SunWater ABN 17 020 276 523

ANNUAL FINANCIAL REPORT

for the year ended 30 June 2007

General information

This financial report covers both SunWater as an individual entity and the consolidated entity consisting of SunWater and its subsidiaries. The financial report is presented in Australian currency.

SunWater is a statutory government owned corporation (GOC), established on 1 October 2000 under the provisions of the *Government Owned Corporations Act 1993*. Under the provisions of section 127 of the *Government Owned Corporations Act 1993*, SunWater is treated as a statutory body for the purposes of the *Financial Administration and Audit Act 1977*.

SunWater's head office and principal place of business is:
Level 9, 120 Edward Street
BRISBANE QLD 4000

SunWater owns and operates bulk water supply and distribution infrastructure located throughout regional Queensland. Water is supplied to irrigators, water boards, local governments, power stations, and mining, industrial and manufacturing companies. SunWater also provides water-related engineering and facilities management services.

This financial report is authorised for issue by the Board of SunWater on the date that the Management Certificate is signed by the board's Chair, the Chief Executive Officer and the General Manager Corporate. SunWater has the power to amend and reissue the financial report.

SunWater Income statements
For the year ended 30 June 2007

		Consolidated		Parent	
	Notes	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Revenue	3	142,817	129,680	151,371	137,714
Expenses excluding finance costs	4	(117,598)	(127,035)	(128,119)	(135,394)
Finance costs	5	(5,088)	(2,716)	(4,690)	(2,706)
Profit/(Loss) before income tax equivalents expense		**20,131**	**(71)**	**18,562**	**(386)**
Income tax equivalents (income)	6	(8,031)	(1,366)	2,868	(2,829)
Profit/(loss) for the year		**28,162**	**1,295**	**15,694**	**2,443**

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

SunWater Statements of changes in equity
As at 30 June 2007

		Consolidated		Parent	
	Notes	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Total equity at the beginning of the financial year		419,643	368,176	358,247	305,632
Profit/(loss) for the year		28,162	1,295	15,694	2,443
Contributions of equity	22	-	53,175	-	53,175
Dividends	24	(6,170)	(3,003)	(6,170)	(3,003)
Total equity at the end of the financial year		441,635	419,643	367,771	358,247

The above statements of changes in equity should be read in conjunction with the accompanying notes.

SunWater Balance sheets
As at 30 June 2007

ASSETS	Notes	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Current assets					
Cash	7	22,320	25,635	7,235	13,620
Receivables	8	9,757	6,452	10,251	16,846
Inventories	9	2,365	2,525	2,365	2,525
Other current assets	10	18,900	20,480	11,777	16,983
		53,342	55,092	31,628	49,974
Non-current assets classified as held for sale	11	66	66	-	-
Total current assets		**53,408**	**55,158**	**31,628**	**49,974**
Non-current assets					
Receivables	8	327	957	327	957
Other financial assets	12	-	-	72,668	72,668
Property, plant and equipment	13	639,529	441,132	539,892	358,992
Intangible assets	14	61,135	65,772	9,471	10,476
Deferred tax assets	15	34,425	13,935	27,178	7,723
Total non-current assets		**735,416**	**521,796**	**649,536**	**450,816**
Total assets		**788,824**	**576,954**	**681,164**	**500,790**
LIABILITIES					
Current liabilities					
Payables	16	18,043	29,021	36,669	23,180
Provisions	17	11,639	5,475	11,639	5,475
Borrowings	18	1,888	1,150	1,224	1,150
Other	19	9,253	9,269	9,225	9,183
Total current liabilities		**40,823**	**44,915**	**58,757**	**38,988**
Non-current liabilities					
Provisions	17	1,138	1,209	1,138	1,209
Borrowings	18	271,016	91,310	236,587	88,310
Other	19	1,404	29	1,404	-
Deferred tax liabilities	20	32,808	19,848	15,507	14,036
Total non-current liabilities		**306,366**	**112,396**	**254,636**	**103,555**
Total liabilities		**347,189**	**157,311**	**313,393**	**142,543**
Net assets		**441,635**	**419,643**	**367,771**	**358,247**
EQUITY					
Contributed equity	22	282,541	282,541	282,541	282,541
Retained profits	23	159,094	137,102	85,230	75,706
Total equity		**441,635**	**419,643**	**367,771**	**358,247**

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

SunWater Statements of cash flows

For the year ended 30 June 2007

	Notes	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Cash flows from operating activities					
Inflows:					
Receipts from customers (inclusive of GST and refunded GST)		162,933	139,061	181,142	133,187
Community service obligations		8,392	6,555	8,392	6,555
Interest received		232	388	232	388
Income taxes refunded		500	-	500	-
Intercompany taxes received		-		1,803	-
Outflows:					
Payments to suppliers and employees (inclusive of goods and services tax)		(113,686)	(115,046)	(148,575)	(120,685)
Income taxes paid		(500)		(500)	-
Intercompany taxes paid		-		(555)	-
Net cash inflow (outflow) from operating activities	**25**	**57,871**	**30,958**	**42,439**	**19,445**
Cash flows from investing activities					
Inflows:					
Proceeds from sale of property, plant and equipment		181	90	181	90
Proceeds from term debtors		906	893	906	893
Interest received		1,109	1,996	485	1,437
Dividends received		-	-	7,000	12,500
Outflows:					
Payments for property, plant and equipment		(234,092)	(125,037)	(195,282)	(112,021)
Stamp duty on water allocations granted		-	(2,037)	-	-
Payments for acquisition of subsidiary, net of cash acquired		-	(63,962)	-	(66,923)
Injection of equity into subsidiary		-	-	-	(4,900)
Net cash inflow (outflow) from investing activities		**(231,896)**	**(188,057)**	**(186,710)**	**(168,924)**
Cash flows from financing activities					
Inflows:					
Proceeds from borrowing		181,700	86,000	149,500	83,000
Re-imbursement of stamp duty		-	2,037	-	-
Repayments of advances		2,000	2,060	-	-
Government grant		-	2,121	-	-
Dividend re-investment		-	3,175	-	3,175
Contribution of equity		-	50,000	-	50,000
Outflows:					
Interest paid		(11,733)	(2,748)	(10,464)	(2,710)
Repayment of borrowings		(1,257)	(1,065)	(1,150)	(1,065)
Dividends paid		-	(3,175)	-	(3,175)
Net cash inflow (outflow) from financing activities		**170,710**	**138,405**	**137,886**	**129,225**
Net increase (decrease) in cash held		**(3,315)**	**(18,694)**	**(6,385)**	**(20,254)**
Cash at the beginning of the financial year		25,635	44,329	13,620	33,874
Cash at the end of the financial year		**22,320**	**25,635**	**7,235**	**13,620**

The above statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements
30 June 2007

Note 1 Summary of significant accounting policies

The significant accounting policies that have been adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented unless otherwise stated. The financial report includes separate statements for SunWater (the parent entity) and the consolidated entity consisting of SunWater and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Interpretations.

The financial statements have been prepared on an accruals basis and are presented in Australian currency.

No Australian Accounting Standard that has been issued but is not yet effective has been applied to this financial report. When these accounting standards become effective, only the following standards are expected to apply to SunWater's operations:

- AASB 101 Presentation of Financial Statements (October 2006)
- AASB 8 Operating Segments (February 2007)

Application of these standards will not affect any of the amounts recognised in the financial statements as these standards are concerned only with disclosures.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated and parent entity financial statements and notes of the consolidated entity and parent entity comply with International Financial Reporting Standards (IFRS).

