KPMG

Audit
151 Pirie Street
Adelaide SA 5000

GPO Box 2499
Adelaide SA 5001
Australia

ABN: 51 194 660 183
Telephone: +61 8 8236 3111
Facsimile: +61 8 8236 3299
www.kpmg.com.au

Private and confidential
Mr Mauro Farinola
Deputy Project Director
Adelaide Desalination Plant
SA Water
SA Water Site Office
Chrysler Rd
Lonsdale SA 5160

Our ref 17156299_1

Contact Scott Fleming: (08) 8236 3131
John Evans: (08) 8236 3344
Keith Lockey: (03) 9288 5285
Natalie Hing: (08) 8236 3217

4 March 2013

Dear Mauro

Accounting Treatment of Desalination Plant Proving Costs and Costs of Reverse Osmosis Membranes

1 Background

- The Essential Services Commission of South Australia ("ESCOSA") has issued its Draft Determination with respect to South Australian water and sewerage revenues covering the period 2013/14 – 2015/16 under the Essential Services Commission Act 2002 ('ESC Act'). The draft determination covers drinking water, sewerage and other retail services to be supplied by the South Australian Water Corporation ('SA Water') during the period from 1 July 2013 to 30 June 2016.
- In making the Draft Determination, ESCOSA has had regard to its primary objective: 'protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services'.
- The Draft Determination has been issued for public consultation and ESCOSA has called for comments to be provided by 19 March 2013.
- SA Water, in considering its response to the Draft Determination to ESCOSA, has requested that KPMG provide an opinion in relation to SA Water's accounting treatment for Desalination Plant Proving Costs and Reverse Osmosis Membranes taking into account the requirements of Australian Accounting Standards. The purpose of this letter is to provide that opinion.

2 Executive Summary

Based on our detailed analysis outlined in section 4, we conclude:

- The capitalisation of costs to be incurred during the 2 year period from from project handover on 12th December 2012 ('proving period') is not in accordance with Australian Accounting Standard (AASB) 116 *Property Plant and Equipment*, or the "concept of the accrual basis of accounting".

- The replacement costs of the Reverse Osmosis Membranes ('membranes') are more akin to 'repairs and maintenance' costs and as such should be expensed as incurred.

The bases for these conclusions, as set out in detail in section 4 below, are summarised as follows:

- ***Capitalisation of proving costs:***
  - In accordance with AASB 116, the capitalisation of costs to the carrying amount of an item of property, plant and equipment ('PP&E') ceases when the asset is in a condition and location ready for use as intended by management.
  - The Adelaide Desalination Plant ('ADP' or 'plant') was fully commissioned and handed over in December 2012, at which point the plant was considered operational and producing water for sale. The proving costs which relate to the operating costs of the plant during the proving period of 2 years, are incurred subsequent to this date and as such would not be capitalised to the item of PP&E as initial costs.
  - SA Water would not recognise, in the carrying amount of the plant, any costs incurred subsequent to the date upon which the asset is in a condition and location ready for use as intended by management, unless they were to meet the recognition principles of AASB 116 paragraph 7, which are:
    - (i) that it could be demonstrated that it was probable that future economic benefits would flow to SA Water; and
    - (ii) that the costs could be measured reliably.

  Whilst it may be possible that future economic benefits in the form of savings on repair and maintenance costs could flow to SA Water, as a result of running the plant during the proving period and having these costs covered by the warranty, it is not necessarily probable.

  ESCOSA has assessed the marginal cost of producing water from the ADP over the cost of sourcing water from the river Murray (the 'marginal cost') as being the cost to be capitalised. This marginal cost is entirely co-incidental to the value of any savings that may be secured. The savings (if any) would be repair and maintenance in nature. It is submitted that both the marginal cost and the potential value of any savings that may be secured would be difficult to measure reliably.

  Furthermore this marginal cost is an operating cost and from an AASB116 perspective any decision to treat the cost as capital, would likely result in the cost being considered abnormal from a capital perspective and therefore not eligible for capitalisation..

