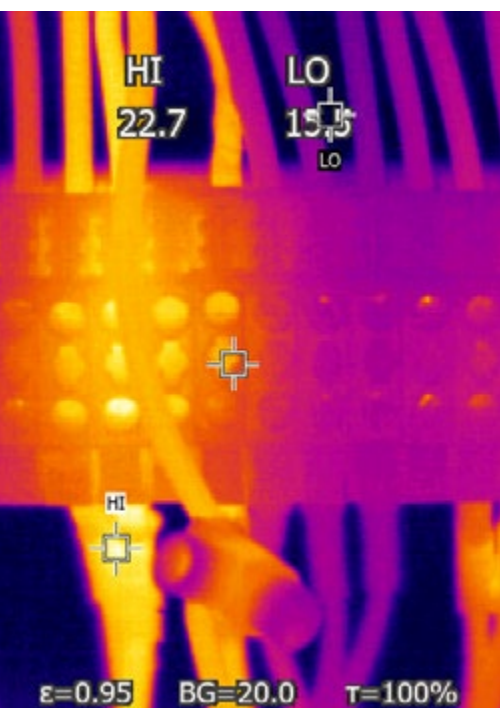




# hunterh<sub>2</sub>O



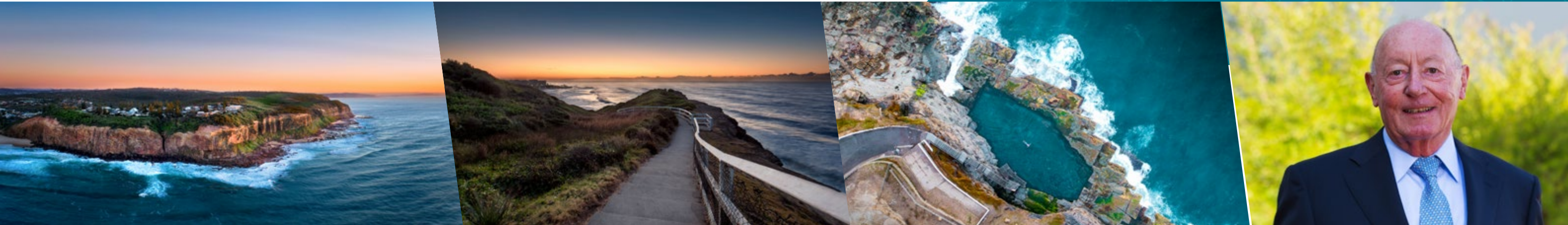
# 2019

## ANNUAL REPORT

Hunter H<sub>2</sub>O Holdings Pty Limited



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Chairman’s Message

This time last year I concluded my introduction by noting changes made “which should enable your company to deliver financial results which justify your decision to be part of Hunter H<sub>2</sub>O and reward your investment. I believe we can now look to the future”.

In turn, our CEO, Peter Dennis, said his key focus was developing the right executable strategy. Strategy is a shared domain of management, who propose it, and the Board which tests its assumptions, good governance and financial robustness before approving it for management to execute. Together its progress is measured and if necessary fine-tuned. Our strategy is now clear and well communicated, providing the platform for further development.

On behalf of all shareholders I would like to acknowledge the work done by Peter, the Leadership Group and our senior managers in embracing change and developing pathways that return the business to growth and profitability. I would also like to recognise the effort and contribution of our amazing staff whose dedication in delivering quality outcomes to our customers has been outstanding. And I note again, the excellent HSE record of the Hunter H<sub>2</sub>O team.

You will hear from Jodie Golledge, our CFO, that retirement of Redeemable Preference Shares (RPS) is an important target for the financial year, subject to continuing good cash generation on the back of higher earnings. Having no RPS to service will contribute in a small way to profit but more importantly will facilitate payment of franked dividends in future periods.

I look forward with confidence to further improvements across the business this year.

Brian Gatfield



# Managing Director's Message



This financial year has been a rewarding and successful year for Hunter H<sub>2</sub>O and all involved. During this year the Board and Executives developed our 2025 Strategic Plan which has set the direction for ongoing growth of our organisation. As a result of the early phases of our strategy execution we have seen growth in profitability, we are more connected with our customers and the development of a healthy long-term work pipeline.

Zero Harm is embedded in our culture and is fundamental to the company's future success. Our continued safety performance is another positive for 2018-19. Our refreshed company Safety Commitments have provided clarity and greater accountability, which has been important in keeping ever vigilant in ensuring a safe workplace. While we have done a lot of work on physical safety, I am committed to working with everyone to have increased focus on wellbeing and providing an even more supportive environment regarding mental health.

Hunter H<sub>2</sub>O's support into the Pacific continues to grow. Our people are playing a vital role in living our company Purpose: *"Developing the right water solutions to improve lives and ensure sustainable and healthy communities"*. Our work is very much contributing to meeting the Goals set by the United Nations with respect to Clean Water and Sanitation (SDG6).

Our people continue to inspire me through their unique capabilities and talent and how they apply these to develop smart water solutions for our customers. We are founded on the capability of our people and the strong connected relationships with our customers and other stakeholders. We showcase a number of these smart water solutions in this annual report.

Our new agile organisation promotes increased collaboration and team-based working. We have been working hard on our company culture and continue to strive for a culture that is inclusive, promotes diversity and one we are all proud to be part of. While we have made some very positive steps forward, as Managing Director I am committed to pursuing this improvement further.

I am incredibly optimistic about our future. A future where:

- We continue to collaborate to make a difference in the communities in which we work
- Our people can grow and develop and achieve their aspirations
- We are rewarded for investing in our organisation or for contributing to its success
- That contributes to more sustainable use of water for our communities.

I look forward to working with our Stakeholders to continue to implement our 2025 Strategy and grow our business. I would like to thank all our staff for their tremendous commitment to the organisation and to each other. I also appreciate the efforts our Chair and the Board in providing good governance and oversight of the company's strategy and risk management and most vitally, backing our team at Hunter H<sub>2</sub>O.

Peter

## Get in touch with Australia's best water industry specialists:

<b>Newcastle</b> P. +61 2 4941 5000 19 Spit Island Close Steel River Mayfield West NSW 2304	<b>Brisbane Office</b> P. +61 7 3218 2746 Level 6, 288 Edward Street Brisbane QLD 4000	<b>Adelaide Office</b> P. +61 419 974 944 Level 5, 18-20 Grenfell Street Adelaide SA 5000	<b>Tamworth Office</b> P. +61 2 4941 4897 5/493 Peel Street Tamworth, NSW 2340
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About us



We get excited about your toughest water and engineering challenges

100% Australian and employee-owned  
Water focused, internationally skilled and competitive.  
Our operations heritage fosters the trust and practical insight needed to deliver the right solution *the first time*.

Hunter H<sub>2</sub>O is one of the largest Australian specialist consulting firms in the water industry. We operate across a broad range of water industry project types within the following diverse set of clients and geographies: Regional Water Utilities, Metropolitan Water Authorities, International, Private Sector Clients and Government Agencies.

We employ over 100 water industry specialists and forecast continual growth through building a strong presence around our major city offices in Brisbane, Newcastle, Adelaide and our new office in Tamworth, NSW.

We work alongside our clients to integrate:

- Process expertise including both Water and Wastewater
- Design services (including civil, mechanical, electrical, hydraulic and chemical/process engineering)
- Planning (Australia and international)
- Digital SCADA & automation integration services
- Project management and operations support
- Asset Management
- Strategic Advisory expertise.

Our third-party certified health and safety, environment and quality management systems define the framework for consistent quality and safe operations during the successful delivery of projects.

Company Vision and Purpose



Our vision of “Water Together” (Hunter H<sub>2</sub>O’s Vision and Purpose) has several meanings. Water is vital for the many communities we serve.

Our vision reflects:

- The importance we place on collaboration, diversity and teamwork in creating the right innovative solutions that drives value.
- It also reflects our strong desire to partner with our customers, constructors, universities and other professionals in ensuring healthy and sustainable communities.

Our purpose epitomises who we are at Hunter H<sub>2</sub>O. Our work in regional areas and in the Pacific is really about helping communities to ensure they have reliable and safe drinking water as well as sustainable management of wastewater. It also captures our desire to deliver smart and innovative water solutions for our customers.



# Ways of Working | Our People

Everything we have achieved is only possible because of our people – working together to achieve a common purpose. Our values – I care deeply, I am inclusive, and I do what’s right, underpin everything we do.

Our people bring talent, experience and passion to their fields and to our customers and as a company we are committed to our ways of working. This year, with the introduction of these Ways of Working, we have started to implement in line with the Strategy 2025 targeted initiatives across the organisation.

## Culture of Inclusiveness and Diversity

“I am inclusive” is one of our key values. To support this value, we have developed a Diversity and Inclusion Policy over the past twelve months. This Policy is designed to provide a strong framework in order to achieve a diverse and inclusive workplace. The objectives of this Policy include:

- Celebrating and enhancing our diversity and inclusiveness
- A focus on creating a professional development plan that enables staff to reach their full potential
- Recruiting and promoting without bias
- Supporting flexible work arrangements across all of our employees

In support of this policy we have been concentrating on developing a culture based on inclusive leadership, ensuring staff feel supported and improving the engagement across the whole organisation.

