FINANCIAL REPORT

GENERAL INFORMATION

These financial statements cover both SunWater Limited as the parent entity and the consolidated entity consisting of SunWater Limited and its controlled entities.

The financial statements were authorised for issue by the directors at the date of signing of the Director's Declaration. The directors have the power to amend and reissue the financial statements.

On 1 July 2008, SunWater transitioned to a company government owned corporation (GOC).

SunWater's head office and principal place of business is:

Level 10, 179 Turbot Street
BRISBANE QLD 4000

DIRECTORS' REPORT

Your directors present their report together with the financial report of SunWater Limited and its subsidiaries ("SunWater") for the financial year ended 30 June 2010 and the auditor's report thereon.

DIRECTORS

The following persons were directors of SunWater Limited during the whole of the financial year and up to the date of this report:
Ms J Bertelsen
Mr T Connor
Ms K Ferguson
Mr J Gibson
Mr G Moynihan
Mr N Turner

Mr P Hennessy was a director from the beginning of the financial year until his resignation on 30 September 2009.

Mr S Spencer was appointed as a director and chairman on 1 October 2009.

Further information about directors' qualifications, experience, term of appointment and attendance at meetings are detailed in the "Our Leaders" and "Corporate Governance" sections of the Annual Report on pages 28 to 30 and page 38 respectively. (Information about the qualifications and experience of the company secretaries of SunWater Limited is detailed in the "Our Leaders" section of the Annual Report on page 31.)

PRINCIPAL ACTIVITY

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

FINANCIAL PERFORMANCE

The consolidated after tax profit for the financial year amounted to $44.761M (2009: $85.979M profit). Further details of SunWater's financial performance are provided in the "Financial Summary" section of the Annual Report.

DIVIDENDS

In respect of the financial year ending 30 June 2010, a dividend of $10.640M was declared to the holders of fully paid ordinary shares (2009: $7.625M declared for the full reporting period ending 30 June 2009 and paid in December 2009).

REVIEW OF OPERATIONS

Information on the operations of SunWater and the results of those operations are detailed in the "Operational Performance" section of the Annual Report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Contributed equity increased by $70.609M as a result of further Queensland Government investment in the company. $60.000M was contributed as balance sheet support following the 2008–09 capital structure review conducted by Queensland Treasury Corporation. $10.609M was contributed by the Queensland Government to fund the required dam safety upgrade to the Tinaroo Falls Dam.

During the year, the Queensland Government released its policy on how SunWater's future irrigation water prices are to be determined for the five year period from 1 July 2011 to 30 June 2016. The policy continues the transition towards full cost recovery, where practicable, to achieve full cost recovery within 15 years from 1 July 2011. The Queensland Competition Authority (QCA) has been appointed to conduct an independent review and make recommendations to government on future water pricing in early 2011. The QCA report is expected to be completed in April, 2011 and new prices will be set by June, 2011.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

(a) SunWater's operations in future financial years,

(b) the results of those operations in future financial years, or

(c) SunWater's state of affairs in future financial years;

except as set out elsewhere in this report and the financial statements.

LIKELY DEVELOPMENTS

An outline of the likely developments in SunWater's operations is included in the "Securing Tomorrow" section of the Annual Report on page 16.

ENVIRONMENTAL REGULATION

SunWater's operations are subject to significant environmental regulation under both Commonwealth and State legislation. SunWater aims to achieve a high standard of care for the natural environment in all its activities. In order to achieve this goal, SunWater has implemented an Environmental Management System, consistent with the requirements of AS/NZS ISO14001:2004 and which is third party certified, across all levels and functions of the organisation.

The SunWater Environmental Management System covers the following:

- development and ongoing management of SunWater's existing and future water supply schemes;
- provision of strategic and routine operations and maintenance services to both internal SunWater clients and external water infrastructure owners;
- planning and design of water distribution and supply infrastructure – this includes project planning, feasibility studies, geotechnical investigations, site surveys, facility design, development of project specifications and performance criteria, and project management; and
- refurbishment and construction of water distribution and supply infrastructure.

Further information in relation to environmental issues is disclosed in the "Environment" section of the Annual Report on page 20 and in note 29 to the financial statements.

DIRECTORS' REPORT

SAFETY

SunWater's water infrastructure assets are located throughout Queensland. The increasing age profile of the assets continues to focus attention on the safety of SunWater's employees, customers and the public. During the year, SunWater's safety program included the ongoing construction of the Tinaroo Falls Dam upgrade, the implementation of a wide-ranging upgrade program for the safe operation of the assets and the continuation of a media campaign to encourage positive safety behaviours on and around SunWater's infrastructure by members of the public.

INSURANCE OF OFFICERS

During the financial year, SunWater paid a premium of $72,253 (exclusive of GST) to insure the directors and secretaries of SunWater Limited and its wholly owned subsidiary companies, and the executive officers of SunWater.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the directors and officers in their capacity as officers of entities in SunWater, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to SunWater. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out following this Directors' Report.

INCLUSION OF PARENT ENTITY FINANCIAL STATEMENTS

SunWater has elected, under Class Order 10/654 issued by the Australian Securities and Investments Commission, to continue to include parent entity financial statements in the financial report because the parent entity financial statements provide information that is relevant to the users of SunWater's financial report.

ROUNDING OF AMOUNTS

The Corporation is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

AUDITOR

The Auditor-General of Queensland continues in office in accordance with section 327 of the *Corporations Act 2001.* No non-audit services are provided to SunWater by the Auditor-General. Further information is set out in note 25 to the financial statements.

This report is made in accordance with a resolution of directors.

S N Spencer
Chairman

Brisbane, Qld
27 August 2010

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 46 to 66 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(c) the financial statements also comply with International Financial Reporting Stanards as disclosed in note 1(a).

This declaration is made in accordance with a resolution of the directors.

S N Spencer
Chairman

Brisbane, Qld
27 August 2010

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of SunWater Limited

This auditor's independence declaration has been provided pursuant to s.307C of the *Corporations Act 2001*.

INDEPENDENCE DECLARATION

As lead auditor for the audit of SunWater Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been –

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

G G POOLE FCPA
Auditor-General of Queensland

Queensland Audit Office
Brisbane

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	NOTES	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Revenue from continuing operations	4	196,442	198,568	207,701	198,185
Other income	5	3,605	61,156	3,579	61,156
EXPENSES FROM CONTINUING OPERATIONS:					
Employee benefits expense		(39,431)	(39,251)	(40,970)	(40,843)
Depreciation and amortisation expense		(24,377)	(24,433)	(17,702)	(18,110)
Impairment expense		(3,041)	(19,003)	(1,916)	(19,003)
Contracted services expense		(10,760)	(19,399)	(26,904)	(20,245)
Electricity expense		(18,783)	(14,549)	(18,079)	(13,837)
Materials expense		(3,124)	(5,249)	(6,884)	(9,932)
Plant hire expense		(2,763)	(4,946)	(2,876)	(4,971)
Motor vehicle operating leases expense		(2,556)	(2,484)	(2,556)	(2,484)
IT charges		(1,160)	(1,152)	(1,160)	(1,152)
Travel expense		(1,438)	(1,992)	(1,509)	(2,089)
Accommodation expense		(2,706)	(2,930)	(2,776)	(2,931)
Insurance expense		(5,202)	(4,979)	(4,758)	(4,627)
Legal expense		(2,820)	(2,569)	(982)	(1,574)
Rates and land tax expense		(1,352)	(1,189)	(1,213)	(1,076)
Telephone, facsimile and data lines expense		(1,580)	(2,012)	(1,576)	(2,007)
Cost of water allocations sold		(739)	(862)	-	-
Other expenses		(1,638)	(2,970)	(1,719)	(2,873)
Finance costs	6	(17,413)	(16,911)	(15,583)	(15,114)
Profit before income tax equivalents		**59,164**	**92,844**	**62,117**	**96,473**
Income tax equivalents expense	7	(14,403)	(6,865)	(13,627)	(3,715)
Profit for the year		**44,761**	**85,979**	**48,490**	**92,758**
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**44,761**	**85,979**	**48,490**	**92,758**
Profit/comprehensive income attributable to owners of SunWater Limited		**44,761**	**85,979**	**48,490**	**92,758**

