

INDEPENDENT ASSURANCE STATEMENT

Net Balance Management Group Pty Ltd

Level 1, 190 Queen Street, Melbourne
Victoria 3000 Australia

Tel +61 3 8641 6400 Fax +61 3 9600 1295

Web netbalancemanagement.com

To the Board and Stakeholders of Melbourne Water Corporation:

Melbourne Water commissioned Net Balance Management Group Pty Ltd (Net Balance) to provide independent assurance of the non-financial sustainability information in the *Sustainability Report 2007/2008 and the supporting Social and Environment Data* (together hereafter referred to as the 'report'). The report was prepared by Melbourne Water and outlines their sustainability performance from 1 July 2007 to 30 June 2008. As an independent assurer of the report, the responsibility of Net Balance is to the management of Melbourne Water alone in accordance with the terms of reference. Other stakeholders should perform their own due diligence before taking any action as a result of this statement.

Assurance Objectives and Process

The objective of the assurance process is to provide stakeholders of Melbourne Water with an independent opinion on the quality of the report. This is confirmed through verification of the claims made, and a review of the organisation's underlying systems, processes and competencies in sustainability reporting with respect to the Principles of Materiality, Completeness and Responsiveness. A complementary objective is to ensure continuous improvement in data management systems and reporting processes.

Assurance Standard

The assurance of the report was undertaken in accordance with the *AA1000 Assurance Standard* and its Principles of Materiality, Completeness and Responsiveness.

- **Materiality:** Does the organisation have in place a process to determine the relevant and important issues? Does the report provide information about the organisation's sustainability management and performance required by its stakeholders for them to be able to make informed judgements, decisions and actions?
- **Completeness:** To what extent can the organisation identify and understand the material aspects of its sustainability performance? Is this done in a fair (information is easy to understand, can be compared and is reliable) and balanced manner (including both favourable and unfavourable information)?
- **Responsiveness:** Does the organisation have in place a process to prioritise issue for response? Has the organisation responded appropriately to the concerns and expectations of its stakeholders and adequately communicated those responses within the report? Is this information being provided in a timely manner? Does the organisation allocate adequate resources to enable it to meet its policy and standards commitments?

Assurance Process

Our approach to assurance provision is aligned to the *AA1000 Assurance Standard*. The assurance engagement was undertaken in September 2008. The process involved:

- **Stakeholder engagement** - Net Balance conducted an external stakeholder survey on behalf of Melbourne Water to identify their material concerns; and their views, needs and performance expectations and perceptions including Melbourne Water's responsiveness associated with their material issues. In addition, Melbourne Water has conducted its own internal and external stakeholder research on their opinion about last year's sustainability report.
- **Verification** - About 70 selected data points and statements in the report, excluding financial information, were selected to be verified. The data points and statements were broadly selected to satisfy the Principles of Materiality, Completeness and Responsiveness and were verified by interviewing key personnel responsible for collating and writing the report. Verifying the data points and statements also involved reviewing Melbourne Water's key sustainability strategies, policies, objectives, management systems, measurement and reporting procedures, background documentation, data collection and reporting procedures.
- **Assurance** - Based on the Principles of Materiality, Completeness and Responsiveness, assess the extent to which Melbourne Water's key economic, environmental and social policies are embedded in the organisation. Melbourne Water's policies, peer and stakeholder materiality and boundary issues, and organisational responsiveness were also reviewed to identify if there were significant omissions in the information presented in the report.

Assurance Level and Limitations

The level of assurance provided to the report is moderate as defined by the scope and methodology described in this assurance statement. Our scope of work did not involve verification of the accuracy and robustness of any financial data. Brooklyn was the only regional site visited as part of this year's assurance engagement. Data and information related to the performance of the Eastern and Western Treatment Plants were not selected for assurance. Our stakeholder engagement activities and observation was limited to the internal and external engagement processes and outcomes outlined above.

