following initial recognition revealed that the expenditure no longer meets the definition of provision as defined by AASB 137 Provisions, Contingent Liabilities and Contingent Assets.



3. PROFIT BEFORE INCOME TAX

	30 June 2006 \$'000	30 June 2005 \$'000
Profit before income tax includes the following expenses:		
Bulk water charges (fixed and variable)	49,538	48,519
Bulk sewerage charges (fixed and variable)	40,190	40,143
Total bulk charges	89,728	88,662
Environmental Contribution (*)	10,220	7,660
Employee benefits expense	16,688	14,780
Operating contracts	23,264	23,052
Doubtful debts	1,000	900
Service Charge Refunds (**)	-	3,500
De-sludging costs	-	2,000
Asset Decommissioning costs	3,659	824
Rental expenses relating to operating leases	759	683
Our Water Our Future advertising campaign	1,500	1,500
Other costs from ordinary activities	15,007	15,806
Depreciation	16,656	13,462
Total operating expenses	88,753	84,167
Total expenses, other than finance costs	178,481	172,829
Profit/(Loss) on sale of non-current assets	65	52
Depreciation of:		
Infrastructure assets	14,110	11,878
Plant and equipment	2,198	1,270
Buildings	348	314
Total charge against assets for depreciation	16,656	13,462

(*) The environmental contribution was introduced on 1 October 2004. Consistent with legislative requirements, the company pays the environmental contribution to the Government to fund various water related initiatives that promote the sustainable management of water, and to address the adverse impact to the environment associated with water use.

(**) The company incorrectly billed some of its customers for service charges dating back to 1998. This arose due to the difference between rateable properties and titled properties. Prior to 1998, service charges were levied on properties based on rateable values. Effective from January 1998, service charges were only applicable to titled properties.

4. SEGMENT INFORMATION

2005/06	Water \$'000	Sewerage \$'000	Unallocated \$'000	Total \$'000
Revenue from sales to external customers (Note 2)	130,914	114,094	11,668	256,676
Segment Expenses	(87,705)	(67,470)	(39,132)	(194,307)
Segment results (Profit before tax)	43,209	46,624	(27,464)	62,369
Segment assets	312,979	525,511	24,952	863,442
Segment liabilities	396	16	465,008	465,420
Acquisition of segment assets (Note 12)	35,209	42,050	4,597	81,856
Depreciation (Note 3)	7,110	7,000	2,546	16,656
Non-cash expense other than depreciation	-	-	1,000	1,000

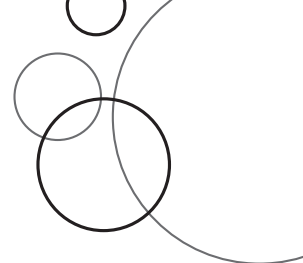
2004/05	Water \$'000	Sewerage \$'000	Unallocated \$'000	Total \$'000
Revenue from sales to external customers (Note 2)	134,413	124,106	5,372	263,891
Segment Expenses	(82,911)	(67,810)	(35,424)	(186,145)
Segment results (Profit before tax)	51,502	56,296	(30,052)	77,746
Segment assets	285,273	494,267	23,416	802,956
Segment liabilities	464	16	415,517	415,997
Acquisition of segment assets	31,811	34,216	5,102	71,129
Depreciation (Note 3)	5,229	6,649	1,584	13,462
Non-cash expense other than depreciation	-	-	900	900

Notes to and forming part of the segment information accounting policies

The company operates under the business segments of water and sewerage. The company operates in one geographical segment.

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in Note 1 and AASB 114 Segment Reporting.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of receivables and infrastructure assets but exclude property, plant and equipment.



5. INCOME TAX

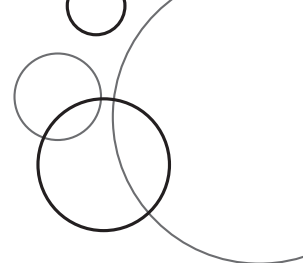
	30 June 2006 \$'000	30 June 2005 \$'000
(a) Income tax expense		
Current tax	10,070	18,132
Deferred tax	13,536	10,206
	<u>23,606</u>	<u>28,338</u>
Income tax expense is attributable to:		
Profit from continuing operations	23,606	28,338
Aggregate income tax expense	<u>23,606</u>	<u>28,338</u>
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets	1,193	(2,102)
(Decrease) increase in deferred tax liabilities	12,343	12,308
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	62,369	77,746
Tax at the Australian tax rate of 30% (2005 - 30%)	18,711	23,324
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Sundry items	4,895	5,014
	<u>23,606</u>	<u>28,338</u>

6. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES RECONCILIATION

	30 June 2006 \$'000	30 June 2005 \$'000
DEFERRED TAX ASSETS		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Accrued expenses	21	14
Provisions	4,136	5,333
Amortisation of intellectual property	39	42
Project Pool costs	120	120
	<u>4,316</u>	<u>5,509</u>
Movements:		
Opening balance at 1 July 2005	5,509	3,407
Credited/(charged) to income statement (Note 5)	(1,193)	2,102
Closing balance at 30 June 2006	<u>4,316</u>	<u>5,509</u>
DEFERRED TAX LIABILITIES		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Fixed assets - depreciation	85,444	77,628
Developer contributed assets	51,323	46,785
Receivables	7	18
	<u>136,774</u>	<u>124,431</u>
Movements:		
Opening balance at 1 July 2005	124,431	112,123
Credited/(charged) to income statement (Note 5)	12,343	12,308
Closing balance at 30 June 2006	<u>136,774</u>	<u>124,431</u>

7. DIVIDENDS

City West Water Limited made a final dividend payment in respect of 2004/05 of \$12.4m (2003/04 \$21.8m) and an interim dividend payment of \$15.3 million in 2005/06 (2004/05 \$19.8 million). The company has not made a provision for an estimated \$15.2m 2005/06 final dividend (Note 1), which will be payable in 2006/07, (2004/05 \$12.4 million).



8. CURRENT ASSETS – Cash

	30 June 2006 \$'000	30 June 2005 \$'000
Deposits at call	1,747	586
Total current assets - Cash	1,747	586
The above figures are reconciled to cash at the end of the financial year as shown in cash flow statement as follows:		
Balance as above	1,747	586
Balance per cash flow statement	1,747	586

9. CURRENT ASSETS – Receivables

Unbilled receivables	21,513	23,463
Account receivables	12,542	11,532
Less: Provision for doubtful debts	(1,196)	(1,345)
Total current assets - Receivables	32,859	33,650

10. CURRENT ASSETS – Other

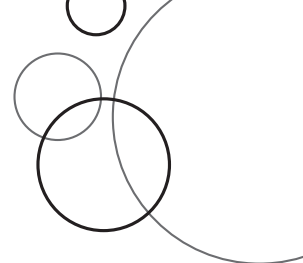
Prepayments - Recurrent Expenditure	433	387
Prepayment - Smart Water Fund	403	789
Total current assets - Other	836	1,176

11. NON-CURRENT ASSETS – Receivables

Receivables	30	32
Total non-current assets - Receivables	30	32

12. NON-CURRENT ASSETS - Infrastructure, property, plant and equipment

	30 June 2006 \$'000	30 June 2005 \$'000
Land and buildings		
Freehold land at cost	796	635
	<u>796</u>	<u>635</u>
Buildings at cost	8,226	8,129
Less: Accumulated depreciation	(3,035)	(2,687)
	<u>5,191</u>	<u>5,442</u>
Total Land and buildings	<u>5,987</u>	<u>6,077</u>
An independent valuation was undertaken by a registered valuer Mr C. Torr of Urbis Pty Ltd as at 30 June 2006 for the company's main office complex. The valuation estimated a current market value of \$10.2m.		
Infrastructure assets		
Infrastructure assets at cost	856,676	805,286
Less: Accumulated depreciation	(114,376)	(100,336)
	<u>742,300</u>	<u>704,950</u>
Total Infrastructure assets	<u>742,300</u>	<u>704,950</u>
Plant and equipment		
Plant and equipment at cost	17,625	14,469
Less: Accumulated depreciation	(12,291)	(10,831)
	<u>5,334</u>	<u>3,638</u>
Total plant and equipment	<u>5,334</u>	<u>3,638</u>
Capital works in progress	69,465	46,879
Total non-current assets - Infrastructure, property, plant and equipment	<u>823,086</u>	<u>761,544</u>



12. NON-CURRENT ASSETS - Infrastructure, property, plant and equipment - cont.

Reconciliations

Reconciliations of the carrying amounts of each class of non-current assets at the beginning and end of the current financial year are set out below.

	Water and sewerage Infrastructure \$'000	Freehold land \$'000	Buildings \$'000	Plant & Equipment \$'000	Capital works in progress \$'000	Total \$'000
2005/06						
Carrying amount at 1 July 2005	704,950	635	5,442	3,638	46,879	761,544
Additions	51,760	161	97	3,902	25,936	81,856
Transfers	-	-	-	-	-	-
Disposals	(300)	-	-	(8)	-	(308)
Asset write-down	-	-	-	-	(3,350)	(3,350)
Depreciation expense	(14,110)	-	(348)	(2,198)	-	(16,656)
Carrying amount at 30 June 2006	742,300	796	5,191	5,334	69,465	823,086

13. NON-CURRENT ASSETS - Deferred Tax Assets

	30 June 2006 \$'000	30 June 2005 \$'000
Deferred tax asset	4,316	5,509
Total non-current assets - Deferred tax assets	4,316	5,509

14. CURRENT LIABILITIES - Accounts Payable

Payables - Trade	30,436	25,804
Payables - Other	5,325	4,286
Total current liabilities - Accounts payable	35,761	30,090

15. CURRENT LIABILITIES - Interest Bearing Liabilities

Treasury Corporation of Victoria - Borrowings	56,000	16,550
Total current liabilities - Interest bearing liabilities	56,000	16,550

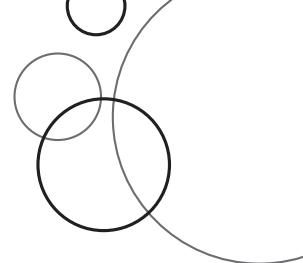
No security has been provided in respect of any existing liability.