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

BALANCE SHEETS

As at 30 June 2010

		CONSOLIDATED		PARENT	
	NOTES	2010 $'000	2009 $'000	2010 $'000	2009 $'000
ASSETS					
CURRENT ASSETS					
Cash	8	216,517	135,101	202,806	120,316
Receivables	9	8,076	8,646	8,062	9,439
Inventories	10	2,572	2,639	2,572	2,639
Other current assets	11	16,499	19,252	11,740	19,104
		243,664	165,638	225,180	151,498
Non-current assets classified as held for sale	12	-	1,916	-	1,916
Total current assets		**243,664**	**167,554**	**225,180**	**153,414**
NON-CURRENT ASSETS					
Receivables	9	126	110	27,529	2,666
Other financial assets	13	-	-	81,296	72,668
Property, plant and equipment	14	667,288	621,418	553,859	522,752
Intangible assets	15	54,843	56,772	5,895	7,085
Deferred tax assets	16	9,636	17,920	7,536	15,419
Total non-current assets		**731,893**	**696,220**	**676,115**	**620,590**
Total assets		**975,557**	**863,774**	**901,295**	**774,004**
LIABILITIES					
CURRENT LIABILITIES					
Payables	17	20,932	22,390	19,477	19,813
Provisions	18	18,042	12,513	18,042	12,513
Borrowings	19	2,839	3,557	21,034	11,003
Other	20	7,362	9,523	7,362	9,523
Total current liabilities		**49,175**	**47,983**	**65,915**	**52,852**
NON-CURRENT LIABILITIES					
Provisions	18	1,173	1,161	1,173	1,161
Borrowings	19	245,977	245,311	230,273	230,273
Other	20	2,226	-	2,226	-
Deferred tax liabilities	21	34,166	31,209	18,717	15,186
Total non-current liabilities		**283,542**	**277,681**	**252,389**	**246,620**
Total liabilities		**332,717**	**325,664**	**318,304**	**299,472**
Net assets		**642,840**	**538,110**	**582,991**	**474,532**
EQUITY					
Contributed equity	23	359,320	288,711	359,320	288,711
Retained earnings		283,520	249,399	223,671	185,821
Total equity		**642,840**	**538,110**	**582,991**	**474,532**

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2010

	NOTES	CONTRIBUTED EQUITY $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
CONSOLIDATED				
Balance at 1 July 2008		288,711	171,045	459,756
Total comprehensive income for the year		-	85,979	85,979
Contributions of equity	23	-	-	-
Dividends	24	-	(7,625)	(7,625)
Balance at 30 June 2009		288,711	249,399	538,110
Total comprehensive income for the year		-	44,761	44,761
Contributions of equity	23	70,609	-	70,609
Dividends	24	-	(10,640)	(10,640)
Balance at 30 June 2010		**359,320**	**283,520**	**642,840**
PARENT				
Balance at 1 July 2008		288,711	100,688	389,399
Total comprehensive income for the year		-	92,758	92,758
Contributions of equity	23	-	-	-
Dividends	24	-	(7,625)	(7,625)
Balance at 30 June 2009		288,711	185,821	474,532
Total comprehensive income for the year		-	48,490	48,490
Contributions of equity	23	70,609	-	70,609
Dividends	24	-	(10,640)	(10,640)
Balance at 30 June 2010		**359,320**	**223,671**	**582,991**

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

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2010

		CONSOLIDATED		PARENT	
	NOTES	2010 $'000	2009 $'000	2010 $'000	2009 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of GST and refunded GST)		206,458	208,745	179,373	186,654
Community service obligations received		2,354	2,476	1,125	2,476
Interest received		158	269	132	269
Intercompany taxes received		-	-	3,284	2,802
Payments to suppliers and employees (inclusive of GST)		(102,484)	(117,240)	(126,256)	(114,414)
Net cash inflow (outflow) from operating activities	**26**	**106,486**	**94,250**	**57,658**	**77,787**
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment	12	2,480	78,083	2,443	78,083
Proceeds from term debtors		9	94	9	94
Payments from intercompany borrowings		-	-	3,162	-
Interest received		4,912	6,695	5,273	5,798
Dividends received		-	-	14,000	14,100
Payments for property, plant and equipment		(79,350)	(45,584)	(49,113)	(44,138)
Net cash inflow (outflow) from investing activities		**(71,949)**	**39,288**	**(24,226)**	**53,937**
CASH FLOWS FROM FINANCING ACTIVITIES					
Government grant received		266	680	-	-
Equity injection		70,609	-	70,609	-
Interest paid		(15,186)	(16,833)	(13,926)	(15,086)
Repayment of borrowings		(1,185)	(16,436)	-	(15,000)
Dividends paid		(7,625)	(5,897)	(7,625)	(5,897)
Net cash inflow (outflow) from financing activities		**46,879**	**(38,486)**	**49,058**	**(35,983)**
Net increase (decrease) in cash held		**81,416**	**95,052**	**82,490**	**95,741**
Cash at the beginning of the financial year		135,101	40,049	120,316	24,575
Cash at the end of the financial year		**216,517**	**135,101**	**202,806**	**120,316**

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2010

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 Limited, the parent entity, and the consolidated entity consisting of SunWater Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*.

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

Compliance with IFRS

The consolidated financial statements of SunWater and the separate financial statements of SunWater Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 Australian Accounting Standards 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 financial statements are disclosed in notes 3 and 14.

Financial statement presentation

SunWater has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. As a consequence, SunWater has changed the presentation of its financial statements. Comparative information has been represented so that it is also in conformity with the revised standard.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the parent entity as at 30 June 2010 and the financial results of all subsidiaries for the year then ended. 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 13).

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) Segment reporting

Neither SunWater Limited nor any of its subsidiaries are included in the scope of Accounting Standard AASB 8 *Operating Segments*. Also, 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. Consequently, no segment information is presented in these general purpose financial statements.

(d) 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. Revenue from water operations 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. Revenue from electricity generation is recognised on the amount of electricity generated and measured at the reporting date. Water allocations sales revenue is recognised at the point of sale. Interest income is recognised as interest accrues. Lease income from operating leases is recognised in revenue on a straight-line basis over the lease term.

(e) Government grants

The parent entity received community service obligation (CSO) payments from the Queensland Government. The payments fund the Rural Water CSO in recognition of the current rural water pricing policies set by the government as well as certain other activities for which there are not any other revenue sources. These amounts are recorded as revenue from ordinary activities.