Historic cost convention

The historic cost convention has been applied except where otherwise stated.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting assumptions. It also requires management to exercise its judgement in the process of applying SunWater's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the final statements, are disclosed in note 13.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the parent entity as at 30 June 2007 and the financial results of all subsidiaries at that date. The parent entity and its subsidiaries together are referred to in this financial report as the consolidated entity. Subsidiaries are those entities over which the parent entity has the power to govern the financial and operating policies. SunWater wholly owns all of its subsidiaries (refer note 12).

The balances and effects of all transactions between entities in the consolidated entity are eliminated in full. Where a subsidiary began or ceased to be controlled during the reporting period the results are included only from the date control commenced or up to the date control ceased. Accounting policies of all subsidiaries are consistent with the accounting policies of the parent entity.

Investments in subsidiaries are accounted for at cost in the financial statements of the parent entity.

The consolidated entity has no investments in associates or joint ventures.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, rebates, trade allowances and amounts collected on behalf of third parties.

Water revenue is recognised when water has been delivered to customers or, in cases where no water has been delivered, is accrued in accordance with contractual provisions.

Recognition of all other service revenue is based on work completed at the reporting date.

Electricity generation revenue is recognised on the amount of electricity generated at the reporting date.

Water allocations sales revenue is recognised at the point of sale.

Interest income is recognised as it accrues.

Commitment fee revenue is recognised in equal annual instalments over the life of the contractual commitment (10 years).

(d) Government grants

The parent entity received community service obligation (CSO) payments from the Queensland Government. The payments fund the Rural Water Subsidy in recognition of the current rural water pricing policies set by the government as well as certain other activities for which there are no other revenue sources. These amounts are recorded as revenue from ordinary activities. New rural water infrastructure assets or extensions to existing schemes that are built by clear direction from government for other than commercial return may also incorporate a CSO component. These amounts are recorded as revenue from ordinary activities and are recognised in the accounting period when the invoice for payment is raised.

Water allocations are saleable rights that may be granted by the Crown, free of charge, in a resource operations plan under the Water Act 2000. Interim water allocations (replacing water licences granted under previous legislation) and water allocations are recognised at nominal cost or deemed cost. All other water allocations granted free of charge are recognised, when granted, at fair value which is deemed to be cost.

(e) Income tax

SunWater complies with the National Tax Equivalents Regime (NTER) in relation to income tax. Income tax equivalents expense (or income) for the period is the tax payable on the current period's taxable income adjusted by deferred tax expenses (or income) representing 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 and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. 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.

SunWater and its wholly owned Australian-controlled subsidiaries have implemented the tax consolidation legislation as of 1 July 2003. Under that legislation, the head entity, SunWater, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax-consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, SunWater also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax-consolidated group.

Note 1 Summary of significant accounting policies (continued)

Assets or liabilities arising under tax funding agreements with the tax-consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note 6.

(f) Leases

Leases of property, plant and equipment where SunWater or a subsidiary, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Neither SunWater nor any of its subsidiaries has entered into any finance leases.

Leases in which a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases is recognised in revenue on a straight-line basis over the lease term.

(g) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets of the subsidiary acquired, the excess of fair value over cost is recognised directly in the consolidated income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life, such as water allocations, are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are assessed on an annual basis for indicators of impairment.

An impairment loss is recognised for the amount by which 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. In the case of SunWater's water infrastructure assets, which are not traded in an active market, value-in-use is used as recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Each of SunWater's water supply schemes is regarded as a cash-generating unit. Each hydro electricity generating station is regarded as a cash-generating unit.

Non-financial assets (other than goodwill) that were impaired in a prior period are reviewed for possible reversal of the impairment at each reporting date.

(i) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) Receivables

(i) Current receivables

All trade receivables are recognised at the amounts receivable as they are due for settlement no more than 30 days from the invoice date. The collectibility of receivables is assessed at balance date with adequate provision made for doubtful debts. All known bad debts are written off. A provision for doubtful receivables is established when there is objective evidence that SunWater will not be able to collect all amounts due and owing. The amount of the provision is the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is not material. The amount of the provision is recognised in the income statement.

(ii) Term trade debtors

Term trade debtors represent the term sale of water allocations. Settlement on these debtors ranges from one year to five years.

(k) Inventories

Materials and stores are valued at the lower of cost and net realisable value. Costs have been assigned to individual items of stock primarily on the basis of weighted average cost.

(l) Property, plant and equipment

Items of property, plant and equipment are carried at cost or deemed cost less accumulated depreciation and impairment losses. SunWater elected to exercise the option allowed under AASB 101 First-time Adoption of Australian Equivalents to International Financial Reporting Standards to adopt the fair value of an item of property, plant and equipment as its deemed cost. This means that all items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2005, the date of transition to AIFRS, were measured on the basis of deemed cost at that date. Subsequent acquisitions are carried at cost.

The cost of self-constructed items includes the direct cost of construction plus costs incidental to the acquisition, including all other costs incurred in preparing the assets ready for use, such as engineering design fees, an appropriate proportion of overheads and borrowing costs (refer note 5). The cost also includes the initial estimate of the costs of decommissioning the items and restoring the site on which they are located where such estimate is relevant and reliable in the context of the very long life of most of these items. Costs attributable to pre-feasibility activities and alternative approach assessments are expensed as incurred.

All items of property, plant and equipment acquired at a cost, or other value, in excess of $1,000 are capitalised in the year of acquisition. Assets under construction are recorded at cost and are not depreciated until they are held ready for use.

No threshold is applied to items within the infrastructure class of assets as these types of assets form a network. Adjustments or additions to existing infrastructure assets that are not in the nature of enhancements or replacements do not satisfy asset recognition criteria and are expensed on completion.

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(m) Depreciation and amortisation

Depreciation and amortisation is calculated on a straight-line basis so as to write off the cost or deemed cost of each depreciable asset, less its estimated residual value, progressively over its estimated useful life to the entity. For each class of depreciable asset the following depreciation rates were used:

Asset class	Depreciation rates
Land Land is not depreciated	
Buildings and land improvements	1.27% to 20%
Plant and equipment	8% to 40%
Infrastructure	0.5% to 20%

(n) Non-current intangible assets

(i) Water allocations

Water allocations not held for sale are intangible assets that are valued at cost or deemed cost. SunWater elected to exercise the option allowed under AASB 101 First-time Adoption of Australian Equivalents to International Financial Reporting Standards to adopt the fair value of an intangible asset as its deemed cost. This means that all water allocations that had been revalued to fair value on or prior to 1 July 2005, the date of transition to AIFRS, were measured on the basis of deemed cost at that date. Subsequent acquisitions are carried at cost.

After initial recognition, water allocations may be revalued at their fair value being market value as evidenced by comparable sales, or independent valuation, or, where no reliable market value exists, the present value of net cash flows.

Water allocations held for sale are recognised at the lower of cost and net realisable value.

Water allocations have an indefinite life and are not amortised but are reviewed annually for indications of impairment. No recognition threshold is applied.

(ii) Software
Software has a finite life and is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method. Amortisation rates for software vary from 20% to 33%.