All City West Water Limited's borrowings are made through Treasury Corporation of Victoria (TCV) and are government guaranteed, the company pays a fee of \$222,000 (2004/05 \$147,000) for this facility.

City West Water Limited has a bank overdraft facility available to the extent of \$2.5m, being the same as in the financial year of 2004/05. An agreement is also in place with TCV for the provision of a \$50m short term borrowing facility. Any drawing on this facility must be settled within a financial year, with interest charged at normal market rates. The bank overdraft and short term borrowing facilities were used on a limited basis, both in terms of frequency and value during 2005/06.

16. CURRENT LIABILITIES - Tax Liabilities

	30 June 2006 \$'000	30 June 2005 \$'000
Tax liabilities	1,781	2,973
Total current liabilities - Tax liabilities	1,781	2,973



17. CURRENT LIABILITIES – Provisions

	30 June 2006 \$'000	30 June 2005 \$'000
Employee benefits (Note 28)	5,009	4,123
Sundry provisions	7,239	11,825
Total current liabilities - Provisions	12,248	15,948

Sundry provisions include:

Insurance provision	631	693
Restructuring provision	546	840
Biosolids management	1,309	1,500
De-sludging Altona Treatment Plant Lagoon	2,000	2,000
Service Charge Refunds	345	3,022
Other miscellaneous provisions	2,408	3,770
	7,239	11,825

Movement in sundry provision

Current	Insurance	Restructure	Biosolids Mgt	De-Sludge ATP Lagoon	Service Charge Refunds	Other	Total
Carrying amount as at 1 July 2005	693	840	1,500	2,000	3,022	3,770	11,825
Additional provisions recognised	349	-	-	-	-	(1,300)	(951)
Payments/other sacrifices of economic benefit	(411)	(294)	(191)	-	(2,677)	(62)	(3,635)
Carrying amount as at 30 June 2006	631	546	1,309	2,000	345	2,408	7,239

18. CURRENT LIABILITIES – Other

	30 June 2006 \$'000	30 June 2005 \$'000
Advances and deposits	5,631	5,425
Unearned income	1,867	109
Total current liabilities - Other	7,498	5,534

19. NON-CURRENT LIABILITIES - Interest Bearing Liabilities

Treasury Corporation of Victoria - Borrowings	212,500	218,500
Total non-current liabilities - Interest bearing liabilities	212,500	218,500

20. NON-CURRENT LIABILITIES - Deferred Tax Liabilities

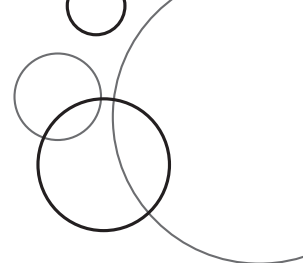
Deferred tax liability	136,774	124,431
Total non-current liabilities - Deferred tax liabilities	136,774	124,431

21. NON-CURRENT LIABILITIES – Provisions

Employee benefits (Note 28)	347	488
Total non-current liabilities - Provisions	347	488

22. NON-CURRENT LIABILITIES – Other

Unearned income	2,511	1,483
Total non-current liabilities - Other	2,511	1,483



23. EQUITY

	30 June 2006 \$'000	30 June 2005 \$'000
Paid up capital	20,620	20,620
Capital Reserve	196,987	196,987
Retained profits	180,415	169,352
Total shareholder's equity	398,022	386,959
(a) Retained profits		
Retained profits at the beginning of the financial year	169,352	161,544
Profit after income tax	38,763	49,408
Interim dividend paid (Note 7)	(15,300)	(19,800)
Final dividend paid in respect of 2005/06 and 2004/05 (Note 7)	(12,400)	(21,800)
Retained profits at the end of the financial year	180,415	169,352
(b) Share capital (Whole dollars)		
	30 June 2006	30 June 2005
(i) Authorised		
Ordinary shares of \$1 each	100,000,000	100,000,000
(ii) Issued and paid up		
Ordinary shares of \$1 each fully paid	20,620,250	20,620,250

(c) Capital reserve

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

24. KEY MANAGEMENT PERSONNEL

	30 June 2006 \$'000	30 June 2005 \$'000
Compensation Categories		
Short-Term Employee Benefits: (Cash salary, fees, Short-Term leave, Bonuses, Non-monetary benefits)	1,612	1,398
Post Employment Benefits: (Pension and Superannuation, other post employment benefits)	133	101
	<u>1,745</u>	<u>1,498</u>

Short-term employee benefits include performance bonuses paid to Key Management Personnel in respect of performance rendered from the previous year (2004/05).

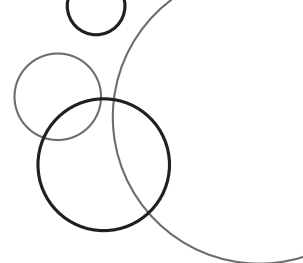
The company did not make any termination, share based or other long term payments to its Key Management Personnel during the financial year.

The number of non-executive directors and the managing director of the company whose income from the company (inclusive of compulsory superannuation) was within the specified bands is as follows:

\$	\$	30 June 2006 No	30 June 2005 No
10,000	- 19,999	-	2
30,000	- 39,999	1	3
40,000	- 49,999	4	-
60,000	- 69,999	1	1
290,000	- 299,999	-	1
300,000	- 309,999	1	-
		<u>7</u>	<u>7</u>

The number of executives of the company whose income from the company was within the specified bands is as follows:

\$	\$	30 June 2006 No	30 June 2005 No
130,000	- 139,999	-	1
150,000	- 159,999	-	2
160,000	- 169,999	-	1
170,000	- 179,999	1	-
180,000	- 189,999	-	1
190,000	- 199,999	2	-
200,000	- 209,999	3	1
		<u>6</u>	<u>6</u>



25. REMUNERATION OF AUDITORS

	30 June 2006 \$	30 June 2005 \$
Amounts received, or due and receivable by the auditor of the company for:		
Auditing accounts of the company	89,200	86,700
Total auditor's remuneration	<u><u>89,200</u></u>	<u><u>86,700</u></u>

26. CONTINGENT ASSETS AND LIABILITIES

Contingent assets

As at 30 June 2006, City West Water Limited had received a commitment from various developers to construct water supply and sewerage assets, which on completion, will be 'gifted' to City West Water Limited who will maintain these assets in perpetuity.

Currently there is approximately \$4.5m (2004/05 \$4.5m) in water supply assets under construction and a further \$5.0m (2004/05 \$4.6m) of water supply assets committed but not yet commenced.

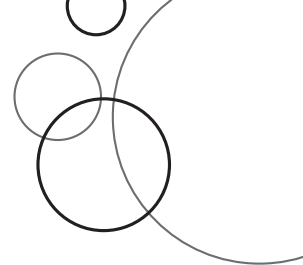
The estimated value of sewerage assets under construction is approximately \$8.5m (2004/05 \$6.4m) with a further \$11.1m (2004/05 \$6.6m) committed for which construction is yet to commence.

Contingent liabilities

Contingent on the construction of the above assets, City West Water Limited has a liability to reimburse developers for an estimated \$2.6m (2004/05 \$1.3m) in water supply assets and \$8.2m (2004/05 \$2.1m) in sewerage assets. These reimbursements will occur immediately after the construction of the assets or be deferred, for a set period, in accordance with the conditions of the agreement between City West Water Limited and the developers.

27. COMMITMENT FOR EXPENDITURE

	30 June 2006 \$'000	30 June 2005 \$'000
(a) Capital commitments		
Total capital expenditure contracted at balance date but not provided for in the accounts:		
Not later than one year	10,920	7,142
Later than one year but not later than five years	-	-
Total capital commitments not provided for in the accounts	10,920	7,142
(b) Lease commitments		
Total lease expenditure contracted for at balance date but not provided for in the accounts:		
Not later than one year	509	554
Later than one year but not later than five years	334	344
Total lease commitments not provided for in the accounts	843	898
Representing:		
Non-cancellable operating leases	714	770
Cancellable operating leases	129	128
	843	898



27. COMMITMENT FOR EXPENDITURE cont.

	30 June 2006 \$'000	30 June 2005 \$'000
--	---------------------------	---------------------------

Commitments in relation to non-cancellable operating leases are payable as follows:

Not later than one year	465	503
Later than one year but not later than five years	249	267

(c) Other Commitments

Other expenditure commitments at balance date not provided for in the accounts:

Not later than one year	12,520	10,160
Later than one year but not later than five years	14,920	24,940

Total other commitments not provided for in the accounts

	<u>27,440</u>	<u>35,100</u>
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Contained within Other Commitments:

(a) Smart Water Fund

The Smart Water Fund is a licence obligation and is administered via an agreement between City West Water, South East Water, Yarra Valley Water and Melbourne Water with the objective of funding water saving programs in the Melbourne metropolitan area. City West Water has an equal interest in the arrangement. The total contributions paid to date amount to \$2m. As at balance date, City West Water's share of unspent contributions by the fund amounts to \$0.4m (Refer note 10). The company is expected to contribute a further \$4m over the next four years in order to fund future water saving programs.

(b) Our Water Our Future

The Our Water Our Future campaign promotes water savings at an individual level through a series of appropriate interventions including mainstream awareness raising and grass roots programs. The program aims to change water conservation behaviour for the long term and therefore requires ongoing commitment and reinforcement. The company is expected to contribute \$1.5m per annum over the next two years.

(c) Environmental Contributions

Consistent with legislative requirements, the company is committed to pay an Environmental Contribution of \$10.2m per year over the next two years to the Department of Sustainability and Environment.