- ***Capitalisation of the replacement costs of the Reverse Osmosis Membranes:***
  - In accordance with AASB 116 the day-to-day servicing costs of an item of PP&E should not be capitalised and should be expensed as incurred.
  - The relative cost of all the membranes used in the plant, to the total cost of the plant is insignificant [1.8%]. The cost of a single membrane [less than $1,000 per membrane] is also relatively insignificant. The timing of replacement of the membranes is impacted by a variety of factors and does not necessarily occur on a linear basis or in accordance with a set schedule. The above factors suggest that the membrane replacements are in the nature of day-to-day servicing costs of an item of PP&E and should not be capitalised but rather be expensed as incurred.

3 Review of supporting documentation for basis of conclusions

In preparing our accounting advice we have reviewed and made reference to the following sources of literature:

- SA Water's water and sewerage revenues 2013/14 – 2015/16, Draft Determination: Statement of Reasons, February 2013 ('Draft Determination');
- Review of capital and operating expenditure plans of SA Water 2013/14 to 2015/16 price determination prepared by Cardno (Qld) Pty Ltd – January 2013 ('Cardno report')
- Australian Accounting Standards ('AASB') 116 *Property Plant and Equipment*;
- Australian Accounting Standards ('AASB') Framework – Framework for the Preparation and Presentation of Financial Statements (the 'AASB Framework')
- SA Water Accounting Policies as documented in the 2012 audited Financial Statements;
- SA Water Recognition and Classification of Expenditure Policy Number CP 022 V4.1 FABS - July 2010;
- SA Water - Recognition & Classification of Expenditure Corporate Guidelines - February 2007
- Memo from Mr Mauro Farinola to Mr Peter Mendo – Implementation Guide to Recognise the Assets of Adelaide Desalination Project, - June 2012

4 Analysis

4.1 ESCOSA's approach to the capitalisation of costs

4.1.1 ESCOSA defines capital expenditure ('capex') as: 'expenditure on the purchase or creation of an asset that can be utilised into the longer term'[1].

4.1.2 ESCOSA will add capex incurred by SA Water to the Regulated Asset Base ('RAB') - if it deems it to be prudent and efficient.

4.1.3 In contrast, ESCOSA will treat operating expenditure (opex) as expensed as incurred.

---

[1] ESCOSA Draft Determination Statement of Reasons .p.45

4.1.4 ESOCSA notes that a critical element in the making of the Draft Determination was ESCOSA's review of SA Water's proposed capital expenditures. ESCOSA has examined specific capital projects and programs proposed by SA Water, and has allowed only capex that it has deemed to be prudent and efficient.

4.1.5 The Cardno report has acknowledged that SA Water has a capitalisation policy. However, ESCOSA's Draft Determination does not make reference to this policy.

4.1.6 Neither the Draft Determination nor the Cardno report indicate or acknowledge consideration of the requirements of Australian Accounting Standards in determining capex.

4.1.7 In our experience of drafting and responding to access regulators' regulatory accounting requirements, for regulatory purposes regulators invariably expect businesses to prepare and present financial information in accordance with Australian Accounting Standards except where a regulator may specify otherwise in a specific regulatory instrument.

4.1.8 Historically, ESCOSA has required businesses to prepare and present financial information in accordance with Australian Accounting Standards.[2]

4.1.9 We have not identified any regulatory instrument or Guideline issued by ESCOSA, applicable to SA Water that may require departure from Australian Accounting Standards, to meet any special reporting purposes of ESCOSA.

4.1.10 The Draft Determination notes that there are two regulatory reporting requirements under ESCOSA's price monitoring framework for SA Water. The second of these requirements stipulates that SA Water is to provide 'regulatory accounts' that include information on its regulated services, and that these accounts will need to be prepared in accordance with the **Australian Accounting Standards** and audited under Australian Auditing Standards.[3]

4.1.11 Accordingly, Australian Accounting Standards appear to provide the appropriate criteria to determine whether the expenditure should be capitalised for the purposes of ESCOSA's determination of SA Water's water and sewerage revenues.

4.2 Determination of relevant Accounting Standards

4.2.1 The ruling Accounting Standard for the capitalisation of PP&E is AASB 116 *Property, Plant and Equipment.*

4.2.2 AASB116 prescribes the accounting treatment in respect of PP&E. PP&E is defined as tangible items held by an entity for use in the production or supply of goods and services, for rental to others or for administrative purposes and are expected to be used in more than one period. The construction of the ADP therefore falls within the scope of AASB116.