(iii) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of SunWater's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to that entity. Where goodwill is less than $50,000 it is expensed in the same period in which it arises.

(o) Payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred. Any significant difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

(q) Borrowing costs
Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

SunWater's borrowings are discrete to each project. Therefore the amount of interest capitalised is the actual interest cost incurred on each loan account.

(r) Provisions
Provisions are recognised when SunWater:
- has a present legal or constructive obligation as a result of past events; and
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

(s) Refurbishment annuity
A refurbishment annuity forms part of the approved irrigation price path for each water supply scheme, and is billed to irrigation customers as part of the normal water billing process. Under the irrigation price path, SunWater is obliged to set apart the annuity for the sole purpose of applying the funds to refurbishment activities on each particular water supply scheme. To give effect to this requirement, SunWater accounts for the annuity as unearned revenue upon billing until the funds have been applied to refurbishment activities at which point revenue is recognised.

Expenditures applied to refurbishment activities are immediately matched by recognising available annuity (unearned revenue) as income for each water supply scheme. Any unspent annuity at year end (unearned revenue) is carried as a current liability on the balance sheet.

(t) Employee benefits
(i) Wages and salaries, annual leave and sick leave
Liabilities for wages, salaries, accumulating sick leave expected to be settled within 12 months of the reporting date and annual leave due but unpaid at the reporting date are recognised at the remuneration rates expected to apply at the time of settlement and include related on-costs such as payroll tax, workers compensation premiums, long service leave levies and employer superannuation contributions.

(ii) Long service leave
SunWater is levied under the Queensland Government's long service leave scheme at rates determined by actuarial assessment. Levies are expensed in the period in which they are paid or payable. Amounts paid to employees for long service leave are claimed from the scheme as and when leave is taken.

No provision for long service leave entitlements is taken up in the financial statements as the liability is held on a whole-of-government basis.

(iii) Superannuation
Employer superannuation contributions are paid to Queensland Government superannuation schemes at rates determined by the State Actuary. Contributions are expensed in the period in which they are paid or payable. SunWater's obligation is limited to its contribution to the superannuation schemes. Therefore, no liability is recognised for superannuation benefits in these financial statements as the liability is held on a whole-of-government basis.

(u) Dividends
Provision is made for the amount of any dividend declared by the directors on or before the end of the financial year but not distributed at balance date.

(v) Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of GST, unless GST is not recoverable from the Australian Taxation Office (ATO) in which case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

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

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

(w) Rounding of amounts
Amounts in the financial report and these accompanying notes have been rounded to the nearest thousand dollars or in certain cases to the nearest dollar.

Note 2 Financial risk management
SunWater's activities may, at certain times, expose it to a variety of financial risks being market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The objective of SunWater's financial risk management policies is to minimise potential adverse effects on SunWater's financial performance.

(a) Market risk
(i) Foreign exchange risk
During 2006–07, SunWater had no significant exposure to foreign exchange risk.

(ii) Price risk
During 2006–07 SunWater had no significant exposure to price risk.

(iii) Fair value interest rate risk
Refer to (d) below.

(b) Credit risk

SunWater has policies in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount and on all counterparties to significant contracts. Cash is invested only with Queensland Treasury Corporation. During 2006–07, SunWater had no transactions involving derivative financial instruments.

At the balance sheet date there were no significant concentrations of credit risk in respect to recognised financial instruments. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(c) Liquidity risk

SunWater has policies in place, and sufficient cash and short-term borrowing facilities are maintained, to ensure adequate funds are available at all times to meet SunWater's commitments as they arise.

(d) Cash flow and fair value interest rate risk

As SunWater has no significant interest-bearing assets, the income and operating cash flows are not materially exposed to changes in market interest rates.

SunWater's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose SunWater to cash flow interest rate risk, whereas borrowings issued at fixed rates expose SunWater to fair value interest-rate risk.

SunWater manages its interest rate risk in consultation with Queensland Treasury Corporation.

Note 3 Revenue

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Irrigation water revenue	42,557	37,567	41,792	37,567
Industrial water revenue	45,222	38,733	31,290	28,293
Urban water charges	6,902	6,250	6,902	6,250
Levies	1,158	1,126	1,158	1,126
Water allocation sales	9,674	4,557	2,629	1,641
Consulting fees	22,803	15,966	46,930	40,254
Community service obligation	10,073	6,556	10,073	6,555
Grants	128	5,567	66	138
Electricity generation	580	378	580	378
Interest	1,294	2,332	670	1,774
Gain on disposal of non-current assets	156	24	155	24
Dividends received	-	-	7,000	12,500
Rent received	757	415	757	415
Proceeds from sale of scrap	245	29	245	29
Other fees and charges	809	244	809	244
Other revenue	459	1,998	315	526
Excess of fair value over cost upon acquisition of subsidiary	-	7,938	-	-
Total revenue	**142,817**	**129,680**	**151,371**	**137,714**

Note 4 Expenses excluding finance costs

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Depreciation and amortisation				
Land improvements and buildings	479	393	479	391
Plant and equipment	1,571	1,499	1,571	1,483
Water infrastructure	10,054	8,894	4,637	3,533
Software	2,551	1,426	2,551	1,426
Total depreciation and amortisation	14,655	12,212	9,238	6,833
Labour and on-costs	40,941	37,887	41,700	39,534
Contracted services	17,019	14,122	31,101	24,808
Electricity	14,243	13,639	13,511	13,031
Materials	4,074	4,020	8,529	11,378
Plant hire	981	2,475	1,210	2,796
Motor vehicle operating lease charges	2,544	1,988	2,544	1,998
IT charges	968	1,093	968	1,093
Bad and doubtful debts (1)	14	(2,423)	12	(2,412)
Loss on disposal of non-current assets	201	99	201	100
Travel	2,305	2,013	2,354	2,048
Accommodation	2,322	1,996	2,365	2,036
Insurance	3,563	3,328	3,239	3,099
Legal fees	975	2,027	1,155	2,495
Telephone and facsimile	1,178	1,093	1,152	1,080
Remuneration of auditors (2)	125	117	108	100
Write off/(back) of inventories (3)	11	4	11	4
Cost of water allocations sold	3,632	1,146	-	-
Cost of goods sold	197	-	197	-
Impairment (notes 13, 14)	5,770	29,600	5,770	24,751
Other	1,880	599	2,754	622
Total expenses excluding finance costs	**117,598**	**127,035**	**128,119**	**135,394**

(1) Provision for doubtful debts no longer required was written back in 2006.

(2) Amounts received or due and receivable by the auditor of the consolidated entity related to the audit of the financial report of the parent entity and its subsidiaries. No other services were provided.

(3) Inventories previously written off have been written back on and utilised.

Note 5 Finance costs

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Interest and finance charges paid/payable	12,981	3,106	11,609	3,055
Amount capitalised	(7,893)	(390)	(6,919)	(349)
Finance costs expensed	5,088	2,716	4,690	2,706

Note 6 Income tax and income tax equivalents

On 18 January 2007, Burnett Water Pty Ltd (a subsidiary company) received a positive ruling from the Australian Taxation Office. The ruling allows the SunWater group to access a write-off under Subdivision 40-F for the construction expenditure on a "water facility" incurred by Burnett Water Pty Ltd from 1 July 2004 to the acquisition date of 16 December 2005. The Subdivision 40-F write-off applies pro-rata over three years from the date of the expenditure. The total deduction available to the SunWater group over the three years is $89.987m, which is offset by a required reduction in the tax carrying value of water allocations and tax carrying value of water infrastructure established when the company entered the NTER upon acquisition by SunWater.