28. EMPLOYEE BENEFITS

	30 June 2006 \$'000	30 June 2005 \$'000
(a) Employee benefits and related oncost liabilities		
Current		
Provision for employee benefits - Annual Leave	855	737
Provision for employee benefits - Long Service Leave	2,596	2,056
Provision for employee benefits - Other	1,558	1,330
Provision for employee benefits - Current (Note 17)	5,009	4,123
Non Current		
Provision for employee benefits - Annual Leave	81	75
Provision for employee benefits - Long Service Leave	266	413
Provision for employee benefits - Non current (Note 21)	347	488
Aggregate employee benefits and related oncost liabilities	5,356	4,611
Employee numbers		
The number of employees at reporting date	244	233

(b) Superannuation

City West Water Limited participates in a number of superannuation funds which provide benefits either on a defined benefit or accumulation basis, for employees on retirement, resignation, or disablement, or to their dependents on death. Employer contributions for accumulation funds are made in accordance with the Superannuation Guarantee (Administration) Act 1992.

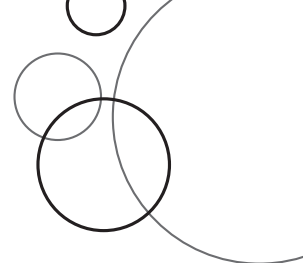
The majority of employees of the company are members of the Equipsuper fund or the Vision Super fund. All new company employees not already participants in the Equipsuper defined benefit fund join accumulation funds.

(c) Defined Benefit Superannuation

When actuarial gains or losses are made by the defined benefit fund, these amounts are recognised in the income statement, as per AASB 119. (Refer note 1).

The Equipsuper defined benefits fund provides benefits based on years of service, final salary and employee contribution rate.

City West Water Ltd has not recognised any reimbursements of expenditure that are required to settle a defined benefit obligation as no rights to a reimbursement currently exist.



28. EMPLOYEE BENEFITS cont.

	30 June 2006 \$'000	30 June 2005 \$'000
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Reconciliation of Present Value of the Defined Benefit Obligation

Present value of defined benefit obligations at beginning of the year	(15,075)	(13,019)
Current service cost	(456)	(385)
Interest cost	(638)	(615)
Contributions by plan participants	(256)	(234)
Actuarial gains/(losses)	(124)	(996)
Benefits paid	1,503	634
Taxes and premiums paid	119	88
Transfers in	-	(548)
Present Value of defined benefit obligations at end of the year	(14,927)	(15,075)

Reconciliation of the Fair Value of Plan Assets

Fair value of plan assets at beginning of the year	15,239	13,121
Expected return on plan assets	1,043	888
Actuarial gains/(losses)	1,082	701
Employer contributions	455	469
Contributions by plan participants	256	234
Benefits paid	(1,503)	(634)
Taxes and premiums paid	(119)	(88)
Transfers in	-	548
Fair Value of defined benefit obligations at end of the year	16,453	15,239

Reconciliation of the Assets and Liabilities recognised in the Balance Sheet

Defined Benefits Obligation ^	(14,927)	(15,075)
Fair value of plan assets	16,453	15,239
Unrecognised (gain)/loss	(958)	295
Net superannuation (liability)/asset	568	459

^ includes contributions tax provision

Expense recognised in the Income Statement

Service cost	456	385
Interest cost	638	615
Expected return on assets	(1,043)	(888)
Net Superannuation expense/(income)	51	112
Actual return on plan assets	2,125	1,589

28. EMPLOYEE BENEFITS cont.*Funding arrangements for Employer Contributions*

The following is a summary of the most recent position of the City West Water Employer Benefit Account in Equisuper calculated in accordance with AAS 25 Financial Reporting by Superannuation Plans.

	30 June 2006 \$'000	30 June 2005 \$'000
Accrued Benefits		14,246
Net market value of planned assets		15,246
Net surplus/(deficit)		1,000
Employer contributions	455	469

Principal actuarial assumptions at reporting date:

Discount Rate	4.9% p.a.	4.4% p.a.
Expected rate of return on plan assets	7.0% p.a.	7.0% p.a.
Expected salary increase rate	4.0% p.a.	4.0% p.a.

Plan Assets

The percentage invested in each asset class at the balance sheet date:

Australian Equity	39%	42%
International Equity	24%	23%
Fixed Income	19%	20%
Property	11%	9%
Cash	7%	6%

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

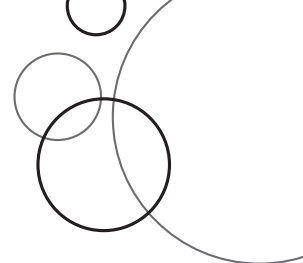
In the case of a defined benefit, employer contributions are based on an agreed percentage of total salaries as recommended by the funds actuaries, being 11.4 percent of salaries paid. The company expects to contribute 9 percent of salaries paid to the fund in 2006/07.

The funding method used to make the funding recommendations is as per Equisuper's contribution and funding policy.

The economic assumptions used to make the funding recommendations are investment returns of 7 percent per annum, and salary increases of 4.5 percent per annum.

Based on a preliminary actuarial assessment, the assets of the fund are sufficient to satisfy 105 percent of vested benefits in the event of termination of the fund or termination of employment by resignation of each of the employees as at the reporting date.

There were no outstanding contributions to Equisuper as at 30 June 2006.



29. RELATED PARTY DISCLOSURE

Directors

The names of persons who were directors of City West Water Limited at any time during the financial year are: A Seale, A Barker, R Seddon, D Radford, C Wardle, S Vaughan, P Hansen and J Garland McLellan.

Remuneration and retirement benefits

Information regarding the remuneration of directors is disclosed in Note 24.

Transactions with directors and director-related entities

Water and sewerage services were provided to directors or director-related entities for properties within City West Water's licence area under normal commercial terms and conditions.

Ms Anne Barker is a Director of Water Services Association of Australia (WSAA). During the year, the company paid an amount of \$66,932 (\$111,343 2004/05) for its WSAA membership and other services rendered.

Mr Richard Seddon holds a directorship with Earth Systems, to which the company paid \$41,250 for services rendered during the year (2004/05 nil).

There were no transactions with directors or director-related entities during the reporting period other than payment for services referred to in Note 24.

Relationship with the Victorian Government

City West Water Limited is a State owned company, incorporated under the Corporations Act 2001. The company operates under specific legislation including the Water Industry Act 1994 and is subject to independent economic regulation. The company also operates under a Board of Directors appointed by the shareholder, and makes equivalent tax payments and pays dividends to the Victorian Government.

Relationship with Department of Sustainability and Environment

The Minister for Water is the portfolio minister for the Victorian water industry. The company bills and collects parks charges on behalf of the Department of Sustainability and Environment. In addition the company is required to make various payments to the Department which are included in the definition of profit before income tax.

	30 June 2006 \$'000	30 June 2005 \$'000
Environmental contributions	10,220	7,660
Behavioural Change Campaign (Our Water Our Future)	1,500	1,500
Billings and Collection fee income	1,094	1,015

Relationship with Department of Treasury and Finance

The Department of Treasury and Finance, as shareholder representative, approves and monitors the company's Corporate Plan in consultation with the Department of Sustainability and Environment. The company paid the following to the Department of Treasury and Finance during the reporting period:

	30 June 2006 \$'000	30 June 2005 \$'000
Dividend	27,700	41,600
Income Tax Equivalent	11,261	19,173
Financial Accommodation Levy	967	725

29. RELATED PARTY DISCLOSURE cont.

Relationship with Treasury Corporation of Victoria

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

Borrowings at balance date and finance charges are as follows:

	30 June 2006 \$'000	30 June 2005 \$'000
Borrowings	268,500	235,050
Finance costs	15,826	13,316

Borrowings	268,500	235,050
Finance costs	15,826	13,316

Relationship with Melbourne Water Corporation

The company sourced all its water from Melbourne Water Corporation and the majority of its sewage was treated by Melbourne Water Corporation at the Western Treatment Plant. The company also bills and collects Drainage Rates on behalf of Melbourne Water Corporation.

	30 June 2006 \$'000	30 June 2005 \$'000
Bulk water and sewage charges	89,728	88,662
Billings and Collection fees income	1,680	1,568
Drainage Rates outstanding at balance date	567	535

Bulk water and sewage charges	89,728	88,662
Billings and Collection fees income	1,680	1,568
Drainage Rates outstanding at balance date	567	535

Relationship with State Revenue Office

The company paid the following to State Revenue Office under normal commercial arrangements.

	30 June 2006 \$'000	30 June 2005 \$'000
Payroll Tax	966	837
Land Tax	152	134

Relationship with Department of Human Services

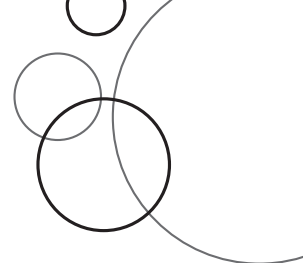
City West Water Limited provides a number of services to the community, including the administration of the pensioner rebate and health care card schemes on behalf of the Department of Human Services.

	30 June 2006 \$'000	30 June 2005 \$'000
Provision of concessions to pensioners	10,858	9,588
Rebates paid to not-for-profit organisations under the Water and Sewerage Rebate Scheme	383	388
Utility Relief Grant Scheme payments	33	25

These amounts are reimbursed to the company by the Department of Human Services.

Relationship with other Victorian Government controlled entities

Water and sewerage services were provided to other government controlled entities for properties within City West Water's licence area under normal commercial terms and conditions.



30. ECONOMIC DEPENDENCY

The normal trading activities of the company depend to a significant extent on services relating to the acquisition of water and disposal of sewage currently supplied by the Melbourne Water Corporation. During 2005/06 all water supplies were sourced through this organisation and the majority of the company's sewage disposals were made through the same organisation. As no alternative suppliers currently exist this dependency is expected to continue into the foreseeable future.

