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1 September 2011

Dr Thomas Parry AM
Chairman
Sydney Water Corporation
1 Smith Street
PARRAMATTA NSW 2150

Without Prejudice

Dear Dr Parry,

Australian Water Holdings (AWH) - Termination of Contractual Relationships by Sydney Water Corporation ("Sydney Water")

I refer to your letter dated 31 August 2011 and to the neutral evaluation report provided by the Hon. Mr Cole QC AO RFD on 30 August 2011.

AWH is of the view that the mediation before Mr Cole QC has reached its natural conclusion. The parties participated in the mediation on 23 and 24 August 2011 and have now received the mediator's neutral evaluation. Given this, AWH by its solicitors has notified Mr Cole and Sydney Water of the termination of the mediation in accordance with the Mediation Agreement dated 9 August 2011.

AWH considers that it would be in the best interest of both parties for this matter to be commercially resolved. We agree with the recommendation of Mr Cole QC that negotiations between parties should continue. To this end, it is my view that the best way forward is for us to meet in the company of our respective Managing Director and Chief Executive Officer. If it was suitable to you and Mr Young, I would suggest that meeting take place on Monday, 5 September 2011.

I would hope that this meeting brings an amicable commercial resolution to this matter.

Finally, I note that Mr Payne in his letter to AWH this morning made the sensible suggestion that Sydney Water would be agreeable to postpone going to public tender on Package 2 until 4pm on Friday, 16 September 2011 if the mediation resumes. AWH would request that Sydney Water agrees to this course whilst our negotiations remain on foot.

Yours sincerely,

Arthur Sinodinos AO
Chairman

cc: Premier of New South Wales
Minister for Finance & Services