Note 6 Income tax and income tax equivalents (continued)

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
(a) Income tax equivalents expense/ (income)				
Current tax equivalents expense/(income)	(10,645)	500	3,080	(523)
Deferred tax equivalents (income)	10,924	(1,866)	470	(2,306)
Over provided in prior years	(8,310)	-	(682)	-
	(8,031)	(1,366)	2,868	(2,829)
Income tax equivalents expense/ (income) is attributable to:				
Profit from continuing operations	(8,031)	(1,366)	2,868	(2,829)
Deferred tax equivalents expense/ (income) included in income tax equivalents expense comprises:				
Decrease/(increase) in deferred tax assets (note 15)	(2,036)	1,566	(1,000)	2,266
(Decrease)/increase in deferred tax liabilities (note 20)	12,960	(3,432)	1,470	(4,572)
	10,924	(1,866)	470	(2,306)

(b) Numerical reconciliation of income tax equivalents expense to prima facie tax equivalents payable

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Profit from continuing operations before income tax equivalents expense	20,131	(71)	18,562	(386)
Tax at 30%	6,039	(21)	5,569	(116)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Entertainment expenses	4	7	4	7
Capital contributions	-	-	-	-
Annuity	(41)	746	(41)	746
Excess of fair value over cost upon acquisition of subsidiary	-	(2,382)	-	-
Dividends from subsidiaries	-	-	(2,100)	(3,750)
Sundry items	237	(147)	118	(147)
Prior year over provision	(682)		(682)	-
Impact of the ATO tax ruling allowing a three year write-off for the "water facility"	(19,150)	-	-	-
Finalisation of the reset cost base of trading stock on entry into the SunWater consolidated group	5,562	-	-	-
	(8,031)	(1,797)	2,868	(3,260)
Losses to be utilised in consolidated entity	-	431	-	431
Income tax equivalents expense	**(8,031)**	**(1,366)**	**2,868**	**(2,829)**

(c) Tax consolidation legislation

SunWater and its wholly-owned subsidiaries have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation this legislation is set out in note 1(e).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which limits the joint and several liability of the wholly-owned subsidiaries in the case of a default by the head entity, SunWater. New subsidiaries will enter into a similar agreement as soon as practicable after acquisition.

SunWater and its subsidiaries have also entered into tax funding agreements under which the subsidiaries fully compensate SunWater for any current tax payable assumed and are compensated by SunWater for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to SunWater under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the subsidiaries' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from SunWater, which is issued as soon as practicable after the end of each financial year. SunWater may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables (refer note 8).

Note 7 Cash and cash equivalents

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Cash on hand	21	20	21	20
Cash at bank	11,994	9,530	4,249	1,148
Deposits on call	10,305	16,085	2,965	12,452
	22,320	**25,635**	**7,235**	**13,620**

Note 8 Receivables

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Current				
Trade debtors	11,255	7,769	10,705	6,470
Term trade debtors	210	533	210	533
Intercompany receivables	-	-	490	9,890
Intercompany taxation receivables	-	-	554	1,803
	11,465	8,302	11,959	18,696
Less: Provision for doubtful debts	1,708	1,850	1,708	1,850
	9,757	**6,452**	**10,251**	**16,846**
Non-current				
Term trade debtors	**327**	**957**	**327**	**957**

Note 9 Inventories

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Materials and stores	2,365	2,525	2,365	2,525

Note 10 Other current assets

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
GST receivable	2,065	3,145	1,495	2,643
Prepayments	650	432	650	432
Advance to Burnett Dam Alliance	1,000	3,000	-	-
Accrued revenue*	15,185	13,903	9,632	13,908
	18,900	**20,480**	**11,777**	**16,983**

** Includes water delivered to 30 June but not invoiced*

Note 11 Non-current assets classified as held for sale

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Land	**66**	**66**	**-**	**-**

Note 12 Other financial assets

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Shares in controlled entities – at cost	-	-	72,668	72,668

Information relating to the controlled entities is set out below.

Name of entity	Country of incorporation	Class of shares	Equity holding 2007 %	Equity holding 2006 %
North West Queensland Water Pipeline Pty Ltd	Australia	Ordinary	100	100
Eungella Water Pipeline Pty Ltd	Australia	Ordinary	100	100
Burnett Water Pty Ltd	Australia	Ordinary	100	100

During the 2005–06 financial year, SunWater acquired the name "SunWater Pty Ltd" from a liquidator in order to secure the name "SunWater" and protect the SunWater group's position. Subsequently, the name "SunWater Pty Ltd" has been applied to a shelf company, the shares (2 x $1.00) in which are owned by a legal firm awaiting further instructions to transfer the shares to SunWater. At 30 June 2007, the company was a non-operating shelf company and remains so at the date of this report.

Note 13 Property, plant and equipment

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Land*	**8,234**	**8,318**	**8,234**	**8,318**
Buildings and land improvements*	13,684	10,550	13,684	10,550
Less: accumulated depreciation	1,820	1,341	1,820	1,341
Total buildings and land improvements	**11,864**	**9,209**	**11,864**	**9,209**
Plant and equipment*	12,258	11,562	12,258	11,529
Less: accumulated depreciation	7,366	6,551	7,366	6,518
Total plant and equipment	**4,892**	**5,011**	**4,892**	**5,011**
Water infrastructure*	403,478	371,269	304,807	295,152
Less accumulated depreciation	28,361	18,327	12,085	7,469
Less: accumulated impairment	67,006	61,382	62,156	56,534
Total water infrastructure	**308,111**	**291,560**	**230,566**	**231,149**
Assets under construction*	306,428	127,034	284,336	105,305
Total property, plant and equipment	**639,529**	**441,132**	**539,892**	**358,992**

** At cost or deemed cost.*

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of 2006–07 are set out below.

	Land $'000	Buildings and land improvements $'000	Plant and equipment $'000	Water infrastructure $'000	Assets under construction $'000
Consolidated					
Carrying amount at 1 July 2006	8,318	9,209	5,011	291,560	127,034
Additions	114	2,950	1,477	32,416	218,010
Disposals	(11)	-	(25)	(191)	-
Transfer between classes	(187)	184	-	3	(38,616)
Depreciation expense (note 4)	-	(479)	(1,571)	(10,054)	-
Impairment loss (note 4)	-	-	-	(16,756)	-
Impairment losses reversed (note 4)	-	-	-	11,133	-
Carrying amount at 30 June 2007	**8,234**	**11,864**	**4,892**	**308,111**	**306,428**

	Land $'000	Buildings and land improvements $'000	Plant and equipment $'000	Water infrastructure $'000	Assets under construction $'000
Parent					
Carrying amount at 1 July 2006	8,318	9,209	5,011	231,149	105,305
Additions	114	2,950	1,477	9,865	195,094
Disposals	(11)	-	(25)	(191)	-
Transfer between classes	(187)	184	-	3	(16,063)
Depreciation expense (note 4)	-	(479)	(1,571)	(4,637)	-
Impairment loss (note 4)	-	-	-	(16,756)	-
Impairment losses reversed (note 4)	-	-	-	11,133	-
Carrying amount at 30 June 2007	**8,234**	**11,864**	**4,892**	**230,566**	**284,336**

Key assumptions and estimates

Key assumptions and estimates concerning the future are made when assessing the value-in-use of water infrastructure assets using the net present value of future cash flows derived from each cash-generating unit. Value-in-use is taken to be the recoverable amount in respect to cash-generating units comprising water infrastructure assets.