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

	30 June 2006 \$'000	30 June 2005 \$'000
Profit after income tax	38,763	49,408
Depreciation of assets	16,656	13,462
Doubtful debts	1,000	900
Net gain on sale of non-current assets	(65)	(52)
Asset write-offs/write downs	3,659	176
Gifted Assets	(23,485)	(28,003)
Change in operating assets and liabilities:		
Increase/(decrease) in unearned revenue	2,786	570
Decrease/(increase) in trade debtors	(2,157)	(5,890)
Decrease/(increase) in other debtors	1,950	(2,554)
Decrease/(increase) in deferred tax asset	1,193	(2,102)
Decrease/(increase) in other assets	340	566
Increase/(decrease) in trade creditors	1,134	3,214
Increase/(decrease) in provision for deferred tax liability	12,343	12,306
Increase/(decrease) in provision for income tax	(1,192)	(1,039)
Increase/(decrease) in other provisions	(3,841)	7,300
Decrease/(Increase) in Defined Benefit Super Asset	(109)	(357)
Net cash inflow from operating activities	48,975	47,905

32. FINANCIAL INSTRUMENTS

Interest rate risk

- (a) City West Water Limited's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below.
- (b) Exposure arises predominantly from assets and liabilities bearing variable interest rates and fixed rate borrowings which matured during the year.

2005/06

Financial assets

	Fixed interest maturing in:					Non-interest bearing \$'000	Total \$'000
	Floating interest rate \$'000	1 Year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000			
	Cash (Note 8)	1,747	-	-	-		
Receivables (Note 9, 11)	-	-	-	-	32,889	32,889	
Total financial assets	1,747	-	-	-	32,889	34,636	

Weighted average interest rate 5.70%

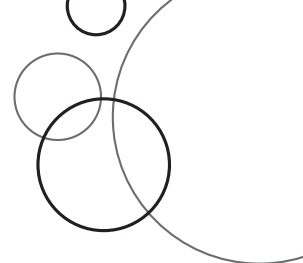
Financial liabilities

Payables (Note 14)	-	-	-	-	35,761	35,761
Borrowings (Note 15, 19)	46,000	20,000	80,000	122,500	-	268,500
Advances and deposits (Note 18)	-	-	-	-	5,631	5,631
Total financial liabilities	46,000	20,000	80,000	122,500	41,392	309,892
Weighted average interest rate	5.76%	6.10%	5.95%	5.63%	-	5.78%

Consistent with its interest rate risk management policy, the company entered into a number of forward rate settlements during the year to manage its interest rate risk exposure. There were no outstanding forward rate agreements as at balance date.

Credit risk

The company's exposure to credit risk is represented in the carrying amount of its financial assets in the balance sheet.



32. FINANCIAL INSTRUMENTS cont.

2004/05

Financial assets

	Fixed interest maturing in:					Total \$'000
	Floating interest rate \$'000	1 Year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000	Non- interest bearing \$'000	
Cash (Note 8)	586	-	-	-	-	586
Receivables (Note 9, 11)	-	-	-	-	33,682	33,682
Total financial assets	586	-	-	-	33,682	34,268

Weighted average interest rate 5.45%

Financial liabilities

Payables (Note 14)	-	-	-	-	30,090	30,090
Borrowings (Note 15, 19)	42,550	10,000	80,000	102,500	-	235,050
Advances and deposits (Note 18)	-	-	-	-	5,425	5,425
Total financial liabilities	42,550	10,000	80,000	102,500	35,515	270,565

Weighted average interest rate 5.59% 5.44% 6.11% 5.62% - 5.77%

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	2005/06 Carrying amount \$'000	Net fair value \$'000	2004/05 Carrying amount \$'000	Net fair value \$'000
Financial assets				
Cash	1,747	1,747	586	586
Receivables	32,889	32,889	33,682	33,682
Total financial assets	34,636	34,636	34,268	34,268

Financial liabilities

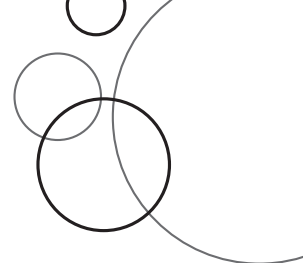
Payables	35,761	35,761	30,090	30,090
Borrowings	268,500	269,281	235,050	241,741
Deposits	5,631	5,631	5,425	5,425
Total financial liabilities	309,892	310,673	270,565	277,256

Net fair value of financial instruments are determined on the following basis:

- Cash, receivables, accounts payable and deposits are valued at their carrying amount as this approximates net market value.
- Borrowings are valued by discounting the expected future cash flows at the yield offered by Treasury Corporation of Victoria as at 30 June 2006.

33. EXPLANATION OF TRANSITION TO AIFRS**RECONCILIATION OF EQUITY AS AT 1 JULY 2004
(date of transition to Australian equivalents to IFRS)**

	Previous GAAP 1 July 2004 \$'000	Effect of Transition to Australian Equivalents to IFRS \$'000	Notes	Australian Equivalents to IFRS 1 July 2004 \$'000
CURRENT ASSETS				
Cash	501			501
Receivables	26,105			26,105
Other	1,742			1,742
Total current assets	28,348			28,348
NON-CURRENT ASSETS				
Receivables	34			34
Infrastructure, property, plant and equipment	704,053			704,053
Deferred tax assets	3,029	378	33 a(i)	3,407
Other	-	102	33 b(i)	102
Total non-current assets	707,116	480		707,596
TOTAL ASSETS	735,464	480		735,944
CURRENT LIABILITIES				
Payables	25,297			25,297
Interest bearing liabilities	28,942			28,942
Tax liabilities	4,012			4,012
Provisions	7,399	(2)	33 c(i)	7,397
Other	5,335			5,335
Total current liabilities	70,985	(2)		70,983
NON-CURRENT LIABILITIES				
Interest bearing liabilities	171,000			171,000
Deferred tax liabilities	91,683	20,440	33 a(i), b(i), c(i)	112,123
Provisions	2,060			2,060
Other	627			627
Total non-current liabilities	265,370	20,440		285,810
TOTAL LIABILITIES	336,355	20,438		356,793
NET ASSETS	399,109	(19,958)		379,151
SHAREHOLDER'S EQUITY				
Paid up capital	20,620			20,620
Capital reserve	196,987			196,987
Retained profits	181,502	(19,958)	33 a(i), b(i), c(i)	161,544
TOTAL SHAREHOLDER'S EQUITY	399,109	(19,958)		379,151



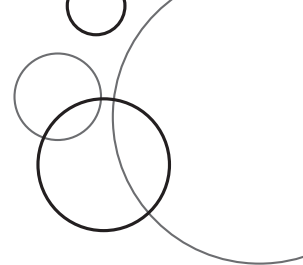
33. EXPLANATION OF TRANSITION TO AIFRS cont.

RECONCILIATION OF PROFIT AND LOSS FOR 2004/05

Year end 30 June 2005	Previous GAAP 30 June 2005 \$'000	Effect of Transition to Australian Equivalents to IFRS \$'000	Notes	Australian Equivalents to IFRS 30 June 2005 \$'000
Revenue from continuing operations	263,891			263,891
Total expenses, other than finance costs	(173,190)	361	33 b(ii), c(ii)	(172,829)
Finance costs	(13,316)			(13,316)
Total expenses	(186,506)	361		(186,145)
Profit before income tax expense	77,385			77,746
Income tax expense	(24,024)	(4,314)	33 a(ii)	(28,338)
Profit after income tax	53,361	(3,953)		49,408

33. EXPLANATION OF TRANSITION TO AIFRS cont.**RECONCILIATION OF EQUITY AS AT 30 JUNE 2005**

	Previous GAAP 30 June 2005 \$'000	Effect of Transition to Australian Equivalents to IFRS \$'000	Notes	Australian Equivalents to IFRS 30 June 2005 \$'000
CURRENT ASSETS				
Cash	586			586
Receivables	33,650			33,650
Other	1,176			1,176
Total current assets	35,412			35,412
NON-CURRENT ASSETS				
Receivables	32			32
Infrastructure, property, plant and equipment	761,544			761,544
Deferred tax assets	5,090	419	33 a(ii)	5,509
Other	-	459	33 b(ii)	459
Total non-current assets	766,666	878		767,544
TOTAL ASSETS	802,078	878		802,956
CURRENT LIABILITIES				
Payables	30,090			30,090
Interest bearing liabilities	16,550			16,550
Tax liabilities	2,885	88	33 b(ii)	2,973
Provisions	14,220	1,728	33 c(i), c(ii)	15,948
Other	5,534			5,534
Total current liabilities	69,279	1,816		71,095
NON-CURRENT LIABILITIES				
Interest bearing liabilities	218,500			218,500
Deferred tax liabilities	99,723	24,708	33 a(ii)	124,431
Provisions	2,223	(1,735)	33 c(ii)	488
Other	1,483			1,483
Total non-current liabilities	321,929	22,973		344,902
TOTAL LIABILITIES	391,208	24,789		415,997
NET ASSETS	410,870	(23,911)		386,959
SHAREHOLDER'S EQUITY				
Paid up capital	20,620			20,620
Capital reserve	196,987			196,987
Retained profits	193,263	(23,911)	33a(ii), b(i), b(ii) c(i), c(ii)	169,352
TOTAL SHAREHOLDER'S EQUITY	410,870	(23,911)		386,959



33. EXPLANATION OF TRANSITION TO AIFRS cont.

(a) Income Taxes

Under previous Australian Accounting Standards income tax was calculated by reference to the accounting profit after allowing for permanent differences. The adoption of AIFRS requires the use of balance sheet method to calculate income tax. The difference between the two methods is the measurement and recognition of deferred taxes. Under the accounting profit method, deferred tax assets and liabilities were recognised in respect of timing differences, which occurs when items were included or allowed for income tax purposes in a period different to that for accounting purposes. Under the balance sheet method, deferred tax assets and liabilities are recognised in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases. On adoption of AASB 112 - Income Taxes, the company is required to recognise an increase in deferred tax liabilities as a consequence of recognising deferred taxes associated with developer contributed assets received prior to the commencement of National Tax Equivalent Regime (NTER) on 1 July 2001.

(i) At 1 July 2004

An increase in deferred tax assets and liabilities of \$0.378m and \$20.410m respectively, with a corresponding decrease in retained earnings of \$20.032m.

(ii) At 30 June 2005 and for the period ended 30 June 2005

The cumulative effect on the balance sheet is to increase deferred tax assets and liabilities by \$0.419m and \$24.678m respectively and a reduction in retained earnings of \$19.945m. The impact on the income statement for the year is an increased in income tax expense of \$4.314m.