New rural water infrastructure assets or extensions to existing assets that are built by clear direction from government for other than commercial return may also incorporate a CSO component. These amounts are initially recorded as pre-paid revenue. Revenue is recognised on a systematic basis over the accounting periods in which the related assets' costs are recognised.

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.

(f) Income tax

SunWater is exempt from income tax under section 24AM of the *Income Tax Assessment Act* but, in accordance with part 2 of the Manual for the National Tax Equivalents Regime, is required to comply with the National Tax Equivalents Regime 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.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Tax consolidation legislation

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 subsidiaries 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 subsidiaries in the tax-consolidated group.

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.

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 notes 9 and 17).

(g) 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.

The respective leased assets are included in the balance sheet based on their nature.

(h) Business combinations

The acquisition 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. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, SunWater recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(i) Change in accounting policy

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

The consideration transferred is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under SunWater's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are now expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the group recognises previously acquired deferred tax assets after the initial acquisition accounting is completed, there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase SunWater's net profit after tax.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) 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 in cash generating units (CGU) which are 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. 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.

(j) 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.

(k) 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. 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 impairment of trade receivables is established when there is objective evidence that all amounts due according to the original terms of the receivables will not be able to be collected. The amount of the impairment loss is recognised in the income statement. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised in the income statement.

(ii) Term trade debtors

Term trade debtors represent the term sale of water allocations. The settlement date on these debtors ranges from one to two years.

(l) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

(m) 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.

(n) 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 less accumulated depreciation and impairment losses.

The cost of self-constructed items includes the direct cost of construction plus costs incidental to the construction, 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 1(s)). 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 assets. 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 completed and 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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(o) 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. Useful life to the entity is determined after considering a number of factors such as manufacturer's specifications, engineering life, climatic conditions, geographic conditions and contractual life.

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	1.25% to 20%
Plant and equipment	8% to 40%
Infrastructure	0.5% to 10%

(p) 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 recognised at cost which is a nominal amount ($1) when water allocations are granted free of charge (note 1(e)).

After initial recognition, water allocations are carried at cost less any accumulated impairment losses. Water allocations have an indefinite life and are not amortised but are reviewed annually for indications of impairment. No recognition threshold is applied. Water allocations held for sale are recognised at the lower of cost and net realisable value.

(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 on an annual basis, 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.

(q) 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.

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Any fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(s) 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.

(t) 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 is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) 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 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.

(v) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages, salaries and annual leave due but unpaid at the reporting date are recognised in payables 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.

(w) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of SunWater, on or before the end of the reporting period but not distributed at balance date.

(x) 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 flows.

(y) 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.

(z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. SunWater's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share Based Payment Transactions (effective from 1 January 2010)

This standard does not impact SunWater because, as a government owned corporation, it is unable to make share-based payments to employees.

(ii) AASB 2009–10 *Amendments to Australian Accounting Standards – Classification of Rights Issues* (effective from 1 February 2010)

This standard does not impact SunWater because, as a government owned corporation, it does not issue rights.

(iii) AASB 9 Financial Instruments and AASB 2009-11 *Amendments to Australian Accounting Standards* arising from AASB 9 (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is not expected to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. SunWater is yet to assess its full impact and has not yet decided when to adopt AASB 9.

(iv) Revised AASB 124 *Related Party Disclosures and AASB 2009–12 Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The group will apply the amended standard from 1 July 2011.

(v) AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009–13 *Amendments to Australian Accounting Standards arising from Interpretation 19* (effective from 1 July 2010)

AASB Interpretation 19 clarifies the accounting treatment when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. SunWater will apply the interpretation from 1 July 2010. It is not expected to have any impact on the consolidated or the parent entity's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and SunWater has not entered into any debt for equity swaps since that date.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vi) AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* (effective from 1 January 2011)

This interpretation will not apply to SunWater because it does not have a defined benefits scheme. (Refer note 1(v)(iii))

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, interest rate risk and price risk), credit risk and liquidity risk. The objectives of SunWater's financial risk management policies are to focus mainly on counterparty risks and the unpredictability of the financial markets and to seek to minimise potential adverse effects on the financial performance of the consolidated entity. SunWater uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and aging analysis and counterparty risk analysis for credit risk. The Board has endorsed written principles for overall risk management, as well as policies covering specific areas, such as mitigating interest rate and credit risk, use of derivative financial instruments and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Although SunWater does not operate internationally, on occasion, SunWater may source plant and equipment or components of water infrastructure assets internationally and become exposed to foreign exchange risk. The SunWater Board has approved policies to manage foreign exchange risk. SunWater may elect to hedge foreign exchange risk on exposures arising from future commercial transactions and recognised assets and liabilities using approved derivative risk instruments on advice from, and transacted by, Queensland Treasury Corporation (QTC).

During 2009–10, SunWater had no significant exposure to foreign exchange risk and did not enter into any derivative contracts to hedge its foreign exchange risk exposure.

(ii) Price risk

Commodity price risk arises when future commercial supply agreements are subject to fluctuations in price movements.

During 2009–10, SunWater had no significant exposure to price risk.

(iii) Cash flow and fair value interest rate risk

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 QTC in accordance with policies approved by the SunWater Board. Interest rate risk is measured monthly through the monitoring of changes in yields over the debt duration profile.

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. SunWater has assumed a movement of +/- 100 basis points in interest rates applicable to its borrowings as a reasonable expectation based on historical patterns for the type of debt facility held.

2010 INTEREST RATE RISK

CONSOLIDATED	CARRYING AMOUNT $'000	-1% PROFIT $'000	-1% EQUITY $'000	+1% PROFIT $'000	+1% EQUITY $'000
FINANCIAL INSTRUMENTS					
Cash	216,517	(1,623)	(1,623)	1,623	1,623
QTC borrowings	248,816	2,481	2,481	(2,481)	(2,481)
Overall effect on profit and equity		**858**	**858**	**(858)**	**(858)**

2009 INTEREST RATE RISK

CONSOLIDATED	CARRYING AMOUNT $'000	-1% PROFIT $'000	-1% EQUITY $'000	+1% PROFIT $'000	+1% EQUITY $'000
FINANCIAL INSTRUMENTS					
Cash	135,101	(1,286)	(1,286)	1,286	1,286
QTC borrowings	248,868	2,458	2,458	(2,458)	(2,458)
Overall effect on profit and equity		**1,172**	**1,172**	**(1,172)**	**(1,172)**

(b) Credit risk

Credit risk largely arises from the potential failure of counterparties to meet their obligations under the respective contracts. Credit evaluations are performed on all customers requiring credit over a certain amount and on all counterparties to significant contracts. Exposure to credit risk is monitored on an ongoing basis. Cash is invested under the following approved policy conditions:

1. Deposits up to $10M may be invested with an Australian institution that has a current credit rating of A- to A+, up to an aggregate cap of $50M for all institutions in this rating category;

2. Deposits up to a cap of $50M may be invested with an Australian institution that has a current credit rating of AA- or higher;

3. Deposits of any amount may be invested with QTC.

During 2009–10, SunWater had no transactions involving derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2010

NOTE 2 FINANCIAL RISK MANAGEMENT (CONTINUED)

At the balance sheet date there were no other significant concentrations of credit risk in respect to recognised financial instruments. The maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as represented in the following table:

MAXIMUM EXPOSURE TO CREDIT RISK CATEGORY	NOTE	2010 $'000	2009 $'000
CONSOLIDATED			
Cash at bank and short-term deposits invested in Australian institutions rated AA- or higher	8	74,975	119,210
Held-to-maturity investments in Australian institutions rated A- to A+	8	20,257	-
Held-to-maturity investments in Australian institutions rated AA- or higher	8	121,274	15,874
Other cash and cash equivalents	8	11	17
Receivables – current	9	8,076	8,646
Receivables – non-current	9	126	110
Advance to Burnett Dam Alliance	11	1,000	1,000
		225,719	144,857
PARENT			
Cash at bank and short-term deposits invested in Australian institutions rated AA- or higher	8	61,264	104,425
Held-to-maturity investments in Australian institutions rated A- to A+	8	20,257	-
Held-to-maturity investments in Australian institutions rated AA- or higher	8	121,274	15,874
Cash and cash equivalents	8	11	17
Receivables – current	9	8,062	9,439
Receivables – non-current	9	27,529	2,666
		238,397	132,421

Collateral in the form of insurance bonds is held as security for the advance to Burnett Dam Alliance.

No financial assets and financial liabilities have been offset and presented net in the Balance Sheets.

The method for calculating any impairment for credit risk is based on past experience, current and expected changes in economic conditions and changes in client credit ratings.

(c) Liquidity risk

Liquidity risk management within SunWater ensures sufficient cash is available to meet short-term and long-term financial commitments. SunWater has policies in place to manage liquidity risk. SunWater manages liquidity risk by monitoring forecast cash flows to ensure that sufficient cash and short-term borrowing facilities are maintained, so that adequate funds are available at all times to meet SunWater's commitments as they arise.

The following table sets out the liquidity risk of financial liabilities held by SunWater. It represents the contractual maturity of financial liabilities, calculated based on undiscounted cash flows.

2010	CARRYING AMOUNT $'000	LESS THAN 1 YEAR $'000	1 – 5 YEARS $'000	OVER 5 YEARS $'000	TOTAL CASH FLOWS (CONTRACTUAL) $'000
CONSOLIDATED					
Payables	20,932	20,932	-	-	20,932
Borrowings – QTC	248,816	19,314	77,298	242,565*	339,177
Deposits payable	392	14	25	353	392
Other	18	18	-	-	18
	270,158	40,278	77,323	242,918	360,519
PARENT					
Payables	19,477	19,477	-	-	19,477
Borrowings – QTC	217,530	15,757	63,069	212,963*	291,789
Intercompany loan	33,777	19,901	13,876	-	33,777
Deposits payable	392	14	25	353	392
Other	18	18	-	-	18
	271,194	55,167	76,970	213,316	345,453

2009	CARRYING AMOUNT $'000	LESS THAN 1 YEAR $'000	1 – 5 YEARS $'000	OVER 5 YEARS $'000	TOTAL CASH FLOWS (CONTRACTUAL) $'000
CONSOLIDATED					
Payables	22,390	22,390	-	-	22,390
Borrowings – QTC	248,868	18,058	72,173	247,978*	338,209
Deposits payable	372	14	25	333	372
Other	11	11	-	-	11
	271,641	40,473	72,198	248,311	360,982
PARENT					
Payables	19,813	19,813	-	-	19,813
Borrowings – QTC	216,397	14,501	57,944	217,013*	289,458
Intercompany loan	24,879	11,003	13,876	-	24,879
Deposits payable	372	14	25	333	372
Other	11	11	-	-	11
	261,472	45,342	71,845	217,346	334,533

** Cash flows over 5 years are based on estimated market value.*

NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

SunWater makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of assets

Under the government's regulated irrigation price path which governs SunWater's irrigation water supply revenue, SunWater does not currently recover full costs. This is an "indication of impairment" of the water infrastructure assets used to generate that revenue. In assessing the value-in-use (recoverable amount) of the water infrastructure assets using the net present value of future cash flows derived from each cash-generating unit, key assumptions and estimates concerning the future are made.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2010

NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

- The Queensland Government has released its policy on how SunWater's future irrigation water prices are to be determined for the five year period from 1 July 2011 to 30 June 2016. The policy continues the transition towards achieving full cost recovery, where practicable, within 15 years from 1 July 2011. The Queensland Competition Authority (QCA) has been appointed to conduct an independent review and make recommendations to government on future irrigation water pricing in early 2011. The QCA report is expected to be completed in April, 2011 and new prices will be set by June, 2011 for application from 1 July, 2011.

  Due to the long life of SunWater's water infrastructure assets, the calculation of recoverable amount, which is carried out using SunWater's detailed 25 year financial model, is highly sensitive to variations in the key assumptions. Significant assumptions underpinning the modelling process include assumptions about the 2011–15 price path, which is subject to the outcome of QCA's independent review and subsequent determination of prices. These include:

  - transitioning prices to full cost recovery, where practicable, over a period of up to 15 years,
  - opening regulated asset base, and
  - capacity of irrigation customers to pay price increases.

  In the absence of an approved future pricing structure after 1 July 2011, estimates of future irrigation cash inflows have been based on conservative assumptions aligned as closely as possible with the government's announced irrigation pricing policy. Estimates of future cash outflows have been based on SunWater's Network Service Plans that, at balance date, were being prepared for each water supply scheme.

  However, as outcomes from SunWater's model are highly sensitive to small variations in the above key assumptions, possible outcomes, subject to QCA determination, range from the recognition of an impairment expense to significant recoupment of prior period impairment expense (revenue).

  Overall, a conservative approach has been taken to minimize the risk of material differences attributable to the uncertainty in the assumptions made during this transitional period to the new price path. Having due regard to the inherent uncertainty underlying the key assumptions that arises from the as yet unknown outcome of the QCA pricing determination, over which management has no control, the accounting estimate of impairment/reversal of impairment so derived has not been recognised in the accounts.

- 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.
- There is not an open market for the sale of water infrastructure owned by SunWater.
- The cash flow projections assume water availability equals expected customer usage over the long term.
- The cash flow projections anticipate that business efficiencies will be achieved over time to meet benchmarked efficient costs.

(ii) Useful life of property, plant and equipment

Many of SunWater's water infrastructure assets have extremely long lives. Factors considered in estimating the useful life of assets are set out in note 1(o).

(iii) Non-current intangible assets

Under AASB 138 *Intangible Assets*, water allocations are assessed as having an indefinite life. In determining this position, SunWater has assumed that the current Resource Operating Licence conditions will continue in perpetuity.