## Graduate Development

We are investing in nurturing the next generation of Hunter H<sub>2</sub>O. Hunter H<sub>2</sub>O has sponsored a number of our graduates to participate in the Engineers Australia Graduate Program as a key part of the broader development of a professional development and mentoring program.


## High-Performance Culture

Empowering our people to develop is part of the way we work at Hunter H<sub>2</sub>O. Our new performance management framework, “Our Plan” links our strategic pillars and values to employee performance. The key features of this new framework include:

- Focused on behavioural based outcomes
- Frequent feedback and check-ins
- Coaching and mentoring
- Recognition and acknowledgement
- Capability and skill development


All of these features help in creating a strong performance and customer centric culture which all employees want to be part of.

## Our Ways of working:




### WE WORK AS ONE TEAM

- We connect the right people for the job
- We collaborate to create the right solutions
- We encourage and recognise excellence and we celebrate achievements.




### WE ARE CUSTOMER CONNECTED

- We put the customer “front of mind” in everything that we do
- We seek solutions that drive value for our customers and the communities that they serve
- We deliver services that are timely, efficient and meet the needs of the customer.




### WE DEVELOP OUR PEOPLE SO THAT THEY CAN BE THE BEST THEY CAN

- We support mentoring and development programs
- We provide constructive feedback
- We provide exposure to the right work experiences.



### WE EMPOWER OUR PEOPLE

- We dedicate time for creativity and problem solving
- We have courage to try things out
- We value solutions and innovations that make our communities more sustainable.



### WE ARE ALWAYS IMPROVING

- We have a commercial mindset in how we work
- We actively engage our customers to seek feedback on our service delivery and identify opportunities for improvement
- We dedicate time to reflect and learn from our experiences.

# Our Purpose

Our most significant impact comes from the work we do every day supporting our customers across Australia and the Pacific. Our skills and knowledge and how we share this is our biggest asset. The project highlights detailed in the following pages describe some of the work that we undertake that supports our purpose.

“Together we create the right water solutions to improve lives and support sustainable and healthy communities”.

Our new Sustainability Policy developed this year recognises the importance of the United Nations Sustainable Development Goals and strives to meet the intent in whatever way we can.



Source: <http://www.un.org/sustainabledevelopment/news/communications-material/>



# 2018-2019 Completed Project Highlights



Gregory/Kalkie Water Treatment Plants  
Bundaberg Regional Council, NSW.



Quipolly Water Treatment Plant  
Liverpool Plains Shire Council, NSW.



Parkes integrated Water Infrastructure Renewal Program  
Parkes Shire Council, NSW.



Burgowan WTP Fugitive Ozone Investigation  
Fraser Coast Regional Council, QLD.



NRW Management - Regional Water Balance Initiative  
Asian Development Bank, PNG.



Glenelg Wastewater Treatment Plant B&C Diffusers Replacement.  
SA Water Corporation, SA.



Nabiac Water Supply  
Midcoast Water, NSW.



Goulburn Wastewater Treatment Works  
Goulburn Mulwaree Council, NSW.



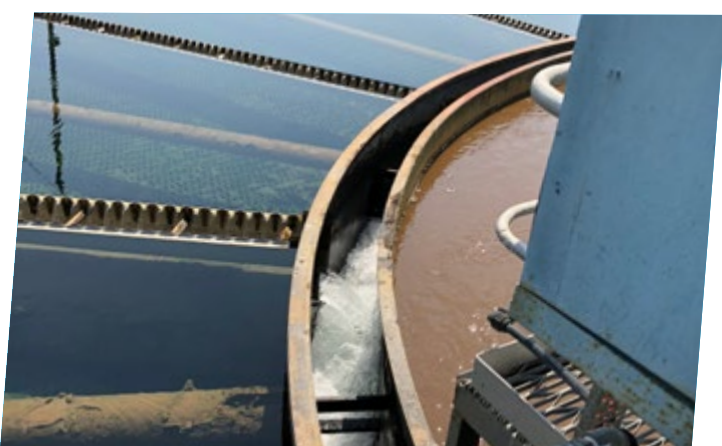
Belmont and Cessnock WWTW Inlet Works Refurbishment  
Hunter Water Corporation, NSW.



Cleveland Bay Purification Plant  
Townsville City Council, QLD.



Open Reservoir Access - review and options assessments  
SA Water Corporation, SA.



Mt Eriama Water Treatment Plant Capacity Assessment  
Eda Ranu, PNG.



2018-2019 Ongoing Projects



Rural Automation Renewals  
WaterNSW, NSW.



Navakai Wastewater Treatment Plant Detailed Design  
Water Authority of Fiji, Fiji.



Port Moresby Water and Wastewater Master Plan  
WaterPNG, PNG.



Freshwater Creek Water Treatment Plant Filter Upgrade  
Cairns Regional Council, QLD.



Hunter River Estuary Wastewater Masterplan  
Hunter Water Corporation, NSW.



Queanbeyan Sewage Treatment Plant Upgrade  
Queanbeyan-Palerang Regional Council, NSW.



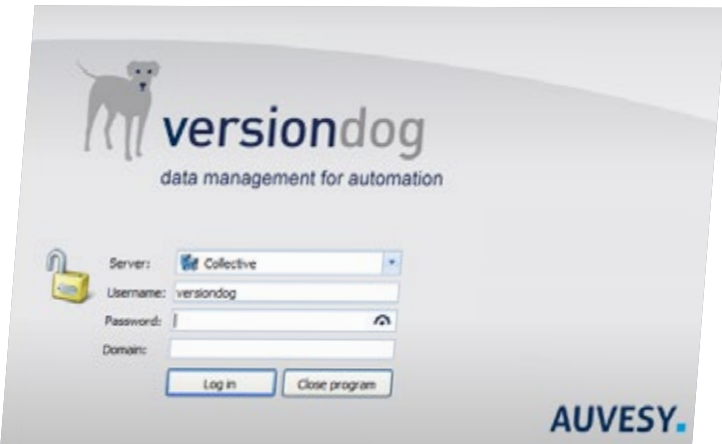
Augmentation Adaminaby & Bombala WWTP  
Snowy Monaro Regional Council, NSW.



Hunter Water To Singleton Council Potable Interconnection  
Hunter Water Corporation, NSW.



Manton Reservoir Water Treatment Plant Concept Design  
NT Power and Water, NT



SCADA Version Control VersionDog implementation  
SA Water, SA.



Freshwater Creek WTP Filter Upgrade  
Cairns Regional Council, QLD.



Grahamstown UV and Chlorination Upgrade  
Hunter Water Corporation, NSW.



## iSMART & Rural Automation Renewal Projects

Hunter H<sub>2</sub>O was engaged by Water NSW as the Prime Contractor for the delivery of the iSMART and Rural Automation Renewals (RAR) upgrade projects.

Hunter H<sub>2</sub>O was selected due to our specialist Electrical, SCADA and Telemetry capability and the organisations ability to provide comprehensive, customer focused multidiscipline consulting and delivery services.

Due to the age of the assets, their remote locations and critical nature of the assets the project presented both technical and logistical challenges.

The scope of works included concept, detailed electrical and control system design, SCADA & automation development, configuration, construction, commissioning, documentation, training and contractor management to deliver electrical, mechanical, SCADA, automation, telemetry equipment upgrades at dams, weirs, regulators and water treatment plants at over 190 sites operated by WaterNSW.

Our Client's key drivers included;

- » Improved safety
- » Standardisation
- » Reliability
- » Modernisation of automation and monitoring systems
- » Improved operations
- » Enhanced control and monitoring capability
- » Assets to be Computer Aided River Monitoring System (CARMS) ready.

A core component of the works was to design and configure all assets to be controlled and monitored by Water NSW's award-winning Computer Aided River Monitoring System.

### *Outcomes of the project:*

*The project will allow WaterNSW to remotely operate and manage dams, weirs, regulators and urban water systems, operating at the cutting edge of river operations and efficiently delivering bulk water throughout NSW. This ultimately helps the authority meet the challenges of high efficiency and real-time operations in a low-energy and-carbon environment.*



## Hunter River Estuary Wastewater Masterplan

Hunter H<sub>2</sub>O has been engaged by Hunter Water to prepare a masterplan for five wastewater treatment plants which currently discharge treated effluent directly to the Hunter River Estuary or its tributaries. Growth in load to the wastewater treatment works is projected to be significant over the next 30 years. An increase in load of 65% from current load is predicted. All five treatment plants are expected to reach capacity in the next five to 15 years resulting in significant capital expenditure to cater for growth and meet current regulatory requirements.

Hunter H<sub>2</sub>O has assembled an expert multi-disciplinary team to deliver this key strategic project in collaboration with Hunter Water. Hunter H<sub>2</sub>O leads this local specialist project team whilst providing key strategic planning and adaptive management expertise complementing our demonstrated wastewater treatment capabilities. Tonkin & Taylor, an international leader in effects-based assessment approaches will ensure that strong science underpins investment decisions which are based upon agreed waterway outcomes around ecology and public health. Umwelt bring expert local scientific knowledge and strong policy and regulatory expertise. The overarching decision-making framework is being led by Centre for International Economics. Mara Consulting is leading the development of stakeholder engagement and implementation.