Significant factors influencing the assessment of value-in-use include the following:

- SunWater applied its pre-tax weighted average cost of capital (WACC) as the discount rate. WACC includes a market-determined rate that reflects the risks associated with operating the business. The risk-free component of WACC takes into account the forward-looking long-term average expected gross domestic product growth, and the forward-looking long-term average expected inflation.
- As a natural monopoly there is not an open market for the infrastructure services offered by SunWater.
- Water charges applied to irrigators are regulated by the Queensland Government which subsidises SunWater by way of community service obligation payments for the regulated pricing shortfall incurred against the efficient costs of storage and distribution of water for irrigation purposes. As the regulated price does not provide for a commercial return on capital, the resulting cash flows substantially impact on the values assigned to the water infrastructure assets.
- The cash flow projections employ prices for irrigation in the medium to longer term based on the currently approved pricing arrangements.
- The cash flow projections anticipate that business efficiencies will be achieved over time to meet benchmarked costs and that future price paths will recover efficient costs.
- Certain facilities (e.g. recreational facilities) are provided by SunWater to the community. The cost of providing and maintaining these facilities is borne by SunWater as part of its social responsibility to the community.

Note 14 Intangible assets

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Software*	11,468	9,777	11,468	9,777
Less accumulated amortisation (note 4)	7,853	5,302	7,853	5,302
Less accumulated impairment (note 4)	663	518	663	518
	2,952	3,957	2,952	3,957
Trade names	8	8	8	8
Water allocations*	58,175	61,807	6,511	6,511
	61,135	**65,772**	**9,471**	**10,476**

** At cost or deemed cost.*

Reconciliations

Reconciliations of the carrying amounts of intangible assets at the beginning and end of 2006–07 are set out below.

	Software $'000	Trade names $'000	Water allocations $'000
Consolidated			
Carrying amount at 1 July 2006	3,957	8	61,807
Sales (note 4)	-	-	(3,632)
Additions – at cost	1,693	-	-
Amortisation expense (note 4)	(2,551)	-	-
Impairment loss (note 4)	(147)	-	-
Carrying amount at 30 June 2007*	**2,952**	**8**	**58,175**

	Software $'000	Trade names $'000	Water allocations $'000
Parent			
Carrying amount at 1 July 2006	3,957	8	6,511
Additions – at cost	1,693	-	-
Amortisation expense (note 4)	(2,551)	-	-
Impairment loss (note 4)	(147)	-	-
Carrying amount at 30 June 2007*	**2,952**	**8**	**6,511**

** Net of retirements (fully written down)*

Note 15 Deferred tax assets

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
The balance comprises temporary differences attributable to:				
Provision for doubtful debts	513	555	513	555
Property, plant and equipment	3,742	6,206	-	-
Accrued payables	51	68	46	62
Accrued employee benefits	1,624	1,478	1,624	1,478
Provision for environmental obligations	17	53	17	53
Provision for Rocklea land commitment	341	324	341	324
Unearned renewal annuity	2,682	2,724	2,682	2,724
Unearned community service obligations	421	-	421	-
Tax losses previously recognised	3,079	2,527	21,534	2,527
BWPL ruling balance	3,500	-	-	-
Balance before current year tax losses	15,970	13,935	8,723	7,723
Tax losses transferred in current year	18,455	-	18,455	-
Balance at 30 June	**34,425**	**13,935**	**27,178**	**7,723**
Movements:				
Opening balance at 1 July	13,935	15,501	7,723	9,989
Credited/(charged) to the income statement	20,490	(1,566)	19,455	(2,266)
Closing balance at 30 June	**34,425**	**13,935**	**27,178**	**7,723**
Deferred tax assets to be recovered after more than 12 months	32,237	11,834	24,995	5,628
Deferred tax assets to be recovered within 12 months	2,188	2,101	2,183	2,095
Closing balance at 30 June	**34,425**	**13,935**	**27,178**	**7,723**

Note 16 Payables

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Trade creditors	2,494	11,351	2,495	10,086
Intercompany taxation payables	-	-	21,907	555
Other creditors and accruals	15,549	17,670	12,267	12,539
	18,043	**29,021**	**36,669**	**23,180**

Note 17 Provisions

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Current				
Employee benefits (note 21)	5,414	4,928	5,414	4,928
Environmental obligations *	55	47	55	47
Dividends	6,170	-	6,170	-
Income tax	-	500	-	500
	11,639	**5,475**	**11,639**	**5,475**
Non-current				
Environmental obligations *	-	129	-	129
Land commitment^	1,138	1,080	1,138	1,080
	1,138	**1,209**	**1,138**	**1,209**

** A provision for environmental obligations was raised at 30 June 2003 to meet the expected costs of eradicating Mimosa pigra, a declared plant under the Land Protection (Pest and Stock Route Management) Act 2002.*

^ By way of an agreement between the former State Water Projects and the Department of Natural Resources and Water, SunWater is required to settle with the department, the disposition of certain surplus land.

Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below.

	Environmental obligations $'000	Income tax $'000	Land commitment $'000
Consolidated			
Carrying amount at 1 July 2006	176	500	1,080
Provisions added/(written back)	-	-	58
Payments made during the year	(121)	(500)	-
Carrying amount at 30 June 2007	**55**	**-**	**1,138**
Parent			
Carrying amount at 1 July 2006	176	500	1,080
Provisions added/(written back)	-	-	58
Payments made during the year	(121)	(500)	-
Carrying amount at 30 June 2007	**55**	**-**	**1,138**

Note 18 Borrowings

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Unsecured*				
Queensland Treasury Corporation loan	272,904	92,460	237,810	89,460
	272,904	**92,460**	**237,811**	**89,460**
Represented by:				
Current	1,888	1,150	1,224	1,150
Non-current	271,016	91,310	236,587	88,310
	272,904	**92,460**	**237,811**	**89,460**

** Borrowings by subsidiary company are secured by parent entity guarantee.*

Note 19 Other liabilities

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Current				
Deposits payable	265	86	265	86
Commitment fee•	28	86	-	-
Unearned annuity	8,942	9,079	8,942	9,079
Other	18	18	18	18
	9,253	**9,269**	**9,225**	**9,183**
Non-current				
Commitment fee•	-	29	-	-
Unearned CSO	1,404	-	1,404	-
	1,404	**29**	**1,404**	**-**

• *This fee, paid as a commitment fee for supply of water, will be earned over 10 years from the commencement date of the water supply contract. Commencement date was 21 October 1997.*

Note 20 Deferred tax liabilities

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
The balance comprises temporary differences attributable to:				
Accrued interest receivable	35	77	22	71
Inventories	674	107	667	107
Accrued revenue	4,338	4,233	1,902	2,312
Water allocations	8,126	2,565	1,953	1,953
Property, plant and equipment	19,635	12,866	10,963	9,593
Balance at 30 June	**32,808**	**19,848**	**15,507**	**14,036**
Movements:				
Opening balance at 1 July	19,848	23,281	14,036	18,608
Charged/(credited) to the income statement	12,960	(3,433)	1,471	(4,572)
Closing balance at 30 June	**32,808**	**19,848**	**15,507**	**14,036**
Deferred tax liabilities to be settled after more than 12 months	27,761	15,432	12,916	11,546
Deferred tax liabilities to be settled within 12 months	5,047	4,417	2,591	2,490
Closing balance at 30 June	**32,808**	**19,849**	**15,507**	**14,036**