(b) Defined Benefit Asset

Under AIFRS the company is required to recognise the surplus in its defined benefit fund as an asset in the balance sheet, with all ongoing movements being charged to the income statement.

(i) At 1 July 2004

The effect of the initial adjustment is an increase to defined benefit superannuation asset of \$102k, deferred tax liabilities of \$30k and an increase in retained earnings of \$72k.

(ii) At 30 June 2005 and for the period ended 30 June 2005

An increase in defined benefit superannuation asset of \$0.459m and an increase in current tax of \$0.088m. Superannuation expense decreased by \$0.357m to reflect the movement in the superannuation asset during 2004/05.

(c) Employee Benefits

Under previous Australian Accounting Standards, employee benefits such as annual leave and sick leave are required to be measured at their nominal amount regardless of whether they are expected to be settled within 12 months of the reporting date. Under AIFRS, a distinction is made between short term and long term employee benefits. AAS 119 - Employee Benefits requires liabilities for short term employee benefits to be measured at nominal amounts and liabilities for long term employee benefits to be measured at present value.

(i) At 1 July 2004

The effect of the above requirement on the company's balance sheet as at 1 July 2004 is a decrease in current employee benefit liability of \$2k, decrease in deferred tax liability of \$1k and an increase in retained earnings of \$3k.

(ii) At 30 June 2005 and for the period ended 30 June 2005

A net decrease in employee benefits liability of \$4k and a decrease in employee benefit expense of \$4k. Employee benefits (annual and long service leave) of \$1.735m previously classified as non-current has been reclassified as current to meet the requirement of AASB 119.



City West Water Limited

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 11 to 47:

- (a) comply with Accounting standards, Corporations Regulations 2001 and other mandatory professional reporting requirements.
- (b) give a true and fair view of the company's financial position as at 30 June 2006 and of its performance, as represented by the results of its operations and cash flows, for the financial year ended on that date.

In the opinion of the directors:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001.
- (b) at the date of this declaration, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors pursuant to Section 295 (5) of the Corporations Act 2001 on behalf of the directors.



Alan E. Seale
Chairman

Melbourne
22 August 2006



Anne Barker
Managing Director



AUDITOR GENERAL
VICTORIA

INDEPENDENT AUDIT REPORT

City West Water Limited

To the Members of the Parliament of Victoria and Members of the Company

Matters Relating to the Electronic Presentation of the Audited Financial Report

This audit report for the financial year ended 30 June 2006 relates to the financial report of City West Water Limited included on its web site. The Company's directors are responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The audit report refers only to the statements named below. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Scope

The Financial Report

The accompanying financial report for the year ended 30 June 2006 of City West Water Limited consists of the income statement, balance sheet, cash flow statement, statement of changes in equity, notes to and forming part of the financial report and the director's declaration.

Company Directors' Responsibility

The Company's directors are responsible for:

- the preparation and presentation of the financial report and the information it contains, including accounting policies and accounting estimates
- the maintenance of adequate accounting records and internal controls that are designed to record its transactions and affairs, and prevent and detect fraud and errors.

Audit Approach

As required by the *Corporations Act 2001* and *Audit Act 1994*, an independent audit has been carried out in order to express an opinion on the financial report. The audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement.

The audit procedures included:

- examining information on a test basis to provide evidence supporting the amounts and disclosures in the financial report
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Company's directors
- obtaining written confirmation regarding the material representations made in conjunction with the audit
- reviewing the overall presentation of information in the financial report.



AUDITOR GENERAL
VICTORIA

Independent Audit Report (continued)

These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia, so as to present a view which is consistent with my understanding of the Company's financial position, and its financial performance and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Independence

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

Audit Opinion

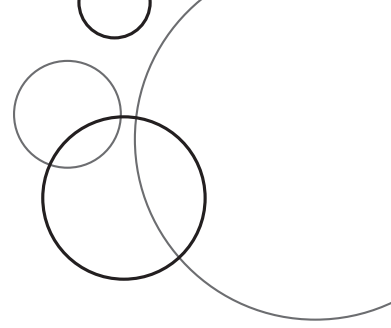
In my opinion, the financial report of City West Water Limited is in accordance with:

- (a) the *Corporations Act* 2001, including:
 - i. giving a true and fair view of the Company's financial position as at 30 June 2006 and of its financial performance for the year ended on that date; and
 - ii. complying with Accounting Standards in Australia and the *Corporations Regulations* 2001; and
- (b) other mandatory professional reporting requirements in Australia.

MELBOURNE
22 August 2006



for JW CAMERON
Auditor-General

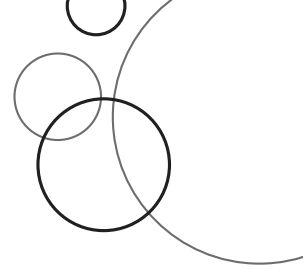


appendices

Whistleblowers Protection Act 2001
Procedures

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1. STATEMENT OF SUPPORT TO WHISTLEBLOWERS

City West Water (CWW) is committed to the aims and objectives of the Whistleblowers Protection Act 2001 (the Act). It does not tolerate improper conduct by its employees, officers or members, nor the taking of reprisals against those who come forward to disclose such conduct.

CWW recognises the value of transparency and accountability in its administrative and management practices, and supports the making of disclosures that reveal corrupt conduct, conduct involving a substantial mismanagement of public resources, or conduct involving a substantial risk to public health and safety or the environment.

CWW will take all reasonable steps to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure. It will also afford natural justice to the person who is the subject of the disclosure.

2. PURPOSE OF THESE PROCEDURES

These procedures establish a system for reporting disclosures of improper conduct or detrimental action by CWW or its employees. The system enables such disclosures to be made to the protected disclosure coordinator or to one of the nominated Protected Disclosure officers. Disclosures may be made by employees or by members of the public.

These procedures are designed to complement normal communication channels between supervisors and employees. Employees are encouraged to continue to raise appropriate matters at any time with their supervisors. As an alternative, employees may make a disclosure of improper conduct or detrimental action under the Act in accordance with these procedures.

3. OBJECTS OF THE ACT

The Whistleblowers Protection Act 2001 commenced operation on 1 January 2002. The purpose of the Act is to encourage and facilitate the making of disclosures of improper conduct by public officers and public bodies. The Act provides protection to whistleblowers who make disclosures in accordance with the Act, and establishes a system for the matters disclosed to be investigated and rectifying action to be taken.

4. DEFINITIONS OF KEY TERMS

Three key concepts in the reporting system are improper conduct, corrupt conduct and detrimental action. Definitions of these terms are set out below.

4.1 Improper conduct

A disclosure may be made about improper conduct by a public body or public official. Improper conduct means conduct that is corrupt, a substantial mismanagement of public resources, or conduct involving substantial risk to public health or safety or to the environment.

The conduct must be serious enough to constitute, if proved, a criminal offence or reasonable grounds for dismissal.

Examples

To avoid closure of a major industry, a public officer ignores or conceals evidence of illegal discharge of waste.

A public officer tolerates poor practices and structural defects in the work of a contractor.

See 4.2 below for specific examples of corrupt conduct.

4.2 Corrupt conduct

Corrupt conduct means:

- Conduct of any person (whether or not a public official) that adversely affects the honest performance of a public officer's or public body's functions;
- The performance of a public officer's functions dishonestly or with inappropriate partiality;
- Conduct of a public officer, former public officer or a public body that amounts to a breach of public trust;
- Conduct by a public officer, former public officer or a public body that amounts to the misuse of information or material acquired in the course of the performance of their official functions; or
- A conspiracy or attempt to engage in the above conduct.

Examples

A public officer takes a bribe or receives a payment other than his or her wages or salary in exchange for the discharge of a public duty.

A public officer favours unmeritorious applications for jobs or permits by friends and relatives.

A public officer sells confidential information.

4.3 Detrimental action

The Act makes it an offence for a person to take detrimental action against a person in reprisal for a protected disclosure. Detrimental action includes:

- Action causing injury, loss or damage;
- Intimidation or harassment; and
- Discrimination, disadvantage or adverse treatment in relation to a person's employment, career, profession, trade or business, including the taking of disciplinary action.

Examples

A public body refuses a deserved promotion of a person who makes a disclosure.

A public body demotes, transfers, isolates in the workplace or changes the duties of a whistleblower due to the making of a disclosure.

A person threatens, abuses or carries out other forms of harassment directly or indirectly against the whistleblower, his or her family or friends.

A public body discriminates against the whistleblower or his or her family and associates in subsequent applications for jobs, permits or tenders.

5. THE REPORTING SYSTEM

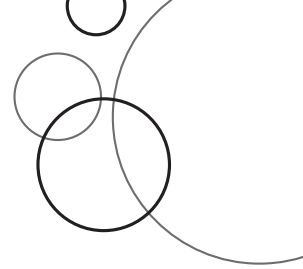
5.1 Contact persons within CWW

Disclosures of improper conduct or detrimental action by CWW or its employees, may be made to the following officers:

- The protected disclosure coordinator:
Stephen Robertson,
Company Secretary and General Counsel
247-251 St Albans Road, Sunshine 3020
Ph: 9313 8477
Email: srobertson@citywestwater.com.au
- The protected disclosure officer:
Andrew Jessop,
Manager Corporate Governance and Administration
247-251 St Albans Road, Sunshine 3020
Ph: 9313 8320
Email: ajessop@citywestwater.com.au

All correspondence, phone calls and emails from internal or external whistleblowers will be referred to the protected disclosure coordinator.

Where a person is contemplating making a disclosure and is concerned about approaching the protected disclosure coordinator or a protected disclosure officer in the workplace, he or she can call the relevant officer and request a meeting in a discreet location away from the workplace.