Hunter Water has previously commissioned Water Research Laboratories (WRL) to develop catchment, hydrodynamic, water quality and ecological response models to support understanding of the estuary future management options. WRL bring invaluable knowledge of the Hunter River estuary to the project team.

The scope of work for delivery of the Masterplan includes:

- Roadmap development and project planning
- Stakeholder engagement
- Development of strategic objectives
- Problem definition
- Identification of catchment values
- Application of effects-based thinking
- Development and implementation of the decision-making framework
- Options development and assessment
- Portfolio development and assessment.





## Goulburn Wastewater Treatment Plant

Goulburn Mulwaree Council (GMC) engaged Hunter H<sub>2</sub>O to complete a detailed design of a new Oxidation Ditch / Membrane Bioreactor (MBR) wastewater treatment plant in Goulburn. Constructed on a brownfield site, the plant replaced an aging trickling filter facility and now produces effluent quality suitable for both unrestricted municipal irrigation via GMC's proposed \$77M effluent reuse scheme, with the discharge of surplus flows to the Wollondilly River, a critical river system that forms part of the Sydney Water catchment.

An early task was to review the client's concept design for the plant. Our team reviewed a range of alternative options and identified a 17% and 11% savings in capital and life cycle cost respectively if an alternative MBR process option was adopted. The savings mostly were attributed to a simpler site layout and less infrastructure. Our design team then found the correct balance between the inclusion of new state of the art processes with the retention of existing infrastructure such as the current inlet works, storm storage ponds and sludge lagoons, to reduce the capital cost of the upgrade and provide a more agile and sustainable solution.

Our team remained customer connected throughout the project acting as the "owner's engineer" role during the construction phase, ultimately leading the commissioning phase and training Council operations staff.







## Mitigation of Salt Water Contamination

Hunter H<sub>2</sub>O was engaged by Tweed Shire Council to provide an assessment of options to mitigate against salt water contamination of the Tweed District Water Supply.

In August 2017 Bray Park Weir experienced a period of reverse flow and overtopped from the down stream side due to a combination of high tides and a sea level anomaly, consequently contaminating the raw water supply with salt water. Throughput of the Bray Park Water Treatment Plant (WTP) had to be inhibited for several weeks while salt water was removed from the weir pool via a dredge at significant cost.

Tweed Council have been advised that, due to the predicted impacts of sea level rise and potential sea level anomalies, overtopping of the weir is likely to occur for longer durations and greater frequency.

In response to this, Tweed Council established a Project Reference Group (PRG) made up of 10 community stakeholders and two councillors to identify and assess ways to mitigate the risk of salt water contamination of the Tweed District Water Supply.

Hunter H<sub>2</sub>O undertook the following work as part of this engagement:

- Analysis of the August 2017 salt water intrusion event to understand; approximate volumes of salt water that entered the weir pool, level of stratification of the weir pool and total volume of the weir pool.
- Analysis of predicted future salt water intrusion events to establish a baseline set of assumptions for: how often salt water intrusion events are likely to occur, how long salt water intrusions are likely to occur for, and the volume of salt water likely to enter the weir pool during each intrusion event; from the current date to 2100.
- Analysis of each of the mitigation options proposed by the PRG, as well as development of new solutions, against the prescribed assessment criteria. These included; water quality, water security or secure yield, time for implementation, longevity, cost, resilience, environmental impact, social impact, risk and legal.
- Presentation of the options assessment results to the PRG.

The options assessment was delivered on time and to budget.

## Water Supply and Wastewater Masterplans

Hunter H<sub>2</sub>O was engaged by Water Authority of Fiji to develop water supply and wastewater master plans to expand services in the main island of Viti Levu. The master plans focussed on systems in the towns of Korovou and Rakiraki, as well as unserviced areas between Sigatoka, Nadi, Ba and Tavua. The plans identified around FJ\$250m of works to develop new systems to service existing populations and provide capacity for growth.

The scope of works included:

- Review of existing systems and previous investigations
- Assessment of populations, growth areas and development of forecast water supply demands and wastewater loadings
- Development of hydraulic models of potential network options
- Assessment of potential water sources, treatment options and network servicing
- Development of preliminary cost estimates, ongoing operation and maintenance costs and net present value
- Multi-criteria analysis of options
- Development and presentation of master plan reports

The draft master plans were delivered on time and to budget.



## Water Treatment Plant Aesthetic Improvements

Under the SA Water Engineering Panel and in collaboration with our partners, Hunter H<sub>2</sub>O was engaged to investigate options to improve the treatment processes at four of SA Water's Adelaide water treatment plants. The work was driven by customer feedback and complaints over organic taste and odour compounds found in the treated water.

Our team looked at options to add ozone and biological activated carbon (BAC) filtration to the existing plants to reduce the levels of dissolved organic carbon in the product water. For Happy Valley, Barossa and Hope Valley the study also included the addition of ultra violet (UV) disinfection to provide an additional barrier to pathogens.

Our project deliverables included water quality analysis, process optioneering, process unit sizing, process flow diagrams, preliminary concept designs, capital and operating cost estimates. These outputs were used by SA Water as part of their Regulatory Business Plan submission to the economic regulator. Approval is still awaited but Happy Valley is proposed for completion in 2020-2024 and Barossa, Hope Valley and Myponga in 2024-2028.

Following on from this project, Hunter H<sub>2</sub>O has continued to be involved and are supporting SA Water with setting up an ozone and BAC pilot plant that will be used at Happy Valley water treatment plant to inform the detailed design of the upgrade works.



## Safety



We factor safety and environmental care into all we do, and it is a key part of our values and our purpose.

We promote and uphold a work culture guided by the principle of "No Harm at Work" to support our commitment to the wellbeing of people and protection of the environment.

We manage our health, safety, environment and quality standards in accordance with the international and national standards including safety standard AS/NZS 4801, environmental standard AS/NZS ISO 14001 and quality standard AS/NZS ISO 9001.

We are proud of our safety and environmental record. We have achieved zero lost time injuries whilst working 138,501 hours and have had no environmental incidents. We remain focused on maintaining this very high standard over the coming year and will continue to examine options to drive improvements in safety and environmental performance.

Our risk management approach is transferrable in all we do. We have well developed and mature risk management systems and we offer the opportunity to transfer this knowledge to our clients.





## Awards: IPWEA NSW Innovation

### Belmont and Cessnock WWTP Inlet works Rehabilitation Innovation award in water/sewer category.

Hunter Water and Hunter H<sub>2</sub>O worked in partnership together and with local civil and mechanical contractors to design and deliver a critical upgrade to wastewater treatment plants at Belmont and Cessnock. The project faced significant implementation challenges as flows into each plant could not be shut down for more than 2-4 hours at a time (during the middle of the night).

The team developed a range of innovations during the planning and design stages. Hydraulic modelling, 3D modelling and investigation of new coating technologies and application techniques was undertaken to develop strategies for staged implementation of bypass pipework and concrete remediation. The construction phase was planned in 17 shutdowns, each of which were planned within 15 minute increments. Numerous operational teams were deployed across each catchment for simultaneous isolation with SMS technologies used to ensure lockouts and safe access for contractors.

The resulting works will extend the life of assets which are critical to the operation of wastewater services for the equivalent of 150,000 households. The planning approach using remediation has saved the community millions of dollars in deferral of new assets and was delivered safely, on time and under budget. We are incredibly proud of the commitment of our project team members!

## Awards: Australian Engineering Excellence

### Parkes integrated Water Infrastructure Renewal Program

The Parkes Integrated Water Infrastructure Renewal Program has been recognised for raising the benchmark of Australian engineering standards, winning the Energy, Water and Resources Project category at the NSW 2018 Australian Excellence in Engineering Awards.

The \$100m capital works program includes the Lake Endeavour Dam Safety Upgrades, the Lachlan River Pump Station and Bore 8 refurbishments, as well as the major infrastructure construction that delivered Parkes a new Water Treatment Plant, Sewage Treatment Plant and the Advanced Water Recycling Facility, and ancillary infrastructure augmentations.

The Hunter H<sub>2</sub>O team worked hard collaborating with our construction partners John Holland and Maddocks to deliver state-of-the-art treatment plants and strengthen the entire Parkes Shire water network.





# Corporate Governance

## Board of Directors

Hunter H<sub>2</sub>O aspires to meet high standards of governance and reporting. We are committed to incorporating governance standards of an equivalent public company. We have clearly defined roles for both the Board and the Executive Management Team.

Our Board is responsible for risk and strategic governance. The Board has adopted a robust governance structure of policies and processes which facilitates reporting and auditing.

The Executive Management Team is led by the Managing Director and is responsible for the implementation of strategy, management of risks and the operations of the business.