Note 21 Employee benefits

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Employee benefits liability				
Provision for employee benefits (note 17)	5,414	4,928	5,414	4,928
Accrued salaries and wages (note 16)	813	707	813	707
Aggregate employee benefits liability	6,227	5,635	6,227	5,635
Employee numbers				
Number of employees (full time equivalents excluding casuals) as at 30 June	569	561	569	561

Note 22 Contributed equity

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
(a) Share capital				
Issued and paid up capital: 2 ordinary shares of $141.271 million each	282,541	282,541	282,541	282,541

	Number of shares	Contribution per share $'000	Total $'000
(b) Movements in ordinary share capital			
Opening balance 1 July 2006	2	141,271	282,541
Closing balance 30 June 2007	2	141,271	282,541

Note 23 Retained profits

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Movements:				
Balance 1 July	137,102	138,810	75,706	76,266
Net profit/(loss) attributable to members of SunWater	28,162	1,295	15,694	2,443
Dividends declared *	(6,170)	(3,003)	(6,170)	(3,003)
Balance 30 June	**159,094**	**137,102**	**85,230**	**75,706**

Note 24 Dividends

	Parent 2007 $'000	Parent 2006 $'000
Ordinary shares		
2005 final dividend of $1.5015 million per share declared*	-	3,003
2007 first and final dividend of $3.085 million per share declared*	6,170	-
	6,170	**3,003**

* *Franking does not apply to SunWater as an NTER entity as the shareholders represent the Queensland Government.*

Note 25 Reconciliation of profit after income tax equivalents to net cash inflow from operating activities

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Profit for the year	28,162	1,295	15,694	2,443
Depreciation and amortisation	14,655	12,212	9,238	6,833
Impairment	5,770	29,600	5,770	24,751
Bad and doubtful debts	14	(2,423)	12	(2,412)
Net loss on sale or disposal of non-current assets	45	75	46	76
Interest income	(1,294)	(1,996)	(670)	(1,437)
Interest paid	11,733	2,748	10,464	2,710
Dividends received	-	-	(7,000)	(12,500)
Excess over costs upon acquisition of subsidiary	-	(7,938)	-	-
Change in assets and liabilities				
(Increase)/decrease in inventories	3,792	700	160	(446)
(Increase)/decrease in deferred tax assets	(20,491)	1,567	(19,455)	2,266
(Increase)/decrease in receivables	(14,299)	(11,496)	6,307	(8,856)
(Increase)/decrease in other assets	3,993	(5,115)	5,201	(2,783)
(Decrease)/increase in creditors	11,311	12,539	13,596	10,662
(Decrease)/increase in deferred revenue	2,020	2,123	2,106	2,210
(Decrease)/increase in income taxes payable	(500)	500	(500)	500
(Decrease)/increase in provision for deferred income tax	12,960	(3,433)	1,470	(4,572)
Net cash inflow from operating activities	**57,871**	**30,958**	**42,439**	**19,445**

Note 26 Commitments for expenditure

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
(a) Capital expenditure commitments				
Capital expenditure commitments (including GST) contracted for but not brought to account are as follows:				
Water infrastructure projects	**16,691**	**154,904**	**16,691**	**154,904**
Payable:				
Not later than one year	**16,691**	**154,904**	**16,691**	**154,904**
(b) Non-cancellable operating lease expense commitments				
Future operating lease commitments (including GST) not brought to account and payable:				
Within one year	**1,806**	**1,856**	**1,806**	**1,856**
Later than one year but not later than five years	1,141	2,864	1,141	2,864
Later than five years	-	-	-	-
	2,947	**4,720**	**2,947**	**4,720**

SunWater leases property under non-cancellable operating leases expiring from one to two years. Leases generally provide SunWater with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based either on movements in the consumer price index or operating criteria.

Future projects and acquisitions

The Queensland Government has announced a range of water infrastructure projects in which SunWater will have involvement and may be the proponent. In addition, SunWater has made in-principle commitments to investigate certain major capital projects and acquisitions. However, these projects and acquisitions are at a very early stage and final costs cannot be accurately quantified at this time.

Details of SunWater's dam spillways upgrade program are disclosed in note 31.

Note 27 Financial instruments

(a) Interest rate risk exposures

In respect of income-earning financial assets and interest-bearing financial liabilities, their effective interest rates at the reporting date and the periods in which they reprice are set out below:

Consolidated – 2007

	Floating rate $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Non interest bearing $'000	Total $'000	Effective interest rate
Financial assets							
Cash	11,994	-	-	-	21	12,015	5.709%
Deposits on call	10,305	-	-	-	-	10,305	6.335%
Trade debtors	5,489	-	-	-	4,080	9,569	11.000%
Term trade debtors	515	-	-	-	-	515	11.500%
Total	**28,303**	**-**	**-**	**-**	**4,101**	**32,404**	
Financial liabilities							
QTC generic debt pool	4,054	1,888	20,319	14,143	-	40,404	6.142%
QTC client specific debt pool	49,638	405	66,934	115,523	-	232,500	6.020%
Total	**53,692**	**2,293**	**87,253**	**129,666**	**-**	**272,904**	

** Includes competitive neutrality component and administration fee.*

Consolidated – 2006

	Floating rate $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Non interest bearing $'000	Total $'000	Effective interest rate
Financial assets							
Cash	9,530	-	-	-	20	9,550	5.690%
Deposits on call	16,085	-	-	-	-	16,085	5.843%
Trade debtors	2,577	-	-	-	3,510	6,087	10.50%
Term trade debtors	1,322	-	-	-	-	1,322	11.00%
Total	**29,514**	**-**	**-**	**-**	**3,530**	**33,044**	
Financial liabilities							
QTC generic debt pool	-	1,150	7,066	1,244	-	9,460	6.52%
QTC client specific debt pool	20,277	-	29,505	33,218	-	83,000	6.28%
Total	**20,277**	**1,150**	**36,571**	**34,462**	**-**	**92,460**	

** Includes competitive neutrality component and administration fee.*

Parent 2007

	Floating rate $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Non interest bearing $'000	Total $'000	Effective interest rate
Financial assets							
Cash	4,249	-	-	-	21	4,270	5.750%
Deposits on call	2,965	-	-	-	-	2,965	6.307%
Trade debtors	5,488	-	-	-	4,021	9,509	11.000%
Term trade debtors	515	-	-	-	-	515	11.500%
Intercompany receivables	-	-	-	-	554	554	-
Total	**13,217**	**-**	**-**	**-**	**4,596**	**17,813**	
Financial liabilities							
QTC generic debt pool	-	1,224	4,087	-	-	5,311	5.890%
QTC client specific debt pool	49,638	405	66,934	115,523	-	232,500	6.020%
Total	**49,638**	**1,629**	**71,021**	**115,523**	**-**	**237,811**	

** Includes competitive neutrality component and administration fee*

Note 27 Financial instruments (continued)