NOTE 4 REVENUE

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
REVENUE FROM ORDINARY ACTIVITIES				
Industrial water charges	99,919	99,162	74,272	75,506
Irrigation water charges	49,815	42,782	48,863	41,963
Urban water charges	6,855	6,250	6,855	6,250
Drainage charges	1,287	1,251	1,287	1,251
Water allocations revenue	11,991	11,401	9,151	8,967
Consulting and facilities services revenue	13,259	24,402	41,453	37,784
Electricity generation	684	634	587	633
Community service obligation	3,290	3,174	2,128	3,174
Other fees and charges	367	502	367	502
Grants	736	482	736	482
Interest	7,250	6,976	7,089	6,079
Dividends received	-	-	14,000	14,100
Rent received	240	966	240	966
Other	749	586	673	528
Total revenue from ordinary activities	**196,442**	**198,568**	**207,701**	**198,185**

NOTE 5 OTHER INCOME

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
OTHER INCOME				
Gain on disposal of non-current assets	1,423	49,119	1,397	49,119
Gain on settlement of loan	-	289	-	289
Proceeds from bank guarantees	-	11,500	-	11,500
Proceeds from insurance settlement	2,182	248	2,182	248
Total other income	**3,605**	**61,156**	**3,579**	**61,156**

NOTE 6 FINANCE COSTS

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Interest and finance charges paid/payable	17,413	17,277	15,583	15,480
Amount capitalised (actual)	-	(366)	-	(366)
Finance costs expensed	**17,413**	**16,911**	**15,583**	**15,114**

NOTES TO THE FINANCIAL STATEMENTS

30 June 2010

NOTE 7 INCOME TAX EQUIVALENTS

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
(a) Income tax equivalents expense				
Current tax equivalents expense	11,012	10,625	10,063	7,593
Deferred tax equivalents expense	3,825	2,347	3,998	2,229
Over-provided in prior years	(434)	(6,107)	(434)	(6,107)
	14,403	**6,865**	**13,627**	**3,715**
Income tax equivalents expense is attributable to:				
Profit from continuing operations	14,403	6,865	13,627	3,715
Deferred tax equivalents expense included in income tax equivalents expense comprises:				
Decrease/(increase) in deferred tax assets (note 16)	870	(243)	468	(718)
Increase in deferred tax liabilities (note 21)	2,955	2,590	3,530	2,947
	3,825	**2,347**	**3,998**	**2,229**

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

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Profit from continuing operations before income tax equivalents expense	59,164	92,844	62,117	96,473
Tax at 30%	17,749	27,854	18,635	28,942
Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income:				
Entertainment expenses	23	22	23	22
Disposal of assets to Seqwater	–	(14,664)	–	(14,664)
Dividends from subsidiaries	–	–	(4,200)	(4,230)
Sundry items	44	(203)	55	(211)
Prior year over provision	(434)	(6,107)	(434)	(6,107)
Investment allowance	(2,979)	(37)	(452)	(37)
Income tax equivalents expense	**14,403**	**6,865**	**13,627**	**3,715**

NOTE 8 CASH AND CASH EQUIVALENTS

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Cash on hand	11	18	11	18
Cash at bank	1,878	2,477	1,384	663
Deposits on call	73,097	116,732	59,880	103,761
Term deposits	141,531	15,874	141,531	15,874
	216,517	**135,101**	**202,806**	**120,316**

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:				
Balances as per statement of cash flows	**216,517**	**135,101**	**202,806**	**120,316**

(b) Risk exposure

SunWater's risk exposure is reported in note 2.

NOTE 9 RECEIVABLES

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
CURRENT				
Trade debtors	9,138	9,697	4,424	6,405
Term trade debtors	38	49	38	49
Intercompany receivables	-	-	1,460	801
Intercompany taxation receivables	-	-	3,240	3,284
	9,176	**9,746**	**9,162**	**10,539**
Less: Provision for impairment of receivables	1,100	1,100	1,100	1,100
	8,076	**8,646**	**8,062**	**9,439**
NON-CURRENT				
Term trade debtors	126	110	126	110
Intercompany receivables	-	-	27,403	2,556
	126	**110**	**27,529**	**2,666**

(a) Impaired receivables

The ageing of trade receivables is as follows:

CONSOLIDATED	GROSS RECEIVABLE 2010 $'000	IMPAIRMENT 2010 $'000	GROSS RECEIVABLE 2009 $'000	IMPAIRMENT 2009 $'000
Not past due	6,272	256	6,937	350
Past due 0 – 30 days	805	125	837	33
Past due 31 – 60 days	930	102	1,530	165
More than 60 days	1,131	617	552	552
	9,138	**1,100**	**9,856**	**1,100**

NOTES TO THE FINANCIAL STATEMENTS

30 June 2010

NOTE 9 RECEIVABLES (CONTINUED)

(b) Foreign exchange and interest rate risk

Information about SunWater's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is discussed in note 2.

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. For more information on SunWater's risk management policies, refer to note 2.

NOTE 10 INVENTORIES

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Materials and stores	**2,572**	**2,639**	**2,572**	**2,639**

Inventory expense

Inventories recognised as expense during the year ended 30 June 2010 amounted to $1.765M (2009 – $1.542M). There were no write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2010 (2009 – nil). Inventory to the value of $0.341M was written off during the year (2009: $0.072M). There were no reversals of previous write-downs (2009: nil).

NOTE 11 OTHER CURRENT ASSETS

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
GST receivable	1,054	1,562	961	1,401
Prepayments	1,172	1,167	1,172	1,167
Advance to Burnett Dam Alliance	1,000	1,000	-	-
Other debtors	-	50	-	50
Accrued revenue(1)	13,273	15,473	9,607	16,486
	16,499	**19,252**	**11,740**	**19,104**

(1) *Includes water delivered to 30 June but not invoiced.*

NOTE 12 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Water infrastructure	**-**	**1,916**	**-**	**1,916**

NOTE 13 OTHER FINANCIAL ASSETS

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Shares in controlled entities – at cost	**-**	**-**	**81,296**	**72,668**

Information relating to the controlled entities is set out below.

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING 2010 %	EQUITY HOLDING 2009 %
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 year, $8.628M in additional equity was injected into Burnett Water Pty Ltd for working capital purposes.*

NOTE 14 PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Land(1)	**8,134**	**8,454**	**8,134**	**8,454**
Buildings and land improvements(1)	13,569	14,274	13,535	14,274
Less: accumulated depreciation	2,998	2,702	2,990	2,702
Total buildings and land improvements	**10,571**	**11,572**	**10,545**	**11,572**
Plant and equipment(1)	18,453	17,607	18,442	17,605
Less: accumulated depreciation	9,591	7,909	9,588	7,909
Less: accumulated impairment	365	365	365	365
Total plant and equipment	**8,497**	**9,333**	**8,489**	**9,331**
Water infrastructure(1)	749,922	694,280	596,643	570,248
Less: accumulated depreciation	86,656	66,318	51,040	37,367
Less: accumulated impairment	105,247	82,181	99,273	77,332
Total water infrastructure	**558,019**	**545,781**	**446,330**	**455,549**
Assets under construction(1)(2)	**82,067**	**46,278**	**80,361**	**37,846**
Total property, plant and equipment	**667,288**	**621,418**	**553,859**	**522,752**

(1) *At cost or deemed cost.*

(2) *Includes the costs of investigating feasibilities associated with the development of business cases for proposed water infrastructure projects that, at commencement, were deemed more likely to proceed to construction. If circumstances arise in the future whereby any of the business cases are unsuccessful, an impairment loss will be recognised at that time. No such circumstances were known at 30 June 2010, and no impairment losses of that nature were recognised.*

NOTES TO THE FINANCIAL STATEMENTS

30 June 2010

NOTE 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of 2009–10 are set out below.