---

[2] For example: ESCOSA, Gas Industry Guideline No 1, March 2007, Criteria for Accounting Principles and Policies, para B.1.3.2

[3] ESCOSA Draft Determination Statement of Reasons .p.148 (emphasis added)

4.2.3 PP&E is recognised and capitalised only where it is probable that future economic benefits associated with the item will flow to the entity, and its cost can be measured reliably. Should this criteria be met all items are recognised initially at cost. AASB116 defines cost as the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

4.2.4 All other costs incurred, which do not meet the definition of an asset, should be expensed as incurred.

4.2.5 SA Water's accounting policies define an asset as "a resource controlled by the entity as a result of past transactions or other past events" and note that assets should only be recognised when it is probable that the future economic benefits associated with the item will flow to the entity and the costs can be reliably measured.

4.2.6 SA Water's accounting policy is consistent with the requirements of the AASB 116.

4.3 Desalination Plant Proving Costs

4.3.1 SA Water's proposed accounting treatment for desalination plant proving costs

- SA Water plans to run the ADP, for proving purposes, for two years from project handover on 12th December 2012. SA Water believes that this should enable it to comprehensively test the desalination plant at differing production levels, to establish reliability, and to find any faults with the design or construction of the plant. Any such issues would be addressed via the Design and Construction contract, as warranty work.
- If SA Water elects not to operate the plant during the two years from 12th December 2012, there is a risk that faults that would otherwise have been detected and rectified under the warranty period are not identified prior to expiry of the warranty.
- The water produced during this proving period, which is expected to average approximately 60% of maximum annual production, will be pumped to the Happy Valley reservoir and mixed with treated catchment water, prior to being supplied to customers. The production will occur irrespective of the level of supply available from other sources.
- SA Water proposes to treat the costs of running the ADP during the proving period as opex.

4.3.2 ESCOSA's assessment and conclusion in relation to desalination plant proving costs

- Whilst the proving costs have been treated as opex in the RBP, ESCOSA has reviewed whether it would be more appropriate to consider the costs as commissioning costs for the ADP (i.e. part of the cost of delivering a fully tested and operational plant) and, therefore, as capex.
- ESCOSA in the Draft Determination notes that:
- "*The accounting concept of accrual seeks to match the costs of an activity with the benefits that accrue from that activity. Applying this concept to the ADP, it* ***may*** *be reasonable to match the costs of the proving period against the benefit gained in*

avoiding major repair costs in later years. This would ***suggest*** *that it* ***may*** *be appropriate to capitalise the costs of the proving period"*[4].

- ESCOSA's conclusion is that:
- *"****for regulatory purposes****, it is appropriate to capitalise some of the costs of running the ADP during the two year proving period, as it will produce benefits (such as reduced* ***repair*** *costs) over the years that follow"*[5].
- ESCOSA notes that the water produced whilst running the ADP during the proving period will displace water that otherwise would have been sourced from the River Murray and is of the view that the marginal cost of producing the desalinated water over utilising River Murray water is therefore the true cost to consumers of running the desalination plant over the proving period, and should be capitalised, to match the benefit of avoided major repairs in later years. ESCOSA notes that the full costs of running the ADP for the proving period is approximately $60m (within the regulatory period), compared with the marginal costs over using water sourced from the River Murray of approximately $35m (the 'marginal cost')[6].

4.3.3 Analysis of the basis for ESCOSA's conclusion with respect to desalination plant proving costs

- The basis for ESCOSA's conclusion that a portion of the costs incurred in the proving period should be capitalised is focused on two areas. Firstly that under the accounting concept of accruals it may be reasonable to match the costs incurred in the proving period to the benefit gained in avoiding major repair costs in later years and secondly that the costs are akin to commissioning costs and should be capitalised.
- ESCOSA have noted in the Draft Determination that Cardno recommended consideration of the issue of capitalisation of desalination plant proving costs.
- In line with the Cardno recommendation, ESCOSA have reviewed whether it would be more appropriate to consider the costs incurred during the proving period as commissioning costs.
- Cardno whilst noting in their report that the ADP operating costs have been independently reviewed by SKM (Sinclair Knight Merz), who concluded that they reflect a prudent and efficient approach to the management and operation of the ADP, have nevertheless recommended that there **may** be a case for the marginal cost of running the ADP over the proving period, to be treated as part of the commissioning costs and allocated as capital.