**Brian Gatfield**

- Non-Executive Director
- Director since 2014
- Non-Independent
- Chair of the Board of Directors
- Chair of the People and Culture Committee



**Paul Thompson**

- Executive Director
- Director since 2014
- Non-Independent



**Dr Kirsten Molloy**

- Non-Executive Director
- Director since 2015
- Independent
- Chair of the Audit and Risk Committee



**Jeremy Smith**

- Executive Director
- Director since 2018
- Non-Independent



**Peter Dennis**

- Managing Director
- Director since 2018
- Non-Independent



**Jodie Golledge**

- Company Secretary

## Executive Leadership



**Peter Dennis**  
Managing Director



**Jodie Golledge**  
Chief Financial Officer/  
Commercial Manager



**Jeremy Smith**  
Executive Manager - Design



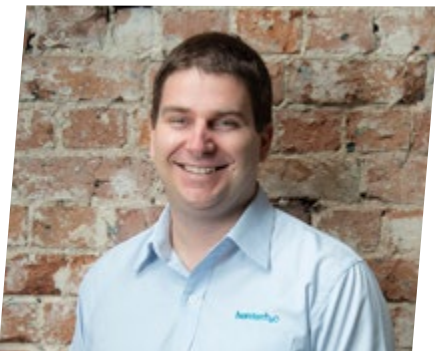
**David Bowerman**  
Executive Manager  
Electrical and SCADA



**Paul Thompson**  
Executive Manager - Process



**Nicole Holmes**  
Executive Manager - Advisory

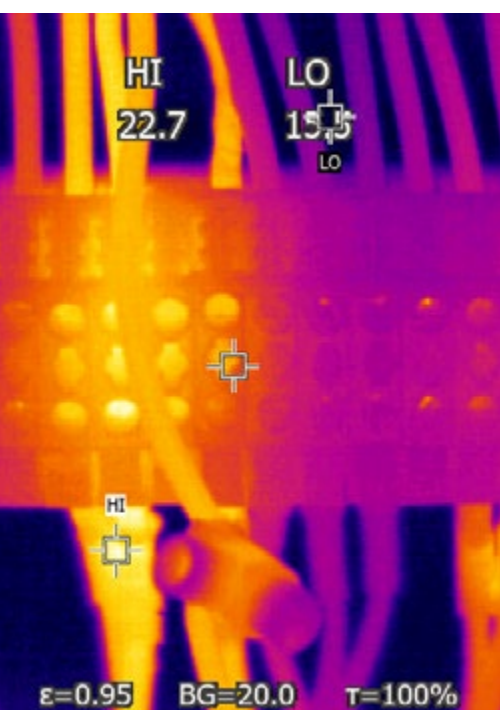


**Shane Bullen**  
Executive Manager - Corporate Services





# Appendix A



# FINANCIAL STATEMENTS

Hunter H<sub>2</sub>O Holdings Pty Limited



# Financial Statements for the Financial Year Ended 30 June 2019

## COMPANY PARTICULARS

### Directors

Mr B Gatfield

Dr K Molloy

Mr D Bowerman (Resigned 9/10/18)

Mr P Thompson

Mr J Smith (Appointed 9/10/18)

Mr P Dennis (Appointed 4/12/18)

### Company Secretary

Mrs J Golledge

### Registered Office

**The registered office and principal place of business of the company is:**

19 Spit Island Close, Steel River,  
Mayfield West  
NSW 2304

Hunter H2O Holdings Pty Limited is a company limited by shares, incorporated and domiciled in Australia.

ABN: 16 602 201 552

### Auditors

Prosperity Audit Services

### Bankers

National Australia Bank



## DIRECTORS' REPORT

The Directors submit the following report made in accordance with a resolution of the Directors of Hunter H2O Holdings Pty Limited (the Company) for the financial year ended 30 June 2019.

### Directors

The names and details of the Directors of the Company at any time during or since the end of the financial year ended 30 June 2019 are:

Mr B Gatfield

Ms K Molloy

Mr D Bowerman (Resigned 9/10/18)

Mr P Thompson

Mr J Smith (Appointed 9/10/18)

Mr P Dennis (Appointed 4/12/18)

### Information on Directors

#### B Gatfield

*FCPA*

Mr Gatfield has served as Chair and Non-Executive Director of a number of public companies. He has worked with leading Investment Banks, Accounting and Legal Firms in a number of IPO's and is very experienced in Private Equity. Since 1995, Mr Gatfield has been retained as an independent advisor by service sector organisations, including leading participants in financial services markets, to advise on business strategy, assist in organisation reviews and to help evaluate acquisitions and other growth options.

Mr Gatfield is currently Chairman of Bridgestar Pty Ltd and a Director of private companies.

#### K Molloy

*MBA, BSc (Hons), PhD, GAICD*

Dr Molloy has had a diverse career spanning over 19 years in the chemical manufacturing and mining industry focused on strategic marketing, executive sales and account management, product (category) management and research and development. She has worked across cultures, with initiatives and projects developed and delivered in China, the Philippines, New Zealand, Australia, the US and Canada. Dr Molloy is currently employed as the CEO of the Hunter Valley Coal Chain Coordinator (HVCCC) and is a Non-executive Director on the HMRI and RDA Hunter Boards and Director of Verity Leadership.

#### D Bowerman

*BEng (Electrical), MIEAust, GAICD*

Mr Bowerman is an experienced SCADA, and Electrical Engineer with broad experience across a range of industry sectors in both private and public organisations.

He has over 30 years of Industry experience from consultancy and design through to construction, maintenance and management. Mr Bowerman is the Executive Manager Electrical & SCADA Engineering at Hunter H2O Holdings.



## P Thompson

*BEng (Chemical) (Hons), CPEng, EngExec, FIEAust, RPEQ, APEC Engineer IntPE(Aus)MAICD*

Mr Thompson is a chemical engineer with over 20 years' experience in the water industry. He has extensive experience in senior leadership roles for asset creation and management of water and wastewater treatment infrastructure, for both the municipal and mining sectors in Australia and overseas. Mr Thompson is the General Manager Process & Operations of Hunter H2O Holdings.

## J Smith

*BEng (Civil) Hons, FIEAust, CPEng, RPEQ, Eng Exec, APEC Engineer IntPE (Aus)*

Mr Smith is a Senior Principal Civil Engineer with 23 years' experience in the water industry. He has worked directly for Government water utilities and the private sector in both technical and management roles over his career. He has designed and delivered a wide range of water assets and has considerable construction and project management experience. Mr Smith is the Executive Manager, Design for Hunter H2O Holdings.

## P Dennis

*BEng (Chemical) (Hons), M Env Stud, Grad Dip Man, Cor Dir Dip., CPEng, FIEAust, RPEQ, APEC Engineer IntPE(Aus)MAICD*

Mr Dennis is one of the leading water industry strategists with over 30 years' water industry experience both in Australia and Internationally. Peter is an experienced Chief Executive Officer having led Seqwater (Bulk Water Utility for South East Queensland) through a major merger and significant business transformation and as the inaugural CEO of the merged Armidale Regional Council. He is also an experienced Board Member being on several water industry and Local Government Boards throughout Australia. He is also Conjoint Professor in the School of Engineering with the University of Newcastle.

Mr Dennis has been recognised by Engineers Australia on two occasions as being in the top 100 most influential engineers in Australia.

## Meetings of Directors

### Board Meetings

	Number of meetings attended	Number of meetings held during the time the Director held office
B Gatfield	8	9
K Molloy	8	9
D Bowerman	3	3
P Thompson	8	9
J Smith	5	6
P Dennis	4	4

## Principal Activities

The principal activities of the Company in 2018/19 were the provision of specialist support and operations services in the fields of water, wastewater, stormwater, environmental and strategic services.



## Results and Dividends

The net profit after tax, for the financial year ended 30 June 2019, was \$472,699.

In respect of the financial year ended 30 June 2019, no fully franked dividends were paid to Ordinary Shareholders.

In respect of the financial year ended 30 June 2019, unfranked dividends totalling \$120,000 were paid to Preference Shareholders in four instalments.

## Review of Operations

The Company had a significantly improved trading performance during the 2018/19 financial year. The 2017/18 figures included a number of abnormal items including franking deficits tax and accelerated depreciation on the fitout of the Steel River office as well as operating in a challenging trading environment. The 2018/19 financial results reflect a more favourable trading environment and reduced overhead costs relating to the reduction in the Company's property costs.

With healthy order books, this performance is set to continue into the 2020 financial year.

## Subsequent Events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

## Directors' Indemnification

As far as is permitted by section 199A of the *Corporations Act*, other statutory provisions and common law, the Company has agreements in place to indemnify the Directors against:

- I. any Liability to a Third Party which arises as a result of anything done, or omitted to be done by him/her in good faith while a Director of the Company; and
- II. the Director's reasonable legal costs incurred in relation to any Claim by a Third Party in relation to such matters on a solicitor and own client basis.

No liability has arisen under these indemnities as at the date of this report.

## Future Developments

The Company is expected to operate profitably and meet its obligations as and when they fall due. The Company expects to maintain the present status and level of operations.

## Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under *Section 307C of the Corporations Act 2001* is set out on page 6.

## Directors' Benefits

During or since the financial year no Director of the Company has received or become entitled to receive a benefit, other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors shown in the accounts, by reason of a contract entered into by the Company with:

- a Director, or
- a firm of which a Director is a member, or
- an Entity in which a Director has a substantial financial interest.



## Code of Conduct

Hunter H2O Holdings Pty Limited has a Code of Conduct that must be adhered to by all employees. All employees are required to maintain high standards of ethical behaviour in the execution of their duties and comply with all applicable laws and regulations in Australia.

Signed in accordance with a resolution of the Directors of Hunter H2O Holdings Pty Limited.