INDEPENDENT ASSURANCE STATEMENT

Net Balance Management Group Pty Ltd

Level 1, 190 Queen Street, Melbourne
Victoria 3000 Australia

Tel +61 3 8641 6400 Fax +61 3 9600 1295

Web netbalancemanagement.com

Our Independence

Net Balance was not responsible for the preparation of any part of the report. Our team's independence was further assured by selecting an assurance team that had no other involvement with Melbourne Water during the reporting period that could impair the team's independence or objectivity.

Our Capacity

The assurance was carried out by a multi-disciplinary team of sustainability specialists, comprising individuals with expertise in environmental, social and economic performance measurement. Net Balance is a global leader in the use of the *AA1000 Assurance Standard*. The assurance team has collectively undertaken over 80 assurance engagements in Australia over the past 10 years and is led by a Lead Sustainability Assurance Practitioner (Lead CSAP), accredited by the International Register of Certified Auditors UK (IRCA UK).

Our Opinion

Based on the scope of the assurance process, the following represents the assurance provider's opinion:

- The findings of the assurance engagement provide confidence in the information reported within the report. The level of data accuracy was found to be within acceptable limits, but some additional improvements to data management, including the communication between data and information provision and report production are recommended to reduce potential for minor anomalies. Data trails selected were easily identifiable and traceable, and the personnel responsible were generally able to reliably demonstrate the origin(s) and interpretation of data.
- The statements made in the report appropriately reflect environmental and social performance achieved during the period.
- All suggested changes were satisfactorily addressed by Melbourne Water prior to finalising the report.

Overall, the assurance provider is satisfied that the report is an appropriate representation of Melbourne Water's sustainability performance during the reporting period.

Conclusions and Recommendations

- ***Materiality:*** Net Balance believes the environmental, social and broader economic aspects material to Melbourne Water's business are appropriately addressed in the report. Some of the feedbacks by internal and external stakeholders regarding last year's report have been considered in the preparation of the 2008 report. It is recommended that the external stakeholders' material concerns; and their views, needs and performance expectations and perceptions associated with their material issues should be taken into consideration for the next reporting cycle.
- ***Completeness:*** Net Balance found the report to be complete in addressing key environmental and social performance of Melbourne Water's operations using the Global Reporting Initiative's (GRI) G3 as a guide. Completeness was also tested using peer-based norms to identify if there were significant omissions in the information presented in the report.
- ***Responsiveness:*** Based on the results of our previous internal stakeholder engagement, we found the organisation's responsiveness to be high. Additional results of the external stakeholder engagement around core sustainability issues, performance and reporting are now available. We recommend that Melbourne Water report the results of this engagement in the 2009 sustainability report. In general, we recommend that all Melbourne Water's stakeholder engagement results regarding reporting be communicated through future sustainability reporting.

The Way Forward

Melbourne Water's focus on sustainability over the past years has resulted in significant management commitment, an increased level of awareness of Melbourne Water's own environmental and social footprint, and an aspiration to lead the sector and influence partners, customers and peers to become more sustainable.

To ensure Melbourne Water's reporting performance continues to improve, Net Balance recommends some improvement in the collation and reporting of environmental and social information and data. Specifically better coordination between data generation and production of performance would reduce data transcription and interpretation errors.

A key challenge for Melbourne Water is the measuring and managing of indirect impacts made by customers and the supply chain. Since work relating to indirect impacts is still in its infancy, Melbourne Water is well positioned to show leadership by starting to investigate and review these effects beyond its sphere of direct influence.

Net Balance has provided additional suggestions for reporting improvement in some areas. These have been outlined in a more detailed report presented to Melbourne Water management.

On behalf of the assurance team
22nd September 2008
Melbourne, Australia

A handwritten signature in black ink, appearing to read 'T. Jeyaretnam', with a stylized flourish at the end.

Terence Jeyaretnam
Director, Net Balance & Lead CSAP (IRCA UK)