---

[4] ESCOSA Draft Determination Statement of Reasons .p.62 (emphasis added)

[5] ESCOSA Draft Determination Statement of Reasons. p.62 (emphasis added)

[6] ESCOSA Draft Determination. Statement of Reasons p.62

- The Cardno report contains little commentary on the criteria or principles that have been applied to make its recommendation.
- ESCOSA has also assessed that it may be reasonable by applying the accruals and concept of accounting to match the costs of the proving period against the benefit gained in avoiding major repair costs in later years.

4.3.4 Consideration of the application of the accrual concept of accounting to proving costs

- The AASB Framework notes that the underlying assumption of the accrual basis of preparation seeks to ensure that "under this basis (of accounting), the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate."
- Having regard to the AASB Framework, the activity of running the ADP over the proving period gives rise to:
  - i) the recognition of operating costs to run the plant; and
  - ii) the recognition of revenues earned from the sale of water produced.
- The recording of the revenues and the related operating costs of running the ADP in the two year period from 12th December 2012, is consistent with the accrual basis of accounting (*the effects of transactions and other events are recognised when they occur and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate*)[7].
- Running the ADP during the proving period may assist in identifying faults which can be rectified under warranty. The benefit of any cost savings which may result as a consequence of repair and maintenance costs being covered under warranty would not normally be capitalised, on the basis that the costs are not costs attributable to SA Water but rather are costs attributable to the ADP construction contractor.
- Not running the ADP during the proving period may result in additional cost for SA Water, in the sense that costs which would otherwise have been identified and covered under warranty are only discovered at a date after expiry of the warranty. These additional costs would, depending on their nature[8], likely be operational (repair and maintenance) rather than capital. ESCOSA acknowledges in its conclusion that the costs to be avoided by running the ADP during the proving period are major **repair** costs.
- There does not appear to be any basis under the accruals concept of accounting for deferral / capitalisation of costs incurred during the proving period.

---

[7] Australian Accounting Standards Framework

[8] Only those costs which meet the recognition criteria set out in AASB116 paragraph 7 would be eligible for capitalisation.

4.3.5 Consideration of the treatment of proving costs as commissioning costs

- As noted above, AASB 116 prescribes the accounting treatment in respect of PP&E. PP&E is recognised and capitalised only where it is probable that future economic benefits associated with the item will flow to the entity, and its cost can be measured reliably. Should this criteria be met all items are recognised initially at cost. AASB116 defines cost as the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
- Cost includes all expenditure directly attributable to bringing the asset to the location and condition necessary for its intended use. "Intended use" being defined as capable of operating in the manner intended by management.
- Commissioning costs (i.e. costs of testing whether the asset is functioning properly in ensuring the assets ability to operate as intended by management) are accepted as being a directly attributable cost of bringing an asset to a condition and location necessary for it to be able to operate as intended.
- In constructed assets 'abnormal' amounts of wasted material, labour and other resources may be incurred. These 'abnormal' amounts of costs should not be capitalised to the carrying amount of the asset but should rather be expensed. For example an entity constructing a plant where commissioning is expected to take two weeks, is required to capitalise the costs incurred for this two week period. However, if commissioning took longer (i.e. due to equipment having been installed incorrectly, etc.) any additional costs incurred as a result should be considered abnormal and expensed as incurred. The definition of 'abnormal' is subjective but should consider and reflect; the level of technical difficulty involved in construction, the scale of the project, estimates and timelines included in the projects planning and the usual construction process for that type of asset.
- Recognition of costs in the carrying amount of an item of PP&E ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Meaning that the asset has been fully commissioned, handed-over and is available for use.
- We understand that SA Water received the Deed of Handover for the ADP on 12 December 2012 and that as of this date the plant was deemed to be in a location and condition ready for its intended use. Furthermore, SA Water has advised that the plant is currently in operation and that customers are being sold water processed through the plant.
- In order for handover to occur, the ADP has been through a commissioning phase with required testing completed, in order for it to be considered fully operational. The related costs of this commissioning would already have been capitalised to the carrying amount of the asset.