(a) Interest rate risk exposures

Parent 2006

	Floating rate $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Non interest bearing $'000	Total $'000	Effective interest rate
Financial assets							
Cash	1,148	-	-	-	20	1,168	4.750%
Deposits on call	12,452	-	-	-	-	12,452	5.837%
Trade debtors	2,577	-	-	-	12,101	14,678	10.50%
Term trade debtors	1,322	-	-	-	-	1,322	11.00%
Intercompany receivables	-	-	-	-	1,803	1,803	-
Total	**17,499**	**-**	**-**	**-**	**13,924**	**31,423**	
Financial liabilities							
QTC generic debt pool	-	1,150	5,310	-	-	6,460	6.63%
QTC client specific debt pool	20,277	-	29,505	33,218	-	83,000	6.28%
Total	**20,277**	**1,150**	**34,815**	**33,218**	**-**	**89,460**	

** Includes competitive neutrality component and administration fee*

(b) Credit risk exposures

See note 2

(c) Fair value

Consolidated

	Carrying amount 2007 $'000	Carrying amount 2006 $'000	Fair value 2007 $'000	Fair value 2006 $'000
Financial assets				
Cash	12,015	9,550	12,015	9,550
Deposits on call	10,305	16,085	10,305	16,085
Trade debtors	9,569	6,087	9,569	6,087
Term trade debtors	515	1,322	515	1,322
Total	**32,404**	**33,044**	**32,404**	**33,044**
Financial liabilities				
QTC generic debt pool	40,404	9,460	39,610	9,425
QTC client specific debt pool	232,500	83,000	226,217	81,447
Total	**272,904**	**92,460**	**265,827**	**90,872**

Parent

	Carrying amount 2007 $'000	Carrying amount 2006 $'000	Fair value 2007 $'000	Fair value 2006 $'000
Financial assets				
Cash	4,270	1,168	4,270	1,168
Deposits on call	2,965	12,452	2,965	12,452
Trade debtors	9,509	14,678	9,509	14,678
Term trade debtors	515	1,322	515	1,322
Intercompany receivables	554	1,803	554	1,803
Total	**17,813**	**31,423**	**17,813**	**31,423**
Financial liabilities				
QTC generic debt pool	5,311	6,460	5,241	6,444
QTC client specific debt pool	232,500	83,000	226,217	81,447
Total	**237,811**	**89,460**	**231,458**	**87,891**

(d) Sensitivity analysis

The following interest rate sensitivity analysis assumes that the rate would be held constant over the financial year, with the change occurring at the beginning of the financial year.

At reporting date, if the interest rates had been 100 basis points lower, SunWater would have a net profit increase of $0.680 million (2006: increase $0.156 million). If the interest rates had been 100 basis points higher, SunWater would have had a net profit decrease of $0.680 million (2006: decrease $0.156 million).

SunWater's sensitivity to interest has increased in the current period due to increased borrowings for new capital works projects.

Note 28 Related parties disclosures

Remuneration policy

Director and executive remuneration is approved by the Governor in Council in accordance with the requirements of the *Government Owned Corporations Act 1993*. SunWater does not have an at-risk performance incentive remuneration policy for director or executive remuneration.

Compensation disclosures by category:

Category	2006–07 $'000	2005–06 $'000
Consolidated		
Short-term employee benefits	1,191	1,126
Post-employment benefits	144	137
Total	**1,335**	**1,263**

Category	2006–07 $'000	2005–06 $'000
Parent		
Short-term employee benefits	1,185	1,126
Post-employment benefits	144	137
Total	**1,329**	**1,263**

Compensation – Directors

Consolidated – 2007

Title of executive	Short-term employee benefits $'000	Post-employment benefits $'000	Total $'000
Phil Hennessy, Chair	46	4	50
Jane Bertelsen, Deputy Chair	29	3	32
Julie Boyd	23	2	25
Mary Maher (retired 31 March 2007)	18	2	20
Tom Connor	24	2	26
John Gibson	30	2	32
Alan Millhouse	25	2	27

Consolidated – 2006

Title of executive	Short-term employee benefits $'000	Post-employment benefits $'000	Total $'000
Andrew Greenwood, Chair (retired 29 July 2006)	3	-	3
Phil Hennessy, Chair	37	3	40
Jane Bertelsen, Deputy Chair	27	2	29
Julie Boyd	22	2	24
Mary Maher (retired 31 March 2007)	22	2	24
Tom Connor	23	2	25
John Gibson	27	2	29
Alan Millhouse	12	1	13

Note 28 Related parties disclosures (continued)

Parent – 2007

Title of executive	Short-term employee benefits $'000	Post-employment benefits $'000	Total $'000
Phil Hennessy, Chair	43	4	47
Jane Bertelsen, Deputy Chair	27	3	30
Julie Boyd	22	2	24
Mary Maher (retired 31 March 2007)	18	2	20
Tom Connor	23	2	25
John Gibson	29	2	31
Alan Millhouse	24	2	26

Parent – 2006

Title of executive	Short-term employee benefits $'000	Post-employment benefits $'000	Total $'000
Andrew Greenwood, Chair, retired 29 July 2006	3	-	3
Phil Hennessy, Chair	37	3	40
Jane Bertelsen, Deputy Chair	27	2	29
Julie Boyd	22	2	24
Mary Maher (retired 31 March 2007)	22	2	24
Tom Connor	23	2	25
John Gibson	27	2	29
Alan Millhouse	12	1	13

Directors' remuneration excludes insurance premiums (exclusive of GST) of $60,750 (2006: $57,995) paid by the parent entity in respect of directors' and officers' liability insurance contracts as the contracts do not specify premiums paid in respect of individual directors and officers.

Compensation – Executives

Parent 2007

Title of executive	Short-term employee benefits $'000	Post-employment benefits $'000	Total $'000
Chief Executive Officer	258	33	291
General Manager, Corporate	194	25	219
General Manager, Water Supply Services	182	23	205
General Manager, Operations and Maintenance	181	23	204
General Manager, Engineering Services	181	23	204

Parent 2006

Title of executive	Short-term employee benefits $'000	Post-employment benefits $'000	Total $'000
Chief Executive Officer	247	31	278
General Manager, Corporate	185	24	209
General Manager, Water Supply Services	175	22	197
General Manager, Operations and Maintenance	173	22	195
General Manager, Engineering Services	173	22	195

Transactions with director-related entities

(i) SunWater used the consulting services of KPMG, a firm of which Mr Phil Hennessy is a partner. Total value of the consulting services (inclusive of GST) was $161,930 (2006 – $139,161). The services were procured on a commercial basis in accordance with board-approved processes and the State Purchasing Policy.

(ii) SunWater provided consulting services and supplied office accommodation and sheet piling to Western Corridor Recycled Water Pty Ltd, a State of Queensland controlled company of which Mr Phil Hennessy is a director. SunWater entered commercial arrangements with Western Corridor Recycled Water Pty Ltd prior to the appointment, in May 2007, of Mr Hennessy as a director of the company. Total value of goods and services provided by SunWater (inclusive of GST) was $898,089 (2006 – nil).

(iii) SunWater and its controlled entities used the legal services of Allens Arthur Robinson, a firm of which Mr Alan Millhouse is a partner. During the period of Mr Millhouse's directorship, total value of the legal services (inclusive of GST) was $220,326 (2006 – $139,236). The services were procured on a commercial basis in accordance with board-approved processes and the State Purchasing Policy.