*Mr B Gatfield*  
Chairman  
Dated: 27 September 2019



*Mr P Thompson*  
Director



**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF HUNTER H2O HOLDINGS PTY LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2019 there have been no contraventions of:

- (i) the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

*Prosperity Audit Services*

**PROSPERITY AUDIT SERVICES**

*M Maybury*

**MEGAN MAYBURY**  
Partner

27 September 2019  
Newcastle

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Prosperity Advisers Audit Services Pty Ltd  
ABN 90 147 151 228

Chartered Accountants  
Liability limited by a Scheme approved  
under the Professional Standards  
Legislation.



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HUNTER H2O HOLDINGS PTY LIMITED FOR THE YEAR ENDED 30 JUNE 2019

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Hunter H2O Holdings Pty Limited (the Company), which comprises the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration.

In our opinion, the accompanying financial report of Hunter H2O Holdings Pty Limited is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards - Reduced Disclosure Requirements and the Corporations Regulations 2001.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110: Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the Corporations Act 2001 and for such internal control as gives a true and fair view and is free from material misstatement, whether due to fraud or error. In preparing the financial report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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Chartered Accountants  
Liability limited by a Scheme approved  
under the Professional Standards  
Legislation.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HUNTER H2O  
HOLDINGS PTY LIMITED FOR THE YEAR ENDED 30 JUNE 2019 (CONT'D)**

**Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Prosperity Audit Services*

**PROSPERITY AUDIT SERVICES**

*M Maybury*

**MEGAN MAYBURY**

Partner

27 September 2019

Newcastle



# Hunter H2O Holdings Pty Limited

## Statement of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	Notes	2019 \$	2018 \$
<b>INCOME</b>			
Revenue from contracts with customers	3	20,788,098	19,005,337
Other income		73,844	165,407
<b>TOTAL INCOME</b>		<b>20,861,942</b>	<b>19,170,744</b>
<b>OPERATING EXPENSES</b>			
Employee related expenses		12,648,693	12,118,972
Project and contract outlays		4,291,235	3,779,260
Consultants and legal fees (non-project)		356,226	386,048
Training and marketing expenses		428,919	388,172
Motor vehicles (excluding minimum lease payments)		21,472	63,550
Minimum lease payments		815,682	1,091,117
Property expenses		242,975	302,977
Information technology and communications		440,281	414,321
Other		490,299	438,110
Franking deficit tax		-	167,289
<b>TOTAL OPERATING EXPENSES</b>		<b>19,735,782</b>	<b>19,149,816</b>
<b>PROFIT BEFORE INTEREST, INCOME TAX, DEPRECIATION AND AMORTISATION</b>		<b>1,126,160</b>	<b>20,928</b>
Depreciation - Property, plant & equipment		358,651	889,254
Amortisation - Intangibles - ordinary business		37,205	182,761
Make good lease adjustment		7,019	(228,730)
Loss/(gain) on disposal of assets		18,677	2,495
Interest expense		6,640	2,650
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>		<b>697,968</b>	<b>(827,503)</b>
Income tax expense	4	(225,269)	73,923
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>472,699</b>	<b>(753,580)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>			
Superannuation actuarial gains/(losses)		57,938	30,173
Income tax on superannuation actuarial gains/(losses)	4	(15,933)	(8,298)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>514,704</b>	<b>(731,704)</b>

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



# Hunter H2O Holdings Pty Limited

## Statement of Financial Position

AS AT 30 JUNE 2019

	Notes	2019 \$	2018 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	4,200,193	2,548,305
Trade and other receivables	7	3,370,606	3,757,421
Contract assets	3	1,837,927	1,030,854
Current tax assets		-	186,620
<b>TOTAL CURRENT ASSETS</b>		<b>9,408,726</b>	<b>7,523,200</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	8	1,169,615	1,283,781
Intangible assets	9	31,727	56,861
Deferred tax assets	4	729,464	858,609
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,930,806</b>	<b>2,199,251</b>
<b>TOTAL ASSETS</b>		<b>11,339,532</b>	<b>9,722,451</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	1,630,215	1,190,946
Contract liabilities	3	2,406,620	1,629,198
Current tax liabilities		112,057	-
Borrowings		-	39,684
Provisions	11	1,994,457	2,197,531
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,143,349</b>	<b>5,057,359</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	11	410,821	384,967
Underfunded defined benefit super	14	151,400	87,867
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>562,221</b>	<b>472,834</b>
<b>TOTAL LIABILITIES</b>		<b>6,705,570</b>	<b>5,530,193</b>
<b>NET ASSETS</b>		<b>4,633,962</b>	<b>4,192,258</b>
<b>EQUITY</b>			
Contributed equity	12	4,949,000	4,902,000
Retained earnings		(315,038)	(709,742)
<b>TOTAL EQUITY</b>		<b>4,633,962</b>	<b>4,192,258</b>

The Statement of Financial Position should be read in conjunction with the accompanying notes



# Hunter H2O Holdings Pty Limited

## Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	Notes	Retained Profits \$	Contributed Equity \$	Total \$
<b>Balance at 1 July 2018</b>		(709,742)	4,902,000	4,192,258
<b>Profit for the year</b>		<b>472,699</b>	-	<b>472,699</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Superannuation actuarial gains/(losses)		57,938	-	57,938
Income tax on superannuation actuarial gains/(losses)		(15,933)	-	(15,933)
<b>Total Comprehensive Income for the year</b>		<b>514,704</b>	-	<b>514,704</b>
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>				
Share issues	12	-	47,000	47,000
Dividends provided for or paid	5	(120,000)	-	(120,000)
<b>Balance at 30 June 2019</b>		<b>(315,038)</b>	<b>4,949,000</b>	<b>4,633,962</b>
		<b>Retained Profits \$</b>	<b>Contributed Equity \$</b>	<b>Total \$</b>
<b>Balance at 1 July 2017</b>		146,577	4,902,000	5,048,577
<b>Profit/(Loss) for the year</b>		<b>(753,580)</b>	-	<b>(753,580)</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Superannuation actuarial gains/(losses)		30,173	-	30,173
Income tax on superannuation actuarial gains/(losses)		(8,298)	-	(8,298)
<b>Total Comprehensive Income for the year</b>		<b>(731,704)</b>	-	<b>(731,704)</b>
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>				
Dividends provided for or paid	5	(124,615)	-	(124,615)
<b>Balance at 30 June 2018</b>		<b>(709,742)</b>	<b>4,902,000</b>	<b>4,192,258</b>

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

# Hunter H2O Holdings Pty Limited

## Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	Notes	2019 \$	2018 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers (inclusive of GST)		23,078,457	21,237,267
Payments to suppliers and employees (inclusive of GST)		(21,216,909)	(20,831,594)
		<b>1,861,548</b>	<b>405,673</b>
Interest received		25,189	14,951
Interest paid		(6,640)	(2,650)
Income taxes paid		186,620	(565,244)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>2,066,717</b>	<b>(147,270)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment and intangible assets		(307,236)	(64,180)
Proceeds from sale of assets		2,500	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(304,736)</b>	<b>(64,180)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New shares issued	12	47,000	-
Repayment of borrowings		(39,684)	(26,101)
Dividends paid	5	(120,000)	(124,615)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(112,684)</b>	<b>(150,716)</b>
Net increase/(decrease) in cash held		1,649,297	(362,166)
Cash at beginning of financial period		2,548,305	2,912,351
Effects of exchange rate changes on cash		2,591	(1,880)
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>	6	<b>4,200,193</b>	<b>2,548,305</b>

The Statement of Cash Flows should be read in conjunction with the accompanying notes



# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

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## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### Note 1. Statement of Compliance

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These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards – Reduced Disclosure Requirements, and comply with other requirements of the law.

The Company's financial statements for the financial year ended 30 June 2019 were authorised for issue in accordance with a resolution of the Board on 27 September 2019.

### Note 2. Basis of Preparation

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The Board has determined that the Company is a for-profit entity for financial reporting purposes. The accounting policies applied are based on the requirements applicable to for-profit entities on these mandatory or statutory requirements. The following policies apply to the financial statements to the extent to which they have not already been disclosed in the relevant notes.

#### *Historical Cost Convention*

The financial statements have been prepared on the basis of historical cost, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets.

#### *Fair Value Hierarchy*

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring fair value, the valuation technique used maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

#### *Rounding*

All amounts in the financial statements are reported to the nearest dollar.

#### *Currency*

All amounts in the financial statements are reported in Australian dollars.

#### *Comparative Figures*

Where required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

#### *Key Judgements, Estimates and Assumptions*

In the application of the Company's accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Material accounting estimates and judgements applied in preparing the financial statements are detailed in the relevant Accounting Policy note.

# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### *Impairment Assessment*

The Company assesses impairment at the end of each reporting period by evaluation of conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are assessed using value-in-use calculations which incorporate various key assumptions. Notwithstanding the net loss recognised for the current financial year, no impairment has been recognised due to the strong predicted cash flows of the Company in future years.