5.2 Alternative contact persons

A disclosure about improper conduct or detrimental action by CWW or its employees, may also be made directly to the Ombudsman:

The Ombudsman Victoria
 Level 22, 459 Collins Street
 Melbourne Victoria 3000
 (DX 210174)
 Internet: www.ombudsman.vic.gov.au
 Email: ombudvic@ombudsman.vic.gov.au

Tel: 9613 6222
 Toll Free: 1800 806 314

Ombudsman: Dr Barry Perry
 Tel: (03) 9613 6202

The following table sets out where disclosures about persons other than employees of CWW should be made.

Person who is the subject of the disclosure	Person/body to whom the disclosure must be made
Employee of a public body	That public body or the Ombudsman
Member of Parliament (Legislative Assembly)	Speaker of the Legislative Assembly
Member of Parliament (Legislative Council)	President of the Legislative Council
Councillor (Local Government)	The Ombudsman
Chief Commissioner of Police	The Ombudsman or Deputy Ombudsman
Member of the police force	The Ombudsman, Deputy Ombudsman or Chief Commissioner of Police

6. ROLES AND RESPONSIBILITIES

6.1 Employees

Employees are encouraged to report known or suspected incidences of improper conduct or detrimental action in accordance with these procedures.

All employees of CWW have an important role to play in supporting those who have made a legitimate disclosure. They must refrain from any activity that is, or could be perceived to be, victimisation or harassment of a person who makes a disclosure. Furthermore, they should protect and maintain the confidentiality of a person they know or suspect to have made a disclosure.

6.2 Protected disclosure officers

Protected disclosure officers will:

- Be a contact point for general advice about the operation of the Act for any person wishing to make a disclosure about improper conduct or detrimental action;
- Make arrangements for a disclosure to be made privately and discreetly and, if necessary, away from the workplace;
- Receive any disclosure made orally or in writing (from internal and external whistleblowers);
- Commit to writing any disclosure made orally;
- Impartially assess the allegation and determine whether it is a disclosure made in accordance with Part 2 of the Act (that is, 'a protected disclosure');
- Take all necessary steps to ensure the identity of the whistleblower and the identity of the person who is the subject of the disclosure are kept confidential; and
- Forward all disclosures and supporting evidence to the protected disclosure coordinator.

6.3 Protected disclosure coordinator

The protected disclosure coordinator has a central 'clearinghouse' role in the internal reporting system. He or she will:

- Receive all disclosures forwarded from the protected disclosure officer(s);
- Receive all phone calls, emails and letters from members of the public or employees seeking to make a disclosure;
- Impartially assess each disclosure to determine whether it is a public interest disclosure;
- Refer all public interest disclosures to the Ombudsman;
- Be responsible for carrying out, or appointing an investigator to carry out, an investigation referred to the public body by the Ombudsman;
- Be responsible for overseeing and coordinating an investigation where an investigator has been appointed;
- Appoint a welfare manager to support the whistleblower and to protect him or her from any reprisals;
- Advise the whistleblower of the progress of an investigation into the disclosed matter;
- Establish and manage a confidential filing system;
- Collate and publish statistics on disclosures made;
- Take all necessary steps to ensure the identity of the whistleblower and the identity of the person who is the subject of the disclosure are kept confidential; and
- Liaise with the Managing Director of the public body.

6.4 Investigator

The investigator will be responsible for carrying out an internal investigation into a disclosure where the Ombudsman has referred a matter to the public body. An investigator may be a person from within an organisation or a consultant engaged for that purpose.

6.5 Welfare manager

The welfare manager is responsible for looking after the general welfare of the whistleblower. The welfare manager will:

- Examine the immediate welfare and protection needs of a whistleblower who has made a disclosure and seek to foster a supportive work environment;
- Advise the whistleblower of the legislative and administrative protections available to him or her;
- Listen and respond to any concerns of harassment, intimidation or victimisation in reprisal for making disclosure; and
- Ensure the expectations of the whistleblower are realistic.

7. CONFIDENTIALITY

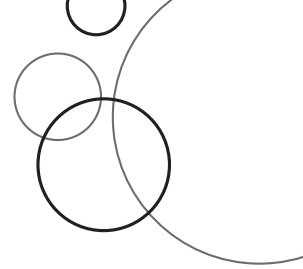
CWW will take all reasonable steps to protect the identity of the whistleblower. Maintaining confidentiality is crucial in ensuring reprisals are not made against a whistleblower.

The Act requires any person who receives information due to the handling or investigation of a protected disclosure, not to disclose that information except in certain limited circumstances. Disclosure of information in breach of section 22 constitutes an offence that is punishable by a maximum fine of 60 penalty units (\$6000) or six months imprisonment or both.

The circumstances in which a person may disclose information obtained about a protected disclosure include:

- Where exercising the functions of the public body under the Act;
- When making a report or recommendation under the Act;
- When publishing statistics in the annual report of a public body; and
- In criminal proceedings for certain offences in the Act.

However, the Act prohibits the inclusion of particulars in any report or recommendation that is likely to lead to the identification of the whistleblower. The Act also prohibits the identification of the person who is the subject of the disclosure in any particulars included in an annual report.



CWW will ensure all files, whether paper or electronic, are kept in a secure room and can only be accessed by the protected disclosure coordinator, protected disclosure officer, the investigator or welfare manager (in relation to welfare matters). All printed material will be kept in files that are clearly marked as a Whistleblower Protection Act matter, and warn of the criminal penalties that apply to any unauthorised divulging information concerning a protected disclosure. All electronic files will be produced and stored on a stand-alone computer and be given password protection. Backup files will be kept on floppy disc. All materials relevant to an investigation, such as tapes from interviews, will also be stored securely with the whistleblower files.

CWW will not email documents relevant to a whistleblower matter and will ensure all phone calls and meetings are conducted in private.

8. COLLATING AND PUBLISHING STATISTICS

The protected disclosure coordinator will establish a secure register to record the information required to be published in the annual report, and to generally keep account of the status of whistleblower disclosures. The register will be confidential and will not record any information that may identify the whistleblower.

The register will contain the following information:

- The number and types of disclosures made to public bodies during the year;
- The number of disclosures referred to the Ombudsman for determination as to whether they are public interest disclosures;
- The number and types of disclosed matters referred to the public body by the Ombudsman for investigation;
- The number and types of disclosures referred by the public body to the Ombudsman for investigation;
- The number and types of investigations taken over from the public body by the Ombudsman;
- The number of requests made by a whistleblower to the Ombudsman to take over an investigation by the public body;

- The number and types of disclosed matters that the public body has declined to investigate;
- The number and types of disclosed matters that were substantiated upon investigation and the action taken on completion of the investigation; and
- Any recommendations made by the Ombudsman that relate to the public body.

See Attachment 1 for model register

9. RECEIVING AND ASSESSING DISCLOSURES

9.1 Has the disclosure been made in accordance with Part 2 of the Act?

Where a disclosure has been received by the protected disclosure officer or by the protected disclosure coordinator, he or she will assess whether the disclosure has been made in accordance with Part 2 of the Act and is, therefore, a protected disclosure.

9.1.1 Has the disclosure been made to the appropriate person?

For the disclosure to be responded to by CWW, it must concern an employee, member or officer of CWW. If the disclosure concerns an employee, officer or member of another public body, the person who has made the disclosure must be advised of the correct person or body to whom the disclosure should be directed. (See the table in 5.2). If the disclosure has been made anonymously, it should be referred to the Ombudsman.

9.1.2 Does the disclosure contain the essential elements of a protected disclosure?

To be a protected disclosure, a disclosure must satisfy the following criteria:

- Did a natural person (that is, an individual person rather than a corporation) make the disclosure?
- Does the disclosure relate to conduct of a public body or public officer acting in their official capacity?
- Is the alleged conduct either improper conduct or detrimental action taken against a person in reprisal for making a protected disclosure?
- Does the person making a disclosure have reasonable grounds for believing the alleged conduct has occurred?

Where a disclosure is assessed to be a protected disclosure, it is referred to the protected disclosure coordinator. The protected disclosure coordinator will determine whether the disclosure is a public interest disclosure.

Where a disclosure is assessed not to be a protected disclosure, the matter does not need to be dealt with under the Act. The protected disclosure officer will decide how the matter should be responded to in consultation with the protected disclosure coordinator.

9.2 Is the disclosure a public interest disclosure?

Where the protected disclosure officer or coordinator has received a disclosure that has been assessed to be a protected disclosure, the protected disclosure coordinator will determine whether the disclosure amounts to a public interest disclosure. This assessment will be made within 45 days of the receipt of the disclosure.

In reaching a conclusion as to whether a protected disclosure is a public interest disclosure, the protected disclosure coordinator will consider whether the disclosure shows, or tends to show, that the public officer to whom the disclosure relates:

- Has engaged, is engaging or proposes to engage in improper conduct in his or her capacity as a public officer; or
- Has taken, is taking or proposes to take detrimental action in reprisal for the making of the protected disclosure.

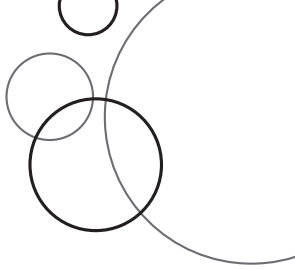
Where the protected disclosure coordinator concludes that the disclosure amounts to a public interest disclosure, he or she will:

1. Notify the person who made the disclosure of that conclusion; and
2. Refer the disclosure to the Ombudsman for formal determination as to whether it is indeed a public interest disclosure.