- In accordance with AASB 116, once the asset is in a location and condition ready for use as intended, the capitalisation of further costs to its carrying amount should cease. On the basis of the requirements of AASB 116, it would not be appropriate that the costs incurred during the proving period be capitalised to the carrying amount of the asset.
- Subsequent expenditure on an item of PP&E may be recognised as part of its cost if it meets the recognition criteria of AASB 116. The recognition criteria are:
  - i) it is probable that future economic benefits associated with the item will flow to the entity; and
  - ii) the cost of the item can be measured reliably.
- It is possible that running the ADP during the proving period could result in benefits through identifying errors or faults early and having any repairs required covered under the warranty, with a possible saving in future repair and maintenance costs. It is not however necessarily probable, as there is no certainty around whether or not any faults covered under the warranty would be identified, or to what extent future repairs and maintenance costs would be saved.
- It is also expected that measuring the cost savings of any benefit reliably would be difficult and complex, as would identification and separation of these costs from the normal operational costs of the ADP.
- ESCOSA has assessed the marginal cost of producing water from the ADP over the cost of sourcing water from the river Murray as being the cost to be capitalised. This marginal cost, which again may be very difficult to measure reliably, is entirely co-incidental to the value of any savings that may be secured and would be abnormal.
- Given the factors outlined above in relation to subsequent expenditure it is unlikely that the recognition criteria under AASB 116 will be met and accordingly such subsequent expenditure should not be capitalised to the carrying amount of the PP&E.

4.4 *Reverse Osmosis Membranes*

4.4.1 *SA Water's proposed accounting treatment for the reverse osmosis membranes*

- S A Water has advised that the ADP contains approximately 35,500 reverse osmosis membranes and that the original purchase of these membranes was included as part of the capital fixed price construction contract.
- SA Water has confirmed that the average cost of an individual membrane is less than $1,000.
- These membranes are replaced over an indefinite period ranging from 5-7 years and are invoiced to SA Water via the monthly O&M Contract (Payment Model) and are expensed as incurred.

- SA Water has informed ESCOSA that the exact life of the membranes is unknown, and will depend on a number of factors including:
  - i) the level of pre-filtration of the raw seawater;
  - ii) the level of membrane use (i.e. desalination plant usage levels);
  - iii) whether membranes are used for first or second pass within the plant; and
  - iv) how the membranes are preserved, treated and maintained during any extended close-down period.

4.4.2 ESCOSA's assessment and conclusion in relation to the reverse osmosis membranes

- ESCOSA notes in the Draft Determination that "the detailed operating plan for the ADP includes costs relating to the commencement of an ongoing program to replace the reverse osmosis membranes, from 2014/15, at a cost of $3.8m within the regulatory period."[9]
- Whilst these membrane costs have been treated as opex in the RBP, ESCOSA has reviewed whether it would be more appropriate to consider the costs as capex.
- ESCOSA notes that the schedules to the Design and Construct contract of the ADP estimate the useful lives of the membranes to be between 6.25 and 12.5 years.
- The Cardno report recommends that SA Water reconsider, in consultation with its financial auditors, whether the membrane replacement costs should be treated as capex rather than opex.
- Based on the lives of the assets being long term, ESCOSA have reallocated the replacement costs of the membranes from opex to capex for regulatory purposes.

4.4.3 Analysis of the basis for ESCOSA's conclusion with respect to capitalisation of reverse osmosis membrane costs

- ESCOSA state the decision to capitalise the reverse osmosis membrane costs is based upon the projected asset lives.
- The Cardno report does not recommend that these costs should be capitalised but only recommends that SA Water, in consultation with its financial auditors, should consider if capitalisation is appropriate.
- AASB 116 defines Property, Plant and Equipment as "tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period".

---

[9] ESCOSA Draft Determination. Statement of Reasons p.61

- Based on the fact that the membranes have estimated useful lives of greater than one reporting period, may indicate that under AASB 116 they could be eligible for capitalisation. However, there are other considerations which need to be taken into account before a decision on capitalisation can be made.
- ESCOSA does not appear to have taken into consideration all of the different conditions in assessing the appropriateness of capitalising the membrane costs.