### Note 3. Revenue from Contracts with Customers

#### A. Disaggregation of revenue from contracts with customers

The company derives revenue from the transfer of goods and services over time and a point in time in the following categories and type of contracts:

REVENUE FROM CONTRACTS WITH CUSTOMERS	Time Materials	& \$	Fixed Fee \$	Total \$
<b>2019</b>				
Consultancy	9,181,553		8,694,483	17,876,036
Engineering, Procurement & Construction	-		2,912,062	2,912,062
Engineering, Procurement & Construction Management	-		-	-
	<u>9,181,553</u>		<u>11,606,545</u>	<u>20,788,098</u>
<b>2018</b>				
Consultancy	7,758,293		8,101,307	15,859,600
Engineering, Procurement & Construction	-		3,013,463	3,013,463
Engineering, Procurement & Construction Management	132,274		-	132,274
	<u>7,890,567</u>		<u>11,114,770</u>	<u>19,005,337</u>

#### B. Assets and liabilities related to contracts with customers

The company has recognised the following assets and liabilities related to contracts with customers:

	2019 \$	2018 \$
Total contract assets (previously work in progress)	<u>1,837,927</u>	<u>1,030,854</u>
Total contract liabilities (previously income in advance)	<u>2,406,620</u>	<u>1,629,198</u>



### Note 3. Revenue from Contracts with Customers

#### Accounting Policies

##### REVENUE FROM CONTRACTS WITH CUSTOMERS

The company provides consulting services under fixed-price and time and materials contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered.

For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the actual contract costs relative to the total expected contract costs.

Some contracts include multiple deliverables, such as process design, mechanical design, workshop facilitation, tender phase assistance, construction phase assistance, commissioning assistance, and on-going technical support. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated on expected cost, plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In the case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Company exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised. If the contract includes an hourly fee, revenue is recognised in the amount to which the Company has a right to invoice the customer. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Note 4. Current and Deferred Taxes

	2019	2018
	\$	\$
<b>INCOME TAX</b>		
<b>A. INCOME TAX EXPENSE</b>		
<i>Current tax</i>		
Current tax on profits for the year	104,373	-
Adjustments for current tax of prior periods	(8,250)	-
<b>Total current tax expense</b>	96,123	-
<i>Deferred income tax</i>		
Decrease/(increase) in net deferred tax assets	129,146	(140,005)
Deferred tax expense relating to change in tax rate	-	66,082
<b>Total deferred tax expense/(benefit)</b>	129,146	(73,923)
<b>Income tax expense</b>	225,269	(73,923)
<b>B. NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE</b>		
Profit before income tax	697,968	(827,503)
Tax at the Australian rate of 27.5% (2018 - 27.5%)	191,941	(227,563)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Deferred tax expense relating to change in tax rate	-	66,082
Non-deductible expenses	33,328	87,559
	225,269	(73,923)
<b>C. TAX EXPENSE(INCOME) RELATING TO ITEMS IN OTHER COMPREHENSIVE INCOME</b>		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity	(15,933)	(8,298)
	(15,933)	(8,298)



# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### DEFERRED TAX ASSETS (LIABILITIES)

2019

2018

\$

\$

### NON CURRENT

The balance comprises temporary differences attributable to:

### AMOUNTS RECOGNISED IN PROFIT & LOSS

Contract assets (previously work in progress)	(505,430)	(283,485)
Contract liabilities (previously income in advance)	293,620	181,135
Employee benefits	651,316	686,884
Provision for make good	51,772	57,954
Other operating expenditure payable	73,766	6,861
Workers compensation prepayment	(4,711)	(7,386)
Depreciation	213,756	200,232
Unrealised tax foreign currency (gain)/loss	(1,042)	(1,285)
Unused tax losses	(43,583)	17,697
	<b>729,464</b>	<b>858,609</b>

### AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME

Superannuation actuarial gains/(losses)	(15,933)	(8,298)
	<b>(15,933)</b>	<b>(8,298)</b>

### MOVEMENTS:

Opening balance at 1 July	858,609	792,984
Derecognition of capital losses	(109,128)	-
Other items charged/(credited) to the income statement	(20,017)	65,625
<b>Closing balance at 30 June</b>	<b>729,464</b>	<b>858,609</b>

The derecognition of capital losses relate to the capital loss made on the tax write-off of the fit-out in the western part of the company's Steel River offices. It is improbable that the company will incur a capital gain to offset this capital loss in the future.

# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Accounting Policy

#### INCOME TAX

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the tax rate enacted at the reporting date adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

#### DEFERRED TAX ASSETS (LIABILITIES)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or the liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income or directly in equity, are similarly recognised in other comprehensive income or directly in equity.



# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Note 5. Dividends Provided For or Paid

	2019	2018
	\$	\$
<b>FULLY PAID REDEEMABLE 12% CUMULATIVE PREFERENCE SHARES</b>		
Opening balance	-	-
Add dividend declared	120,000	124,615
Less dividend paid	<u>(120,000)</u>	<u>(124,615)</u>
	<u>-</u>	<u>-</u>
Dividend per share	\$0.12	\$0.12

### Accounting Policies

#### REDEEMABLE PREFERENCE SHARES

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs. The Company's redeemable preference shares (Note 12), are equity instruments for accounting and taxation purposes. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

#### DIVIDENDS

Provision is made for any dividend declared by the Directors of the Company on or before the end of the financial year but not distributed at balance date.

Redeemable preference share dividends are only payable when the company has received confirmation of compliance with banking covenants and the Directors have declared the dividend.

## HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

#### Note 6. Cash and Cash Equivalents

	2019	2018
	\$	\$
Cash at bank and on hand	4,085,781	2,452,173
Foreign currency account	114,412	96,132
	<u>4,200,193</u>	<u>2,548,305</u>

#### BANK OVERDRAFT FACILITY

The Company has a bank overdraft facility available to the extent of \$1,000,000. As at 30 June 2019 the overdraft was unused. The Company also has a credit card facility of \$100,000. All balances are repaid in full at the end of each month and no interest expense has been incurred during the year.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

#### Accounting Policy

##### CASH AND CASH EQUIVALENTS

For Statement of Cash Flows presentation purposes, cash and cash equivalents include cash on hand and deposits held at call with financial institutions.

#### Note 7. Trade and Other Receivables

	2019	2018
	\$	\$
<b>CURRENT</b>		
Trade receivables	2,995,984	3,365,974
Other current receivables	-	549
Prepayments	370,764	385,088
Security deposits	3,858	5,810
	<u>3,370,606</u>	<u>3,757,421</u>

The Company's exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above.



# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Accounting Policy

#### FINANCIAL INSTRUMENTS

##### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either the purchase or the sale of the asset (ie trade date accounting is adopted).

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in paragraph 63 of AASB 15: Revenue from Contracts with Customers.

##### Classification and subsequent measurement

###### Financial assets

Financial assets are subsequently measured at amortised cost as all financial assets are managed solely to collect contractual cash flows and the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

##### Derecognition

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

On derecognition of a financial asset or liability measured at amortised cost, the difference between the carrying amount and the sum of the consideration received/paid and receivable/payable is recognised in profit or loss.

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

##### Impairment

The Company recognises a loss allowance for expected credit losses.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

##### Recognition of expected credit losses in financial statements

At each reporting date, the Company recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Note 8. Plant and Equipment

Plant and equipment comprise the following at depreciated historical cost:

	Plant & Equipment	Leasehold Improvements	Total
<b>At 30 June 2018</b>			
At cost	870,919	2,218,598	3,089,517
Accumulated depreciation	(666,967)	(1,138,769)	(1,805,736)
<b>Net carrying amount</b>	<b>203,952</b>	<b>1,079,829</b>	<b>1,283,781</b>
<b>At 30 June 2019</b>			
At cost	1,039,832	1,903,020	2,942,852
Accumulated depreciation	(688,408)	(1,084,829)	(1,773,237)
<b>Net carrying amount</b>	<b>351,424</b>	<b>818,191</b>	<b>1,169,615</b>

### Reconciliations

Reconciliations of the book amounts of each class of plant and equipment at the beginning and end of the year are set out below:

	2019 \$	2018 \$
<b>RECONCILIATION - PLANT &amp; EQUIPMENT</b>		
Net carrying amount at start of the year	203,952	308,607
Additions	291,093	38,904
Disposals	-	(2,495)
Depreciation expense	(143,619)	(141,064)
<b>Net carrying amount at end of the year</b>	<b>351,424</b>	<b>203,952</b>
	<b>2019 \$</b>	<b>2018 \$</b>
<b>RECONCILIATION - LEASEHOLD IMPROVEMENTS</b>		
Net carrying amount at start of the year	1,079,829	1,647,276
Additions	4,073	180,743
Disposals	(50,679)	-
Depreciation expense	(215,032)	(748,189)
<b>Net carrying amount at end of the year</b>	<b>818,191</b>	<b>1,079,829</b>

The depreciation expense in 2018 includes an acceleration of depreciation on the fit-out of the Steel River premises due to a reassessment of the useful life of these assets.



# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Accounting Policies

#### PLANT AND EQUIPMENT

All items of plant and equipment acquired by the Company are recognised initially at the cost of acquisition. Cost is the amount of cash or cash equivalents paid, or other consideration given to acquire the asset, including costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Items costing \$500 or more individually and having a minimum expected working life of 12 months are capitalised.