Where the protected disclosure coordinator concludes that the disclosure is not a public interest disclosure, he or she will:

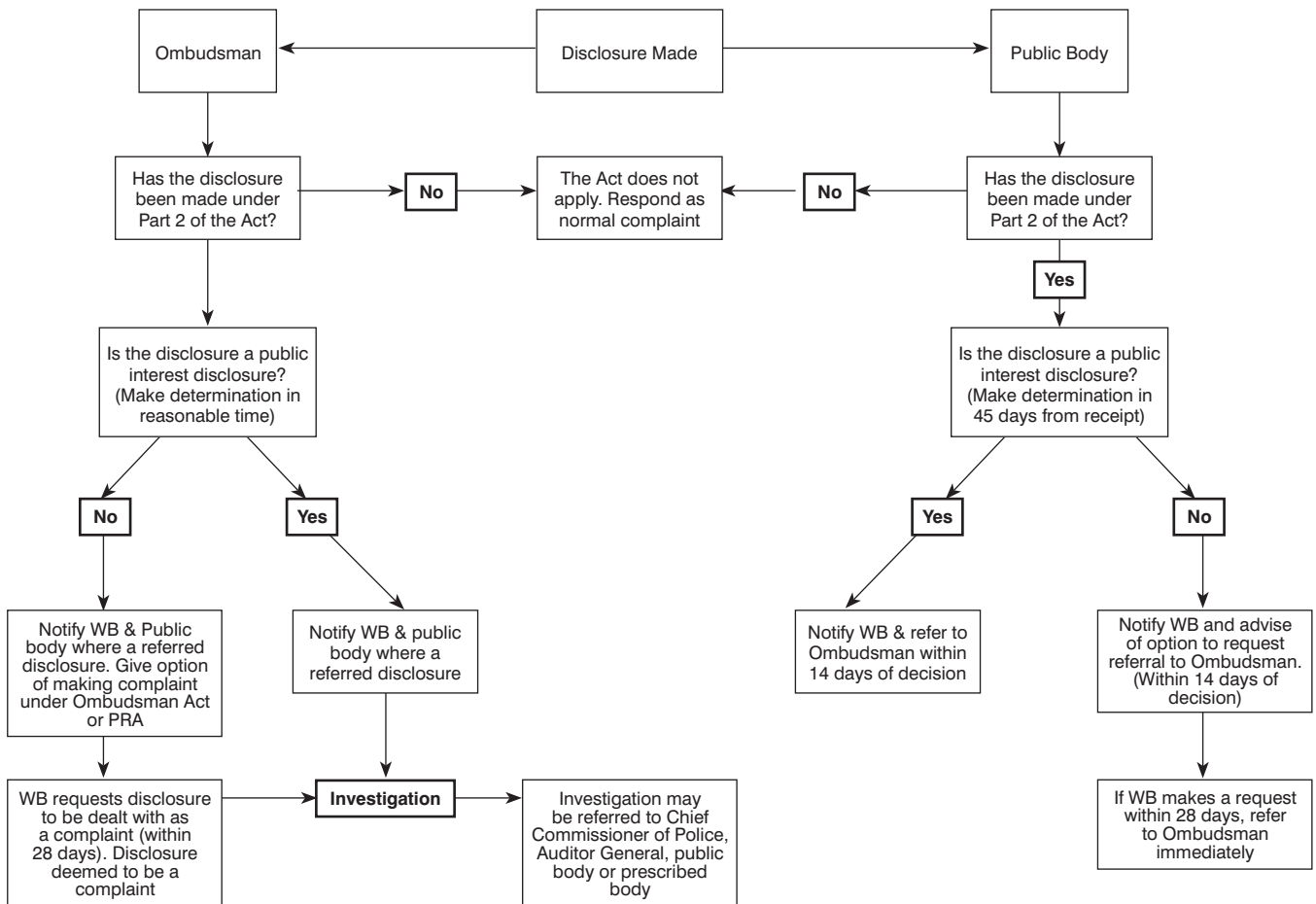
1. Notify the person who made the disclosure of that conclusion; and
2. Advise that person that he or she may request the public body to refer the disclosure to the Ombudsman for a formal determination as to whether the disclosure is a public interest disclosure, and that this request must be made within 28 days of the notification.

In either case, the protected disclosure coordinator will make the notification and the referral within 14 days of the conclusion being reached by the public body. Notification to the whistleblower is not necessary where the disclosure has been made anonymously.



9.3 Flowchart

The flowchart attached represents the assessment and referral process. WB stands for the whistleblower (or person who makes the disclosure).



10. INVESTIGATIONS

10.1 Introduction

Where the Ombudsman refers a protected disclosure to CWW for investigation, the protected disclosure coordinator will appoint an investigator to carry out the investigation.

The objectives of an investigation will be:

- To collate information relating to the allegation as quickly as possible. This may involve taking steps to protect or preserve documents, materials and equipment;
- To consider the information collected and to draw conclusions objectively and impartially;
- To maintain procedural fairness in the treatment of witnesses and the person who is the subject of the disclosure; and
- To make recommendations arising from the conclusions drawn concerning remedial or other appropriate action.

10.2 Terms of reference

Before commencing an investigation, the protected disclosure coordinator will draw up terms of reference and obtain authorisation for those terms by the Managing Director. The terms of reference will set a date by which the investigation report is to be concluded, and will describe the resources available to the investigator to complete the investigation within the time set. The protected disclosure coordinator may approve, if reasonable, an extension of time requested by the investigator. The terms of reference will require the investigator to make regular reports to the protected disclosure coordinator who, in turn, is to keep the Ombudsman informed of general progress.

10.3 Investigation plan

The investigator will prepare an investigation plan for approval by the protected disclosure coordinator. The plan will list the issues to be substantiated and describe the avenue of inquiry. It will address the following issues:

- What is being alleged?
- What are the possible findings or offences?
- What are the facts in issue?

- How is the inquiry to be conducted?
- What resources are required?

At the commencement of the investigation, the whistleblower should be:

- Notified by the investigator that he or she has been appointed to conduct the investigation;
- Asked to clarify any matters; and
- Provide any additional material he or she might have.

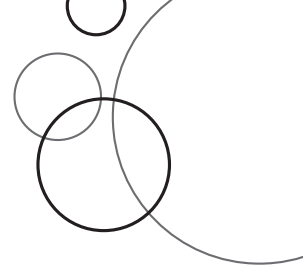
The investigator will be sensitive to the whistleblower's possible fear of reprisals and will be aware of the statutory protections provided to the whistleblower.

10.4 Natural justice

The principles of natural justice will be followed in any investigation of a public interest disclosure. The principles of natural justice concern procedural fairness and ensure a fair decision is reached by an objective decision maker. Maintaining procedural fairness protects the rights of individuals and enhances public confidence in the process.

CWW will have regard to the following issues in ensuring procedural fairness:

- The person who is the subject of the disclosure is entitled to know the allegations made against him or her and must be given the right to respond. (This does not mean the person must be advised of the allegation as soon as the disclosure is received or the investigation has commenced);
- If the investigator is contemplating making a report adverse to the interests of any person, that person should be given the opportunity to put forward further material that may influence the outcome of the report and that person's defence should be fairly set out in the report;
- All relevant parties to a matter should be heard and all submissions should be considered;
- A decision should not be made until all reasonable inquiries have been made;
- The investigator or any decision maker should not have a personal or direct interest in the matter being investigated;



- All proceedings must be carried out fairly and without bias. Care should be taken to exclude perceived bias from the process; and
- The investigator must be impartial in assessing the credibility of the whistleblowers and any witnesses. Where appropriate, conclusions as to credibility should be included in the investigation report.

10.5 Conduct of the investigation

The investigator will make contemporaneous (at the same time) notes of all discussions and phone calls, and all interviews with witnesses will be taped. All information gathered in an investigation will be stored securely. Interviews will be conducted in private and the investigator will take all reasonable steps to protect the identity of the whistleblower. Where disclosure of the identity of the whistleblower cannot be avoided, due to the nature of the allegations, the investigator will warn the whistleblower and his or her welfare manager of this probability.

It is in the discretion of the investigator to allow any witness to have legal or other representation or support during an interview. If a witness has a special need for legal representation or support, permission should be granted.

10.6 Referral of an investigation to the Ombudsman

The protected disclosure coordinator will make a decision regarding the referral of an investigation to the Ombudsman where, on the advice of the investigator:

- The investigation is being obstructed by, for example, the non-cooperation of key witnesses; or
- The investigation has revealed conduct that may constitute a criminal offence.

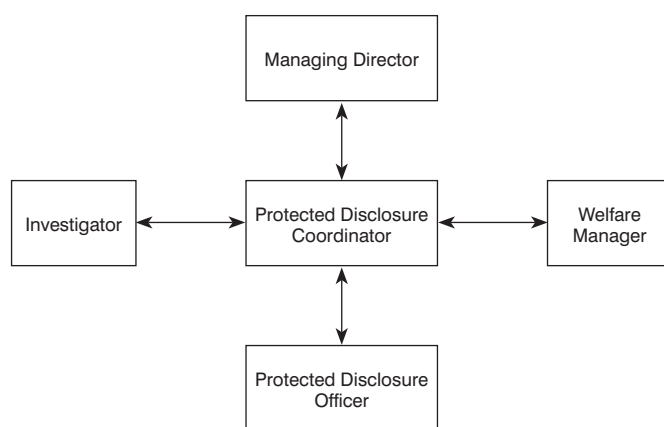
10.7 Reporting requirements

The protected disclosure coordinator will ensure the whistleblower is kept regularly informed concerning the handling of a protected disclosure and an investigation.

The protected disclosure coordinator will report to the Ombudsman about the progress of an investigation.

Where the Ombudsman or the whistleblower requests information about the progress of an investigation, that information will be provided within 28 days of the date of the request.

10.8 Model Reporting System for City West Water



11. ACTION TAKEN AFTER AN INVESTIGATION

11.1 Investigator's final report

At the conclusion of the investigation, the investigator will submit a written report of his or her findings to the protected disclosure coordinator. The report will contain:

- The allegation/s;
- An account of all relevant information received and, if the investigator has rejected evidence as being unreliable, the reasons for this opinion being formed;
- The conclusions reached and the basis for them; and
- Any recommendations arising from the conclusions.

Where the investigator has found that the conduct disclosed by the whistleblower has occurred, recommendations made by the investigator will include:

- The steps that need to be taken by CWW to prevent the conduct from continuing or occurring in the future; and
- Any action that should be taken by CWW to remedy any harm or loss arising from the conduct. This action may include bringing disciplinary proceedings against the person responsible for the conduct, and referring the matter to an appropriate authority for further consideration.

The report will be accompanied by:

- The transcript or other record of any oral evidence taken, including tape recordings; and
- All documents, statements or other exhibits received by the officer and accepted as evidence during the course of the investigation.