	LAND $'000	BUILDINGS & LAND IMPROVEMENTS $'000	PLANT & EQUIPMENT $'000	WATER INFRASTRUCTURE $'000	ASSETS UNDER CONSTRUCTION $'000	TOTAL $'000
CONSOLIDATED						
Carrying amount at 1 July 2009	8,454	11,572	9,333	545,781	46,278	621,418
Additions	-	223	1,243	33,815	71,113	106,394
Disposals	(322)	(738)	(11)	(52)	-	(1,123)
Transfer between classes	2	27	8	(37)	(35,324)	(35,324)
Transfer from non-current assets held for sale (note 12)	-	-	-	1,916	-	1,916
Depreciation expense	-	(513)	(2,076)	(20,363)	-	(22,952)
Impairment loss (accumulated impairment)	-	-	-	(3,041)	-	(3,041)
Carrying amount at 30 June 2010	**8,134**	**10,571**	**8,497**	**558,019**	**82,067**	**667,288**

	LAND $'000	BUILDINGS & LAND IMPROVEMENTS $'000	PLANT & EQUIPMENT $'000	WATER INFRASTRUCTURE $'000	ASSETS UNDER CONSTRUCTION $'000	TOTAL $'000
PARENT						
Carrying amount at 1 July 2009	8,454	11,572	9,331	455,549	37,846	522,752
Additions	-	223	1,243	4,514	48,539	54,519
Disposals	(322)	(738)	(9)	(42)	-	(1,111)
Transfer between classes	2	-	-	(2)	(6,024)	(6,024)
Transfer from non-current assets held for sale (note 12)	-	-	-	1,916	-	1,916
Depreciation expense	-	(512)	(2,076)	(13,689)	-	(16,277)
Impairment loss (accumulated impairment)	-	-	-	(1,916)	-	(1,916)
Carrying amount at 30 June 2010	**8,134**	**10,545**	**8,489**	**446,330**	**80,361**	**553,859**

Impairment

Cash generating units in which material impairment losses were recognised or (reversed) during the financial year are:

	CONSOLIDATED LOSS $'000	CONSOLIDATED (REVERSED) $'000	PARENT LOSS $'000	PARENT (REVERSED) $'000
Goondicum Pipeline[1]	1,916	-	1,916	-
Kirar Weir[2]	1,125	-	-	-

[1] *SunWater constructed the Goondicum Pipeline to provide water to a mining customer. During 2008–09, and prior to commissioning of the pipeline, the customer went into voluntary administration. SunWater signed a Pipeline Transfer Agreement on 1 May 2009 with another party who agreed to pay $2.5M to SunWater on the later of 1 May 2013 and the date that the pipeline was legally transferred to them. At 30 June 2010, SunWater has formed the view that the amount is unlikely to be collected. Consequently, an impairment expense equal to the book value of the asset has been recognised.*

[2] *This CGU comprises the Kirar Weir water infrastructure asset owned by SunWater's subsidiary company, Burnett Water Pty Ltd. The impairment loss arises because of additional post commissioning expenditure required to bring the weir to operating condition. Recoverable amount is determined as value in use. The discount rate used was 11.28% (2009: 10.8%).*

NOTE 15 INTANGIBLE ASSETS

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Software[1]	13,939	13,704	13,939	13,704
Less accumulated amortisation	12,206	10,781	12,206	10,781
Less accumulated impairment	359	359	359	359
	1,374	**2,564**	**1,374**	**2,564**
Trade names	8	8	8	8
Water allocations[1]	53,461	54,200	4,513	4,513
	54,843	**56,772**	**5,895**	**7,085**

[1] *At cost or deemed cost.*

Reconciliations

Reconciliations of the carrying amounts of intangible assets at the beginning and end of 2009–10 are set out below.

	SOFTWARE $'000	TRADE NAMES $'000	WATER ALLOCATIONS $'000
CONSOLIDATED			
Carrying amount at 1 July 2009	2,564	8	54,200
Additions – at cost	235	-	-
Disposals/ retirements	-	-	(739)
Amortisation expense	(1,425)	-	-
Carrying amount at 30 June 2010[1]	**1,374**	**8**	**53,461**

NOTES TO THE FINANCIAL STATEMENTS

30 June 2010

NOTE 15 INTANGIBLE ASSETS (CONTINUED)

	SOFTWARE $'000	TRADE NAMES $'000	WATER ALLOCATIONS $'000
PARENT			
Carrying amount at 1 July 2009	2,564	8	4,513
Additions – at cost	235	-	-
Disposals/retirements	-	-	-
Amortisation expense	(1,425)	-	-
Carrying amount at 30 June 2010[1]	**1,374**	**8**	**4,513**

[1] Net of retirements (fully written down)

NOTE 16 DEFERRED TAX ASSETS

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
The balance comprises temporary differences attributable to:				
Provision for doubtful debts	330	330	330	330
Property, plant and equipment	2,083	2,485	-	-
Accrued payables	35	255	18	239
Accrued employee benefits	1,272	1,466	1,272	1,466
Revenue received in advance	936	1,006	936	1,006
Provision for Rocklea land commitment	352	348	352	348
Unearned renewal annuity	1,993	2,741	1,993	2,741
Rent incentive	761	-	761	-
Tax losses included in deferred tax assets	1,874	9,289	1,874	9,289
Balance at 30 June	**9,636**	**17,920**	**7,536**	**15,419**
MOVEMENTS:				
Opening balance at 1 July	17,920	22,194	15,419	19,217
Credited/(charged) to the income statement	(435)	6,337	(34)	6,813
Losses utilised to offset current tax payable	(7,849)	(10,611)	(7,849)	(10,611)
Closing balance at 30 June	**9,636**	**17,920**	**7,536**	**15,419**
Deferred tax assets to be recovered after more than 12 months	7,906	15,869	5,916	13,384
Deferred tax assets to be recovered within 12 months	1,730	2,051	1,620	2,035
Closing balance at 30 June	**9,636**	**17,920**	**7,536**	**15,419**

NOTE 17 PAYABLES

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Trade creditors	4,118	7,365	4,107	7,143
Intercompany taxation payables	-	-	2,291	252
Other creditors and accruals	16,814	15,025	13,079	12,418
	20,932	**22,390**	**19,477**	**19,813**

NOTE 18 PROVISIONS

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
CURRENT				
Employee benefits (note 22)	4,239	4,888	4,239	4,888
Income tax	3,163	-	3,163	-
Dividends	10,640	7,625	10,640	7,625
	18,042	**12,513**	**18,042**	**12,513**
NON-CURRENT				
Land commitment [1]	1,173	1,161	1,173	1,161
	1,173	**1,161**	**1,173**	**1,161**

[1] 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 and dividends, are set out below.

	INCOME TAX $'000	LAND COMMITMENT $'000
CONSOLIDATED		
Carrying amount at 1 July 2009	-	1,161
Provisions added/(written back)	3,163	12
Payments made during the year	-	-
Carrying amount at 30 June 2010	**3,163**	**1,173**
PARENT		
Carrying amount at 1 July 2009	-	1,161
Provisions added/(written back)	3,163	12
Payments made during the year	-	-
Carrying amount at 30 June 2010	**3,163**	**1,173**

NOTE 19 BORROWINGS

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
UNSECURED[1]				
QTC loan	248,816	248,868	217,530	216,397
Intercompany loan	-	-	33,777	24,879
	248,816	**248,868**	**251,307**	**241,276**
Represented by:				
Current	2,839	3,557	21,034	11,003
Non-current	245,977	245,311	230,273	230,273
	248,816	**248,868**	**251,307**	**241,276**

[1] Borrowings by subsidiary company are secured by parent entity guarantee.