Transactions with subsidiaries

The parent entity within the group is SunWater. Interests in subsidiaries are set out in note 12. All transactions with subsidiaries are carried out under normal commercial terms and conditions or at cost. No transactions occurred between subsidiaries.

The following transactions occurred between the parent entity and its subsidiaries:

	2007 $'000	2006 $'000
Sales of water to subsidiaries	3,708	3,610
Sales of services to subsidiaries	24,164	24,296
Current tax payable assumed from tax consolidated subsidiaries	554	1,803
Current tax losses assumed from tax consolidated subsidiaries	21,907	555
Dividends received from subsidiaries	7,000	12,500
Contributions of equity made to subsidiaries	-	4,900

The following balances are outstanding at the reporting date in relation to transactions with subsidiaries:

	2007 $'000	2006 $'000
Receivables (note 8)	1,044	11,692
Payables (note 16)	21,915	555

Note 28 Related parties disclosures (continued)

Transactions with entities subject to common control

All State of Queensland controlled entities are related parties for the purposes of AASB 124 *Related Party Disclosures*. In its normal commercial business activities, SunWater transacts with Queensland Government departments, statutory bodies, other GOCs and local government bodies. All material transactions are negotiated on terms equivalent to those that prevail in arm's length transactions or in accordance with government policy.

The value of these related party transactions and balances, as reported in the financial statements, on an accruals basis, is:

Financial statement item	Nature of transaction	2007 $'000	2006 $'000
Cash (note 7)	Deposits on call	10,305	16,085
Receivables (note 8)	Water sales	4,493	2,393
Receivables (note 8)	Consultancies	1,298	-
Receivables (note 8)	Sale of goods, rent	332	-
Borrowings (note 18)	QTC borrowings	272,904	92,460
Investments (note 12)	Purchase of subsidiary	-	66,441
Payables (note 16)	Electricity, regulatory charges	1,048	1,359
Contributed equity (note 22)	Equity contributions from shareholders	-	53,175
Dividends (note 24)	Dividends declared	6,170	3,003
Revenue – interest (note 3)	Interest received from QTC	816	1,620
Revenue – all other (note 3)	Water sales, CSO, grants	35,825	39,318
Revenue – consulting fees (note 3)	Consultancies	7,724	-
Revenue – other revenue (note 3)	Sale of goods, rent	567	-
Expense – cost of goods sold (note 4)	Sale of sheet piling	197	-
Expense – interest (note 5)	Interest paid to QTC	12,700	2,995
Expense – all other (note 4)	Electricity, regulatory charges	32,137	18,659

Note 29 Contingent liabilities

There were no known contingent liabilities as at 30 June 2007.

At 30 June 2007, SunWater was involved in several court actions over commercial matters, none of which are expected to result in any significant loss.

Note 30 Segment information

SunWater and its subsidiaries form a single business segment, providing a range of water-related services that are subject to similar risks and returns. SunWater operates predominantly in one geographic segment, being Queensland. Operations outside Queensland are not material.

Note 31 Dam spillways

In the prior year, SunWater carried out a program of dam spillway adequacy reviews in response to revised scientific data which indicates that possible maximum rainfall estimates and resulting flood peaks in various catchments have generally increased from previous estimates. The program, which has been and will continue to be subject to expert external scrutiny, has now identified a number of dams that will require upgrade, and those upgrades have been prioritised within an upgrades program. Funding for the first four upgrades has been secured from the Queensland Government, and SunWater continues to negotiate appropriate funding arrangements with the Queensland Government for the remainder of the program of works.

As part of the program, the upgrade of the spillway at Fred Haigh Dam was completed within budget, and the upgrade of Bjelke-Petersen Dam is in progress at an estimated cost of $6.2 million.

While the regulator issued new guidelines during 2006–07 for minimum requirements for spillway capacity of large dams, these guidelines are to a lower standard than the nationally recognised ANCOLD standards adopted by SunWater. At this time it is not possible to quantify either the complete scope of works or the likely cost; however, the final three dams in the first phase of upgrades are:

Name of dam	Commencement of works	Estimated cost
Borumba Dam	2007–08	$4.2 million
Tinaroo Falls Dam	2008–09	$9.1 million
Wuruma Dam	2009–10	$1.1 million

Note 32 Subsequent events

On 24 May 2007, the Queensland Water Commission released its final report to the Queensland Government on the urban water supply arrangements in South East Queensland. The proposed reforms involve the creation of several new institutions to own and operate bulk storage and distribution infrastructure, and incorporate the acquisition of certain water infrastructure assets in South East Queensland from existing asset owners including SunWater. The details of the acquisitions, including asset pricing, are yet to be finalised.

At 30 June 2007, the carrying value of the assets expected to be acquired from SunWater under the reforms is less than 5% of SunWater's consolidated property, plant and equipment assets.

It is not expected that SunWater's operations will be materially affected by the reforms.

Management certification of the financial statements

These general purpose financial statements have been prepared pursuant to section 46F(1) of the *Financial Administration and Audit Act 1977* and other prescribed requirements. In accordance with section 46F(3) we certify that –

(a) the financial statements and notes to and forming part thereof are in agreement with the accounts and records of SunWater and the consolidated entity; and

(b) in our opinion:
(i) the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
(ii) the financial statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards and other prescribed requirements, of the transactions of SunWater and the consolidated entity for the reporting period 1 July 2006 to 30 June 2007 and of the financial position as at 30 June 2007.

P A Hennessy Chair	P J Noonan Chief Executive Officer	G K White General Manager Corporate

Dated: 31 August 2007

Matters Relating to the Electronic Presentation of the Audited Financial Report

The audit report relates to the financial report of SunWater for the financial year ended 30 June 2007 included on SunWater's web site. The Directors are responsible for the integrity of SunWater's web site.

We have not been engaged to report on the integrity of SunWater's web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from SunWater, to confirm the information included in the audited financial report presented on this web site.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

Report on the Financial Report

I have audited the accompanying financial report of SunWater, which comprises the balance sheet as at 30 June 2007 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies other explanatory notes and certificates given by the Chairperson and officers responsible for the financial administration of the consolidated entity comprising the Board and the entities it controlled at the year's end or from time to time during the financial year.

The Board's Responsibility for the Financial Report

The Board is responsible for the preparation and fair presentation of the financial report in accordance with prescribed accounting requirements identified in the *Financial Administration and Audit Act 1977* and the *Financial Management Standard 1997* including compliance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the Board also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with Auditor-General of Queensland Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers the entity's preparation and fair presentation of the financial report 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 entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by the board, as well as evaluating the overall presentation of the financial report and any mandatory financial reporting requirements as approved by the Treasurer for application in Queensland.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The *Financial Administration and Audit Act 1977* promotes the independence of the Auditor-General and QAO authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised.

The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

Auditor's Opinion

In accordance with s.46G of the *Financial Administration and Audit Act 1977* –

(a) I have received all the information and explanations which I have required; and

(b) in my opinion –

  (i) the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and

  (ii) the financial report has been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards of the transactions of SunWater and the consolidated entity for the financial year 1 July 2006 to 30 June 2007 and of the financial position as at the end of that year.

  (iii) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

M MAYBURY CA
As delegate of the Auditor-General of Queensland Queensland Audit Office
Brisbane
19 September 2007