4.4.4 Consideration of the requirements of AABS116 with respect to reverse osmosis membrane costs

- Consideration has to be given as to whether the membranes should be accounted for as separate assets. AASB 116 states that each part or component of PP&E that has a significant cost in relation to the total cost should be depreciated and recognised separately.
- In assessing whether the membranes are a significant cost in relation to the cost of the entire plant, we have compared the initial capitalised costs of the 35,500 membranes to the total carrying amount of the plant. When compared with the total asset value of the ADP of $1,824m the membrane costs (approximately $33.2m or 1.8%) are not considered to be a significant component and accordingly would not necessarily be expected to be recognised separately.
- AASB 116 states that "Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment".
- It is our understanding that under the Operation & Maintenance Contract ('O&M Contract') with AdelaideAqua, it is the responsibility of the operator to ensure that:
  - There is adequate availability of membranes to continue operation of the plant without interruption;
  - There is a workshop in place which is appropriate for the safe storage of the membranes;
  - The membranes are replaced as required in order to maintain the operation of the plant; and
  - There is an ongoing program in place to replace membranes on a continuous basis during the execution of the operating contract.
- It is contemplated under the recognition principle of PP&E within AASB 116, that an entity does not recognise the costs of the day-to-day servicing of the item. The purpose of these expenditures is often described as repairs and maintenance and should be expensed as incurred. The costs of servicing typically include the costs of labour, consumables and small parts.

- It is however, also contemplated under AASB 116 that there are instances where items of PP&E would require replacement at regular intervals and if the item replaced meets the recognition principle under paragraph 7 of AASB 116, then it may be capitalised to the carrying amount of the asset and the carrying amount of the item being replaced should be derecognised.
- The recognition principles under AASB 116 state "The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if: (a) it is probable that future economic benefits associated with the item will flow to the entity; and (b) the cost of the item can be measured reliably". It therefore has to be considered whether the new membranes are extending the life of the asset or just maintaining the overall operation of the plant and whether the cost of the replacing items and the carrying amount of the existing membranes being replaced can be measured reliably.
- Given the relative insignificance of the costs of the membranes in relation to the overall plant cost and the relative insignificant cost of each individual membrane (less than $1,000 per membrane), it is reasonable to conclude that the replacement of the membranes are representative of the day to day costs of servicing and whilst necessary for the effective operation of the plant, would not act to extend the overall life of the asset. Furthermore, with there being approximately 35,500 membranes in use at any given point (at 100% capacity), it would likely be difficult and onerous to track the carrying amount of each membrane being replaced and account for recognition of the new membrane and derecognition of the old one.
- Based on the insignificant cost of the individual membranes and the membranes in total, relative to the cost of the entire plant and the fact that the membranes will be replaced as required (by the operator) in order to maintain and provide continuity of water supply to SA Water, the replacement costs of the membranes are considered to be in the nature of ongoing repair and maintenance costs and would not be capitalised.

5 Disclaimer

As you are aware, the contents of this letter pertain solely to the facts, circumstances and assumptions presented to us as set out above. The letter is for the sole use of the Management and Directors of SA Water. We also stress that the ultimate responsibility for the accounting treatment of any transaction must rest with the preparers of financial statements, including the company's Directors and Management, especially in ensuring that the terms of the actual transaction do not differ from the facts set out in this letter and that there are no other contracts or arrangements which impact upon the overall substance of the transaction.

We believe that the statements made by us in this letter are accurate based solely on the facts provided to us and the assumptions we have been asked to make as described above, but no warranty of accuracy or reliability is given. Should the facts, assumptions or circumstances differ from those provided to use, our conclusions may change. Our conclusions are based on interpretations of accounting standards and other relevant professional pronouncements and legislation current as at 4 March 2013. Should the interpretations or accounting standards, other relevant professional pronouncements or legislation change, our conclusions may not be valid.

We have not addressed the taxation or legal treatment of the proposed transaction.

Accordingly neither KPMG, nor any member or employee of KPMG undertakes responsibility arising in any way whatsoever to any persons other than SA Water in respect of this letter, for any errors or omissions herein, arising through negligence or otherwise however caused.

The letter is not to be used for any other purpose than those specified herein, nor may extracts or quotations be made without our express written approval.

Yours sincerely

KPMG

Scott Fleming
Partner