(a) Financing arrangements

The loans from QTC are interest bearing. The borrowing arrangements are subject to annual review. Subject to the annual approval of the Queensland Treasurer, borrowings are sourced from the SunWater Client Specific Pool, except in the case of borrowings by SunWater's subsidiary companies which borrow externally from QTC's generic debt pool. SunWater may draw up to the amount of the approved borrowing program (in 2010: nil). On 14 July 2010, interim approval for borrowings of $50M in 2011 was received.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2010

NOTE 19 BORROWINGS (CONTINUED)

SunWater has a credit standby arrangement with QTC totalling $15M (interim approval to increase to $30M was received on 14 July 2010). This facility was unused at 30 June 2010 (2009: unused).

(b) Fair value

	2010 CARRYING AMOUNT $'000	2010 FAIR VALUE $'000	2009 CARRYING AMOUNT $'000	2009 FAIR VALUE $'000
The carrying amounts and fair values of interest bearing liabilities at balance date are:				
Borrowings	**248,816**	**258,828**	**248,868**	**253,077**

NOTE 20 OTHER LIABILITIES

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
CURRENT				
Deposits payable	392	372	392	372
Unearned annuity	6,642	9,140	6,642	9,140
Rent incentive	310	-	310	-
Other	18	11	18	11
	7,362	**9,523**	**7,362**	**9,523**
NON-CURRENT				
Rent incentive	2,226	-	2,226	-
	2,226	**-**	**2,226**	**-**

NOTE 21 DEFERRED TAX LIABILITIES

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
The balance comprises temporary differences attributable to:				
Accrued interest receivable	95	5	79	5
Inventories	646	680	646	680
Accrued revenue	3,620	3,808	2,319	2,416
Water allocations	7,200	7,290	1,354	1,354
Property, plant and equipment	22,605	19,426	14,319	10,731
Closing balance at 30 June	**34,166**	**31,209**	**18,717**	**15,186**
MOVEMENTS				
Opening balance at 1 July	31,209	28,619	15,186	12,238
Charged/(credited) to the income statement	2,957	2,590	3,531	2,948
Closing balance at 30 June	**34,166**	**31,209**	**18,717**	**15,186**
Deferred tax liabilities to be settled after more than 12 months	29,805	26,716	15,673	12,085
Deferred tax liabilities to be settled within 12 months	4,361	4,493	3,044	3,101
Closing balance at 30 June	**34,166**	**31,209**	**18,717**	**15,186**

NOTE 22 EMPLOYEE BENEFITS

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
EMPLOYEE BENEFITS LIABILITY				
Provision for employee benefits (note 18)	4,239	4,888	4,239	4,888
Accrued salaries and wages	1,209	16	1,209	16
Aggregate employee benefits liability	**5,448**	**4,904**	**5,448**	**4,904**
EMPLOYEE NUMBERS				
Number of employees (full time equivalents excluding casuals) as at 30 June	**494**	**562**	**494**	**562**

NOTE 23 CONTRIBUTED EQUITY

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
(a) Share capital				
Issued and paid up capital:				
2 ordinary shares of $179.660M each[1]	**359,320**	**288,711**	**359,320**	**288,711**

[1] *Shares have no par value.*

	NUMBER OF SHARES	CONTRIBUTION PER SHARE $'000	TOTAL $'000
(b) Movements in ordinary share capital			
Opening balance 1 July 2009	2	144,356	288,711
Equity injections		35,304	70,609
Closing balance 30 June 2010		**179,660**	**359,320**

(c) Capital risk management

SunWater's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

SunWater monitors capital on the basis of the market gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total capital is calculated as total equity plus total borrowings.

During 2010, SunWater's strategy, which was unchanged from 2009, was to maintain a gearing ratio within a 40% upper limit. The market gearing ratios at 30 June 2010 and 30 June 2009 were as follows:

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Total borrowings	248,816	248,868	217,530	241,276
Total equity	642,840	538,110	582,991	474,532
Total capital	**891,656**	**786,978**	**800,521**	**715,808**
Market gearing ratio	**28%**	**32%**	**27%**	**34%**

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NOTE 24 DIVIDENDS

	PARENT 2010 $'000	PARENT 2009 $'000
ORDINARY SHARES		
2009 first and final dividend of $3.8125M per share declared[(1)]	-	7,625
2010 interim dividend of $5.3200M per share declared[(1)]	10,640	-
	10,640	**7,625**

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

NOTE 25 REMUNERATION OF AUDITORS

During the year, fees of $0.128M (2009: $0.123M) were paid or payable for services provided by the auditor of the consolidated entity in relation to the audit of:

- the financial report of the parent entity and its subsidiaries; and
- SunWater's expenditure of grant monies in accordance with contractual arrangements between SunWater and the grant bodies.

No other services were provided.

NOTE 26 RECONCILIATION OF PROFIT AFTER INCOME TAX EQUIVALENTS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Profit for the year	44,761	85,979	48,490	92,758
Depreciation and amortisation	24,377	24,433	17,702	18,110
Impairment	3,041	19,003	1,916	19,003
Bad and doubtful debts	11	2	11	2
Net (gain)/loss on sale or disposal of non-current assets	(1,358)	(48,529)	(1,331)	(48,529)
Interest income	(4,912)	(7,179)	(5,273)	(5,798)
Interest expense	16,791	17,317	15,035	15,086
Gain on loan settlement	-	(289)	-	(289)
Dividends received	-	-	(14,000)	(14,100)
Change in assets and liabilities:				
(Increase)/decrease in inventories and intangibles	807	586	67	(276)
(Increase)/decrease in deferred tax assets	8,284	4,274	7,882	3,798
(Increase)/decrease in receivables	(1,377)	(1,479)	(26,618)	(532)
(Increase)/decrease in other assets	6,762	(7,103)	6,651	(7,431)
(Decrease)/increase in creditors	2,566	3,420	1,001	1,838
(Decrease)/increase in deferred revenue	614	1,225	(569)	1,199
(Decrease)/increase in income taxes payable	3,163	-	3,163	-
(Decrease)/increase in deferred tax liabilities	2,956	2,590	3,531	2,948
Net cash inflow from operating activities	**106,486**	**94,250**	**57,658**	**77,787**

NOTE 27 COMMITMENTS FOR EXPENDITURE

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
(a) Capital expenditure commitments				
Capital expenditure commitments (including GST) contracted for but not brought to account are as follows:				
ICT projects	247	161	247	161
Water infrastructure projects	27,330	17,238	27,831	13,576
	27,577	**17,399**	**28,078**	**13,737**
Payable:				
Not later than one year	**27,577**	**17,399**	**28,078**	**13,737**

(b) Non-cancellable operating lease expense commitments

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Future operating lease commitments (including GST) not brought to account and payable:				
Within one year	3,135	2,995	3,135	2,995
Later than one year but not later than five years	13,420	12,632	13,420	12,632
Later than five years	14,964	16,295	14,964	16,295
	31,519	**31,922**	**31,519**	**31,922**

SunWater leases property under non-cancellable operating leases expiring from one to ten 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

SunWater has been appointed by the State Government as proponent for the development of business cases for a range of water infrastructure projects. In addition, SunWater has made in-principle commitments to investigate certain major capital projects and acquisitions. However, these projects and acquisitions are at varying stages of completion and final costs cannot be accurately quantified at this time.