Where the investigator's report is to include an adverse comment against any person, that person will be given the opportunity to respond and his or her defence will be fairly included in the report.

The report will not disclose particulars likely to lead to the identification of the whistleblower.

11.2 Action to be taken

If the protected disclosure coordinator is satisfied that the investigation has found that the disclosed conduct has occurred, he or she will recommend to the Managing Director the action that must be taken to prevent the conduct from continuing or occurring in the future. The protected disclosure coordinator may also recommend that action be taken to remedy any harm or loss arising from the conduct.

The protected disclosure coordinator will provide a written report setting out the findings of the investigation and any remedial steps taken to the Ombudsman, the whistleblower and the responsible Minister:

- Hon Sheryl Garbutt MP, Minister for Environment and Conservation.

Where the investigation concludes that the disclosed conduct did not occur, the protected disclosure coordinator will report these findings to the Ombudsman and to the whistleblower.

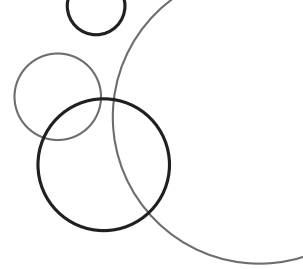
12. MANAGING THE WELFARE OF THE WHISTLEBLOWER

12.1 Commitment to protecting whistleblowers

CWW is committed to the protection of genuine whistleblowers against detrimental action taken in reprisal for the making of protected disclosures. The protected disclosure coordinator is responsible for ensuring whistleblowers are protected from direct and indirect detrimental action, and that the culture of the workplace is supportive of protected disclosures being made.

The protected disclosure coordinator will appoint a welfare manager to all whistleblowers who have made a protected disclosure. The welfare manager will:

- Examine the immediate welfare and protection needs of a whistleblower who has made a disclosure and, where the whistleblower is an employee, seek to foster a supportive work environment;
- Advise the whistleblower of the legislative and administrative protections available to him or her;
- Listen and respond to any concerns of harassment, intimidation or victimisation in reprisal for making disclosure;



- Keep a contemporaneous record of all aspects of the case management of the whistleblower including all contact and follow-up action; and
- Ensure the expectations of the whistleblower are realistic.

All employees will be advised that it is an offence for a person to take detrimental action in reprisal for a protected disclosure. The maximum penalty is a fine of 240 penalty units (\$24,000) or two years imprisonment or both. The taking of detrimental action in breach of this provision can also be grounds for making a disclosure under the Act and can result in an investigation.

Detrimental action includes:

- Causing injury, loss or damage;
- Intimidation or harassment; and
- Discrimination, disadvantage or adverse treatment in relation to a person's employment, career, profession, trade or business (including the taking of disciplinary action).

12.2 Keeping the whistleblower informed

The protected disclosure coordinator will ensure the whistleblower is kept informed of action taken in relation to his or her disclosure, and the time frames that apply. The whistleblower will be informed of the objectives of an investigation, the findings of an investigation, and the steps taken by CWW to address any improper conduct that has been found to have occurred. The whistleblower will be given reasons for decisions made by CWW in relation to a protected disclosure. All communication with the whistleblower will be in plain English.

12.3 Occurrence of detrimental action

If a whistleblower reports an incident of harassment, discrimination or adverse treatment that would amount to detrimental action taken in reprisal for the making of the disclosure, the welfare manager will:

- Record details of the incident;
- Advise the whistleblower of his or her rights under the Act; and
- Advise the protected disclosure coordinator or Managing

Director of the detrimental action.

The taking of detrimental action in reprisal for the making of a disclosure can be an offence against the Act as well as grounds for making a further disclosure. Where such detrimental action is reported, the protected disclosure coordinator will assess the report as a new disclosure under the Act. Where the protected disclosure coordinator is satisfied that the disclosure is a public interest disclosure, he or she will refer it to the Ombudsman. If the Ombudsman subsequently determines the matter to be a public interest disclosure, the Ombudsman may investigate the matter or refer it to another body for investigation as outlined in the Act.

12.4 Whistleblowers implicated in improper conduct

Where a person who makes a disclosure is implicated in misconduct, CWW will handle the disclosure and protect the whistleblower from reprisals in accordance with the Act, the Ombudsman's guidelines and these procedures. CWW acknowledges that the act of whistleblowing should not shield whistleblowers from the reasonable consequences flowing from any involvement in improper conduct. Section 17 of the Act specifically provides that a person's liability for his or her own conduct is not affected by the person's disclosure of that conduct under the Act. However, in some circumstances, an admission may be a mitigating factor when considering disciplinary or other action.

The Managing Director will make the final decision on the advice of the protected disclosure coordinator as to whether disciplinary or other action will be taken against a whistleblower. Where disciplinary or other action relates to conduct that is the subject of the whistleblower's disclosure, the disciplinary or other action will only be taken after the disclosed matter has been appropriately dealt with.

In all cases where disciplinary or other action is being contemplated, the Managing Director must be satisfied that it has been clearly demonstrated that:

- The intention to proceed with disciplinary action is not causally connected to the making of the disclosure (as opposed to the content of the disclosure or other available information);
- There are good and sufficient grounds that would fully justify action against any non-whistleblower in the same circumstances; and

- There are good and sufficient grounds that justify exercising any discretion to institute disciplinary or other action.

The protected disclosure coordinator will thoroughly document the process including recording the reasons why the disciplinary or other action is being taken, and the reasons why the action is not in retribution for the making of the disclosure. The protected disclosure coordinator will clearly advise the whistleblower of the proposed action to be taken, and of any mitigating factors that have been taken into account.

13. MANAGEMENT OF THE PERSON AGAINST WHOM A DISCLOSURE HAS BEEN MADE

CWW recognises that employees against whom disclosures are made must also be supported during the handling and investigation of disclosures. CWW will take all reasonable steps to ensure the confidentiality of the person who is the subject of the disclosure during the assessment and investigation process. Where investigations do not substantiate disclosures, the fact that the investigation has been carried out, the results of the investigation, and the identity of the person who is the subject of the disclosure will remain confidential.

The protected disclosure coordinator will ensure the person who is the subject of any disclosure investigated by or on behalf of a public body is:

- Informed as to the substance of the allegations;
- Given the opportunity to answer the allegations before a final decision is made;
- Informed as to the substance of any adverse comment that may be included in any report arising from the investigation; and has
- His or her defence set out fairly in any report.

Where the allegations in a disclosure have been investigated, and the person who is the subject of the disclosure is aware of the allegations or the fact of the investigation, the protected disclosure coordinator will formally advise the person who is the subject of the disclosure of the outcome of the investigation.

CWW will give its full support to a person who is the subject of a disclosure where the allegations contained in a disclosure are clearly wrong or unsubstantiated. If the matter has been publicly disclosed, the Managing Director of CWW will consider any request by that person to issue a statement of support setting out that the allegations were clearly wrong or unsubstantiated.

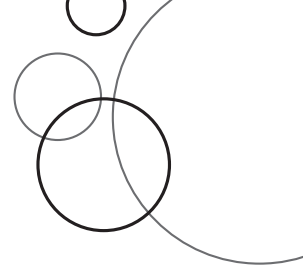
14. CRIMINAL OFFENCES

CWW will ensure officers appointed to handle protected disclosures and all other employees are aware of the following offences created by the Act:

1. It is an offence for a person to take detrimental action against a person in reprisal for a protected disclosure being made. The Act provides a maximum penalty of a fine of 240 penalty units (\$24,000) or two years imprisonment or both.
2. It is an offence for a person to divulge information obtained as a result of the handling or investigation of a protected disclosure without legislative authority. The Act provides a maximum penalty of 60 penalty units (\$6,000) or six months imprisonment or both.
3. It is an offence for a person to obstruct the Ombudsman in performing his responsibilities under the Act. The Act provides a maximum penalty of 240 penalty units (\$24,000) or two years imprisonment or both.
4. It is an offence for a person to knowingly provide false information under the Act with the intention that it be acted on as a disclosed matter. The Act provides a maximum penalty of 240 penalty units (\$24,000) or two years imprisonment or both.

15. REVIEW

These procedures will be reviewed annually to ensure they meet the objectives of the Act and accord with the Ombudsman's guidelines.

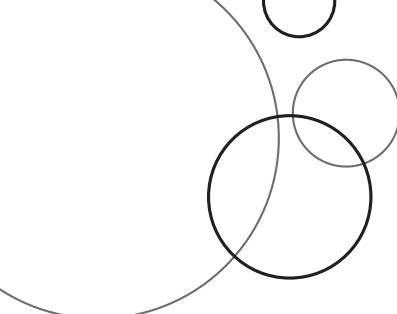


Attachment 1

The register below records information about disclosures made to City West Water Limited that have been determined to be protected disclosures.

	File A	File B	File C	File D
Date disclosure received				
Type of disclosure				
Is disclosure a public interest disclosure?				
Date above determination made				
Date WB * informed of determination				
Date disclosure referred to the Ombudsman				
Determination made by Ombudsman				
Was the investigation referred back to the Ombudsman?				
Did the Ombudsman take over the investigation?				
Did WB request the Ombudsman to take over investigation?				
Findings of CWW				
Recommendations made by the Ombudsman				
Date reporting requirements satisfied				

* WB refers to the whistleblower



City West Water provides water, sewerage, trade waste and recycled water services to Melbourne's Central Business District inner and western suburbs.

City West Water Ltd
ABN 70 066 902 461
247-251 St Albans Rd
Locked Bag 350
Sunshine VIC 3020

Account and General Enquiries: 131 691
Credit Card Payments: 131 971
Faults and Emergencies: 1800 132 642 or 13WATER
www.citywestwater.com.au
enquiries@citywestwater.com.au



Occupational
Health
and Safety

AS/NZS 4801 LicOHS00084
SAI Global



Certified
Environmental
Management

ISO 14001 LicC10001
SAI Global



**Quality
Endorsed
Company**

ISO 9001 LicQEC8292
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