#### *Depreciation*

Depreciation is calculated using the straight-line method on all plant and equipment at rates calculated to allocate their cost, net of their residual values, over their estimated useful lives. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable asset are:

<b>Class of Asset</b>	<b>Useful Life</b>
Plant & Equipment	2 to 10 years
Leasehold Improvements	5 to 20 years

#### IMPAIRMENT OF ASSETS

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

# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Note 9. Intangible Assets

Intangible assets comprise the following at cost:

	2019	2018
	\$	\$
Gross carrying amount	989,628	977,557
Accumulated amortisation	(957,901)	(920,696)
<b>Net carrying amount</b>	<b>31,727</b>	<b>56,861</b>

Reconciliations of the carrying amounts of each class of intangible asset at the beginning and end of the year are set out below:

	2019	2018
	\$	\$
<b>RECONCILIATION - SOFTWARE</b>		
Net carrying amount at start of the year	56,861	214,347
Additions - other	12,071	25,276
Amortisation expense	(37,205)	(182,761)
<b>Net carrying amount at end of the year</b>	<b>31,727</b>	<b>56,861</b>

### Accounting Policy

#### INTANGIBLE ASSETS

Software assets are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives, being one to four years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.



# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Note 10. Trade and Other Payables

	2019	2018
CURRENT	\$	\$
Trade payables	994,556	554,808
Franking deficit tax	-	167,289
Other payables	635,659	468,849
	<u>1,630,215</u>	<u>1,190,946</u>

### Accounting Policy

#### TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid.

Payables are recognised at cost, which is considered to approximate amortised cost due to the short term nature of payables. They are not discounted as the effect of discounting would not be material for these liabilities.

Trade payables are normally settled within 45 days.

# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Note 11. Provisions

	2019	2018
	\$	\$
<b>CURRENT</b>		
Employee benefits - short term	20,090	20,373
Employee benefits - long term	1,974,367	2,147,159
Make good - Steel River premises	-	30,000
	<u>1,994,457</u>	<u>2,197,531</u>
<b>NON-CURRENT</b>		
Employee benefits	222,561	204,223
Make good - Steel River premises	188,260	180,743
	<u>410,821</u>	<u>384,967</u>

### Reconciliations

Reconciliation of Provision for Make Good – Steel River Premises at the beginning and end of the year is set out below:

	2019	2018
	\$	\$
<b>RECONCILIATION - MAKE GOOD - STEEL RIVER PREMISES - CURRENT</b>		
Net carrying amount at start of the year	30,000	-
Recognition of make good costs at end of lease	-	30,000
Increase/(decrease) in provision	<u>(30,000)</u>	<u>-</u>
Net carrying amount at end of the year	<u>-</u>	<u>30,000</u>
<b>RECONCILIATION - MAKE GOOD - STEEL RIVER PREMISES - NON-CURRENT</b>		
Net carrying amount at start of the year	180,743	258,730
Increase/(decrease) in provision	(180,743)	(258,730)
Make good provision - new lease	<u>188,260</u>	<u>180,743</u>
Net carrying amount at end of the year	<u>188,260</u>	<u>180,743</u>

Provisions are classified as current liabilities if the Company does not have unconditional right to defer settlement of the liabilities for at least 12 months after the reporting date. Current employee benefits of \$1,974,367 at 30 June 2019 are expected to be settled after 12 months from reporting date.

The Make Good provision for the Steel River premises relates to the five-year lease that expires in November 2023. The provision is based on an estimate of the cost of dismantling the improvements to the Steel River premises and restoring the site on which it is located.

The Managing Director's employment contract includes a long-term incentive scheme that entitles him to a cash payment as at 30 June 2023 or if a sale event occurs prior to this date. The amount payable will be determined based on twenty percent of the increase of the Company's Equity Value between \$4,000,000 and the vesting date (30 June 2023 or the sale event date). The fair value of the long-term incentive scheme of \$123,918 was recognised as an expense and non-current employee benefit during the year.



# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Accounting Policy

#### EMPLOYEE BENEFITS

##### *(i) Retirement benefit obligations*

Employees of the Company are members of either defined benefit superannuation funds or defined contribution superannuation funds.

##### *Defined contribution superannuation schemes*

The Company contributes to the defined contribution superannuation schemes. Contributions to these schemes are recognised in the profit or loss as incurred. The liability recognised at the reporting date represents the contributions to be paid in the following month that relate to the period up to reporting date.

##### *Defined benefit superannuation schemes*

The defined superannuation funds provide defined lump sum benefits based on years of service and final average salary. The Company contributes to two defined benefit superannuation schemes in the NSW public sector Pooled Fund. These are: State Authorities Superannuation Scheme (SASS) and State Authorities Non-contributory Superannuation Scheme (SANCS).

The Company's net obligation in respect of these schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior reporting periods. That benefit is discounted to determine its present value and the fair value of any scheme assets is deducted.

The discount rate is the yield at the reporting date on Government Bonds that have maturity dates approximating to the terms of the Company's obligations. Calculations are performed by the Pooled Fund's actuary using the projected unit credit method and they are advised to individual agencies for recognition and disclosure purposes in their financial statements.

Where the present value of the defined benefit obligation in respect of a scheme exceeds the fair value of the scheme's assets, a liability for the difference is recognised in the Statement of Financial Position. Where the fair value of a scheme's assets exceeds the present value of the scheme's defined benefit obligation, an asset is recognised in the Statement of Financial Position.

Any superannuation asset recognised is limited to the total of any unrecognised past service cost and the present value of any economic benefits that may be available in the form of refunds from the schemes or reductions in future contributions to the schemes, as advised by the Pooled Funds actuary.

Australian Accounting Standard AASB 119 Employee Benefits does not specify whether an entity shall distinguish current and non-current portions of assets and liabilities arising from post-employment benefits because at times the distinctions may be arbitrary. Based on this, the Company discloses defined benefit superannuation liabilities or assets as non-current as this best reflects when the Company expects to settle (realise) the liabilities (assets).

Actuarial gains or losses are recognised in Other Comprehensive income (directly through retained earnings) in the reporting period in which they occur.

##### *(ii) Wages and salaries, annual leave and sick leave*

Liabilities for salaries and wages (including non-monetary benefits), and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the service are recognised and measured in respect of employees' services up to the reporting date at undiscounted amounts of the benefits.

## HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

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The outstanding amounts of payroll tax, workers compensation insurance premiums and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised.

Annual leave is not expected to be taken within twelve months and is measured at present value in accordance with AASB 119 Employee Benefits. Expected future payments are discounted using the 10-year Corporate Bond Rate. The liability for annual leave is recognised in the provision for employee benefits.

#### *(iii) Long service leave*

The liability for long service leave is recognised as an employee benefit and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future salary and wage levels, trends of employee departures and periods of service. Expected future payments are discounted using the 10-year Corporate Bond Rate. This is consistent with the estimated term of the post-employment benefit obligations.

#### *(iv) Long-term incentive scheme*

The liability for the long-term incentive scheme is recognised as an employee benefit and is measured as the fair value of the expected future payments in respect of services provided by employees up to the reporting date. Consideration is given to the expected equity value of the company, trends of employee departures and periods of service. Expected future payments are discounted using the relevant Corporate Bond rate. The Calculation is subject to a number of key assumptions and estimation risks.



# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Note 12. Contributed Equity

	2019	2018
	\$	\$
Fully paid ordinary shares	3,949,000	3,902,000
Fully paid redeemable 12% cumulative preference shares	1,000,000	1,000,000
	<u>4,949,000</u>	<u>4,902,000</u>

#### RECONCILIATION – FULLY PAID ORDINARY SHARES

	2019	2018
Balance at start of the year	3,902,000	3,902,000
New shares issued	47,000	-
Balance at end of the year	<u>3,949,000</u>	<u>3,902,000</u>

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

Redeemable cumulative preference shares are entitled to receive a 12% unfranked cumulative dividend per annum before any dividends are declared to the ordinary shareholders. Redeemable cumulative preference shares carry no voting rights. On a winding up, they rank both as regards capital and dividends declared up to the commencement of the winding up in priority to all other Shares, and their holders have the right to participate in the surplus profits and assets of the Company, to a maximum of \$1.00 per Share plus the amount of any unpaid dividends on each Share.

### Accounting Policy

#### REDEEMABLE PREFERENCE SHARES

Classification of redeemable preference shares as equity; the shares are not to be redeemed at a specific date, the holders of preference shares do not have any power to instruct the Company to redeem the shares, redemption is solely at the discretion of the Company, and the option to redeem is only available up until 30 June 2087 from which time any preference shares still on issue are not able to be redeemed. Independent advice was obtained which supports this judgement.

Share value adjusted for preference shares entitled to up to \$1 max on wind up:

Net equity = \$4,633,962

Less preference shares (1,000,000)

Adjusted Net Equity = \$3,633,962

Divided by Ordinary shares 3,949,000

Share price per share = \$0.92022334768

# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Note 13. Commitments

#### LEASE COMMITMENTS

Commitments in relation to leases contracted for the reporting date but not recognised as liabilities (exclusive of GST), payable:

	2019	2018
	\$	\$
Within one year	747,071	546,693
Later than one year but not later than five years	1,752,888	154,418
	<u>2,499,959</u>	<u>701,111</u>

#### Representing:

	2019	2018
	\$	\$
Cancellable operating leases	258,313	167,170
Non-cancellable operating leases	2,241,646	533,941
	<u>2,499,959</u>	<u>701,111</u>

### Accounting Policy

#### LEASES

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease, over the term of the lease.

# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Note 14. Superannuation

Superannuation benefits for new entrants are now provided through First State Super (FSS) or the employee's choice of fund, which are accumulation type schemes. The Company has made full provision for these commitments.

The following sets out details in respect of the defined benefits schemes only.

#### A. Defined Benefits Superannuation Position

Following is the 30 June 2019 superannuation position:

Member Numbers	SASS	SANCS
Contributors	1	1

	SASS	SANCS	2019
Superannuation Position	\$	\$	\$
Accrued liability (Note 1, below)	730,028	110,088	840,116
Estimated reserve account balance	(607,931)	(80,785)	(688,716)
Deficit/(surplus)	122,097	29,303	151,400
Future service liability (Note 2, below)	65,848	50,718	116,566
<b>Net (asset)/liability to be recognised in statement of financial position</b>	<b>122,097</b>	<b>29,303</b>	<b>151,400</b>

**Note 1:** The accrued liability includes a contribution tax provision. This is calculated based on grossing up the deficit/(surplus) less the allowance for past service expenses and insurable death and disability liabilities at a contribution tax rate of 15%.

**Note 2:** The Future Service Liability (FSL) does not have to be recognised by an employer. It is only used to determine if an asset ceiling limit should be imposed (AASB 119 para 64). Under AASB 119, any prepaid superannuation asset recognised cannot exceed the present value of any economic benefits that may be available in the form of refunds from the plan or reductions in future contributions to the plan. Where the "surplus in excess of recovery" is zero, no asset ceiling limit is imposed. (Note: this also includes a contribution tax provision).



# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### B. Superannuation Plan

#### Description of risks

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

- **Investment risk** - The risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall.
- **Longevity risk** - The risk that pensioners live longer than assumed, increasing future pensions.
- **Pension indexation risk** - The risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- **Salary growth risk** - The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- **Legislative risk** - The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit Fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

#### Description of significant events

There were no fund amendments, curtailments or settlements during the year.

### C. Reconciliation

#### Net Defined Benefit Liability/(Asset)

The amount included in the statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

	SASS	SANCS	2018/2019
	\$	\$	\$
Present value of funded defined benefit obligation	730,028	110,088	840,116
Fair value of plan assets	(607,931)	(80,785)	(688,715)
<b>Net defined benefit liability/(asset) at end of year</b>	<b>122,097</b>	<b>29,303</b>	<b>151,400</b>

Amount recognised in comprehensive income in respect of these defined benefit plans are as follows:

	SASS	SANCS	2018/2019
	\$	\$	\$
Employer contributions	20,424	1,584	22,008
Contributions by fund participants	10,400	-	10,400

## HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

#### D. Fair Value of Fund Assets

All fund assets are invested by STC at arm's length through independent fund managers and assets are not separately invested for each entity.

**As at 30 June 2019**

<b>Asset Category</b>	<b>Total (A\$'000)</b>	
Short term securities	4,042,116	9.6%
Australian fixed interest	2,294,672	5.4%
International fixed interest	1,968,093	4.7%
Australian equities	8,368,928	19.8%
International equities	11,387,439	27.0%
Property	3,588,230	8.5%
Alternatives	10,558,181	25.0%
<b>Total</b>	<b>42,207,659</b>	<b>100.0%</b>

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cashflow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such, managers make limited use of derivatives.

#### E. Fair Value of Entity's Own Financial Instruments

The fair value of the Pooled Fund assets as at 30 June 2019 include \$99.5 million in NSW government bonds.

#### F. Significant Actuarial Assumptions at the Reporting Date

<b>As at</b>	<b>30 June 2019</b>
Discount rate	2.95% pa
Salary increase rate (excluding promotional increases)	3.2% pa
Rate of CPI increase	1.75% for 2018/19 and 2019/20; 2.00% for 2020/21; 2.25% for 2021/22 and 2022/23; 2.50% pa thereafter
Pensioner mortality	The pensioner mortality assumptions are as per the 2018 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age.

# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Note 15. Contingent Liabilities and Assets

#### *Contingent Liabilities*

At the reporting date, the company has issued financial guarantees of \$284,144 in the ordinary course of business. The Company has not recognised any liability in the financial statements arising from a financial guarantee as there are currently no circumstances that would likely result in the recipients enacting any of the guarantees issued.

There were no other contingent liabilities at 30 June 2019.

#### *Contingent Assets*

There were no contingent assets at 30 June 2019.

### Note 16. Auditors' Remuneration

Amounts received or due and receivable by the auditors, from the Company:

	2019	2018
	\$	\$
Audit review of financial reports (exclusive of GST)	28,000	24,950
Provision of accounting support services (exclusive of GST)	-	25,457
	<u>28,000</u>	<u>50,407</u>

No other services were provided by the auditor during the year.

### Note 17. Related Party Disclosures

Transactions between related parties are conducted using commercial conditions no more favourable than those available to other parties unless otherwise stated.

#### TRANSACTIONS WITH RELATED ENTITIES

	Entity	2019	2018
<b>PURCHASES</b>		\$	\$
Consultancy Services	Australian Water Association	27,621	-
Consultancy Services	Local Government	3,710	-
Training Services	Verity Training	843	-
Superannuation Contributions	State Super SAS		
	Trustee Corporation	<u>32,672</u>	<u>32,619</u>
Total purchases		<u>64,846</u>	<u>32,619</u>
<b>DIVIDENDS PAID</b>			
Unfranked Dividend	Valome Pty Ltd	<u>7,500</u>	<u>7,788</u>
Total dividends		<u>7,500</u>	<u>7,788</u>



## HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

#### Note 18. Key Management Personnel Disclosures

In addition to the Directors, the following persons also had authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, during the year: -

Name	Position
Mr P Dennis	Chief Executive Officer
Mrs J Golledge	Chief Financial Officer
Mr P Thompson	General Manager Process & Operations
Mr J Smith	General Manager Planning, Design and Project Delivery
Mr D Bowerman	General Manager Electrical and SCADA
Mr S Bullen	Manager Corporate Services
Mrs N Holmes	Executive Advisory

	2019	2018
	\$	\$
Compensation to directors and key management personnel	1,525,448	1,328,059
Dividends paid to directors and key management personnel as company shareholders	7,500	7,788
	<u>1,532,948</u>	<u>1,335,848</u>

#### Note 19. Events Occurring After Balance Date

No matters or circumstances have arisen since the end of the financial year ended 30 June 2019 which significantly affect or may affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

#### Note 20. Financial Instruments

The company's financial instruments consist mainly of deposits with banks, accounts receivable and payable, and bank loans. The carrying amounts for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	2019	2018
FINANCIAL ASSETS		\$	\$
Cash and cash equivalents	6	4,200,193	2,548,305
Trade and other receivables (excluding prepayments and security deposits)	7	2,995,983	3,366,523
		<u>7,196,176</u>	<u>5,914,828</u>
FINANCIAL LIABILITIES			
Trade and other payables	10	1,630,215	1,190,946
Interest bearing liabilities (secured bank loans)		-	39,684
		<u>1,630,215</u>	<u>1,230,630</u>

# HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

### Note 21. Other Accounting Policies

#### A. Application of New and Revised Accounting Standards

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2018:

Title of Standard	AASB 9 Financial Instruments
Nature of change	AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Title of Standard	AASB 15 Revenue from Contracts with Customers 16 Leases
Nature of change	<p>AASB 15 has replaced AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts.</p> <p>The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.</p>

The adoption of these amendments was reflected in the report and there was no adjustment required for prior periods.

#### B. Standards and Interpretations in issue not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the consolidated entity. The entity's assessment of the impact of these new standards and interpretations is set out below:

Title of Standard	AASB 16 Leases
Nature of change	AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the Statement of Financial Position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.
Impact	<p>The standard will affect primarily the accounting for the Company's operating leases. As at the reporting date, the Company has a number of long-term leases which are contained in Note 13. Based on preliminary assessment of the effect of AASB 16, there are some likely impacts when it is first adopted for the year ending 30 June 2020 including:</p> <p>Lease assets and financial liabilities will be recognised on the balance sheet;</p> <p>Operating cash flows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments and interest on all lease liabilities will now be included in financing activities; and</p> <p>Disclosure requirements are expected to increase.</p>

## HUNTER H<sub>2</sub>O HOLDINGS PTY LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

Title of Standard	AASB 16 Leases
	Management do not expect there to be a material impact on net income as the movements will be largely offsetting.
Date of adoption	Mandatory for financial years commencing on or after 1 January 2019. The Company has not adopted the standard before its effective date. The Company intends to apply the simplified transaction approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

#### **End of Audited Financial Statements**



## DIRECTORS' DECLARATION

We state that in the opinion of the Directors of Hunter H2O Holdings Pty Limited, the financial statements and notes:

- a) Exhibit a true and fair view of the financial position of the Company as at 30 June 2019 and its performance as represented by the results of its operation and its cash flows for the financial year then ended.
- b) Comply with the applicable Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001*.

There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

We are not aware of any circumstances, which would render any particulars included in these statements to be misleading or inaccurate.

Signed in accordance with a resolution of the Directors:



Mr B Gatfield  
Chairman



Mr P Thompson  
Director

Dated: 27 September 2019

Newcastle