Details of SunWater's dam safety upgrade program are disclosed in note 30.

NOTE 28 RELATED PARTIES DISCLOSURES

Key management personnel compensation

Director remuneration is approved by the Governor in Council in accordance with the requirements of the *Government Owned Corporations Act 1993*. The Board Remuneration Committee reviews the compensation and other terms of employment of senior executives having regard to government policy, relevant market comparatives and performance against goals set at the start of the year.

NOTES TO THE FINANCIAL STATEMENTS

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NOTE 28 RELATED PARTIES DISCLOSURES (CONTINUED)

Key management personnel compensation disclosures by category

CATEGORY	2010 $'000	2009 $'000
CONSOLIDATED		
Short-term employee benefits	1,383	1,234
Post-employment benefits	141	146
Total	**1,524**	**1,380**
PARENT		
Short-term employee benefits	1,352	1,186
Post-employment benefits	139	141
Total	**1,491**	**1,327**

Compensation – directors

	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
CONSOLIDATED – 2010 NAME OF DIRECTOR			
Phil Hennessy, Chair (retired 30 September 2009)	14	1	15
Scott Spencer, Chair (commenced 1 October 2009)	38	3	41
Jane Bertelsen, Deputy Chair	45	4	49
Tom Connor	31	3	34
John Gibson	36	3	39
Greg Moynihan	32	3	35
Kirstin Ferguson	35	3	38
Neil Turner	32	-	32

	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
CONSOLIDATED – 2009 NAME OF DIRECTOR			
Phil Hennessy, Chair	58	5	63
Jane Bertelsen, Deputy Chair	40	3	43
Julie Boyd (retired 30 September 2008)	8	1	9
Tom Connor	31	3	34
John Gibson	40	3	43
Greg Moynihan	33	3	36
Kirstin Ferguson (commenced 1 October 2008)	21	2	23
Neil Turner (commenced 1 October 2008)	19	2	21

	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
PARENT – 2010 NAME OF DIRECTOR			
Phil Hennessy, Chair (retired 30 September 2009)	12	1	13
Scott Spencer, Chair (commenced 1 October 2009)	39	3	42
Jane Bertelsen, Deputy Chair	30	3	33
Tom Connor	28	2	30
John Gibson	32	3	35
Greg Moynihan	32	3	35
Kirstin Ferguson	31	3	34
Neil Turner	28	-	28

	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
PARENT – 2009 NAME OF DIRECTOR			
Phil Hennessy, Chair	50	5	55
Jane Bertelsen, Deputy Chair	32	3	35
Julie Boyd (retired 30 September 2008)	7	1	8
Tom Connor	27	3	30
John Gibson	36	3	39
Alan Millhouse (retired 30 June 2008)	2	-	2
Greg Moynihan	29	3	32
Kirstin Ferguson (commenced 1 October 2008)	18	2	20
Neil Turner (commenced 1 October 2008)	16	2	18

Directors' remuneration excludes insurance premiums (exclusive of GST) of $72,253 (2009 – $72,265) 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

	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
PARENT 2010 TITLE OF EXECUTIVE			
Chief Executive Officer	411	38	449
General Manager, Corporate	264	33	297
Acting General Manager, Infrastructure Management (completed service 15/11/09)	83	9	92
General Manager, Infrastructure Management (appointed 16/11/09)	136	17	153
General Manager, Infrastructure Development	226	24	250

Note: the 2010 year included 27 (normally 26) fortnightly payments

NOTES TO THE FINANCIAL STATEMENTS

30 June 2010

NOTE 28 RELATED PARTIES DISCLOSURES (CONTINUED)

	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
PARENT 2009			
TITLE OF EXECUTIVE			
Chief Executive Officer	366	46	412
General Manager, Corporate	238	29	267
General Manager, Infrastructure Management (completed service 27/03/09)	156	20	176
Acting General Manager, Infrastructure Management	15	2	17
General Manager, Infrastructure Development	207	26	233

Executives may also earn performance based at-risk incentives payments which are not included in this table.

Performance payments to employees

FINANCIAL YEAR	AGGREGATE AT-RISK PERFORMANCE REMUNERATION $'000	TOTAL FIXED SALARIES AND WAGES PAYMENTS $'000	EMPLOYEES RECEIVING PERFORMANCE PAYMENTS
2009–10	73	1,120	3
2008–09	72	984	3

Transactions with subsidiaries

The parent entity within the group is SunWater. Interests in subsidiaries are set out in note 13. 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:

	2010 $'000	2009 $'000
Sales of water to subsidiaries	4,011	4,067
Sales of services to subsidiaries	28,194	13,388
Interest received from subsidiaries	496	-
Interest paid to subsidiaries	479	484
Current tax payable assumed from tax consolidated subsidiaries	3,241	3,284
Current tax losses assumed from tax consolidated subsidiaries	2,291	252
Dividends received from subsidiaries	14,000	14,100
Loan received from subsidiary	8,898	2,916
Loan issued to subsidiary	26,306	2,556

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

	2010 $'000	2009 $'000
Receivables and loans (note 9)	32,103	6,641
Payables and borrowings (note 17, 19)	36,068	25,131

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	2010 $'000	2009 $'000
Cash (note 8)	Deposits on call	42,385	132,606
Receivables (note 9)	Water sales	3,140	167
Receivables (note 9)	Consultancies	463	1,338
Receivables (note 9)	Sale of goods, rent	(23)	94
Borrowings (note 19)	QTC borrowings	248,816	248,868
Payables (note 17)	Electricity, regulatory charges	1,190	1,126
Contributed equity (note 23)	Equity contributions from shareholders	70,609	-
Dividends (note 25)	Dividends declared	10,640	7,625
Revenue – interest (note 4)	Interest received from QTC	4,392	6,574
Revenue – all other (note 4)	Water sales, CSO, grants	17,094	6,246
Revenue – consulting fees (note 4)	Consultancies	9,357	20,344
Revenue – other revenue (note 4)	Sale of goods, rent	(37)	564
Expense – interest (note 6)	Interest paid to QTC	16,953	16,788
Expense – all other (note 5)	Electricity, regulatory charges	47,998	33,526

NOTE 29 CONTINGENCIES

(a) In October 2008, the Wide Bay Burnett Conservation Council (WBBCC) commenced legal proceedings against Burnett Water Pty Ltd (BWPL), a wholly owned subsidiary of SunWater, in connection with the original design and subsequent operation of the upstream fish lift and the downstream fishway at Paradise Dam. In its Statement of Claim, the WBBCC alleges that the design and operation of the fish transfer devices are not in accordance with the Federal permit.

BWPL has defended the action and is awaiting the decision of the Federal court. If BWPL is unsuccessful, it may be ordered to modify or enhance either or both of the fish transfer devices. Costs associated with any such order cannot be reliably estimated at this time, however a significant enhancement of the existing infrastructure could cost in the range of $10M to $20M depending on the order. In addition, costs, which also cannot be reliably estimated at this time, may be awarded against BWPL.

At this time, no provision has been made in the financial statements for any costs associated with the legal proceedings as described above, nor has any allowance been made for any cost recoveries from other parties.