DIRECTORS' REPORT

For the year ended 30 June 2011

Your directors present their report together with the financial report of SunWater Limited and its subsidiaries ("SunWater") for the financial year ended 30 June 2011 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:

Mr S Spencer
Ms J Bertelsen
Mr T Connor
Ms K Ferguson
Mr J Gibson
Mr G Moynihan
Mr N Turner (deceased 4 July 2011)

Mr A Millhouse was appointed as a Director on 1 October 2010.

Further information about directors' qualifications, experience, term of appointment and attendance at meetings are detailed in the "Our Leaders – SunWater Board" and "Corporate Governance" sections of the Annual Report. (Information about the qualifications and experience of the company secretaries of SunWater Limited is detailed in the "Our Leaders" section of the Annual Report.)

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 $46.371M (2010: $44.761M profit). Further details of SunWater's financial performance are provided in the "Financial Report" section of the Annual Report.

Dividends

During the financial year, the following dividends were declared:

- Out of retained earnings, a dividend of $8.953M was declared to the holders of fully paid ordinary shares; and
- In respect of the financial year ending 30 June 2011, a dividend of $25.052M was declared to the holders of fully paid ordinary shares. (2010: $10.640M declared for the financial year ending 30 June 2010 and paid in December 2010).

Both dividends were unpaid at 30 June 2011.

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 $20.727M as a result of further Queensland Government investment in the company as follows:

- The 2009 dividend of $7.625M was re-invested in specific pre-determined projects providing broad community benefits;
- $13.102M was contributed during the year for the construction of the required dam safety upgrade to the Tinaroo Falls Dam.

SunWater has been participating in the independent Pricing Review of future irrigation water prices led by the Queensland Competition Authority (QCA) for the past 18 months. During the year, the Queensland Government extended the deadline for QCA's initial draft report from April 2011 to October 2011, with the final report now due in April 2012. This extension means that SunWater's new irrigation price path will now commence on 1 July 2012 and conclude on 30 June 2017. As a result, 2010-11 irrigation water prices will now be rolled over into 2011-12, with price increases in some schemes for 2011-12 over and above inflation. Full details are set out in the Financial Statements section of the Annual Report.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2011 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 "Infrastructure Management" and "Infrastructure Development" sections of the Annual Report.

Impact of natural disasters

At 30 June 2011, the repair of damages associated with the Queensland floods and Cyclone Yasi early in 2011 was estimated to cost in the order of $10.5M. Remedial work has progressed throughout the remainder of the year, focussing effort on repairing SunWater's infrastructure to ensure both the safety of that infrastructure and its ability to provide reliable future water deliveries to our customers. A provision, based on reliable estimates has been taken up in the financial statements at 30 June 2011 for damage incurred but not yet rectified.

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 matters is disclosed in the "Environment" section of the Annual Report and in note 28 to the financial statements.

Safety

SunWater's water infrastructure assets are located throughout Queensland. The increasing age profile of those 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 safety upgrade;
- the commencement of construction of the Kinchant Dam safety upgrade;
- the continuation of a wide-ranging upgrade program for the safe operation of the assets;
- the continuation of a media campaign to encourage positive safety behaviours on and around SunWater's infrastructure by members of the public; and
- the continuation of internal programs to eliminate or minimise risks to health and safety, and processes to receive and respond to information about incidents, hazards and risks.

Insurance of officers

During the financial year, SunWater paid a premium of $80,179 (exclusive of GST) (2010: $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 SunWater and its subsidiaries, and any other payments arising from liabilities incurred by those officers in connection with such proceedings. This does not include liabilities that arise from conduct involving a wilful breach of duty by these officers or the improper use by these 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 below.

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 and the financial report. Amounts in the directors' report and the financial 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 30 of the *Auditor-General Act 2009*. No non-audit services are provided to SunWater by the Auditor-General. Further information is set out in note 24 to the financial statements.

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

S N SPENCER
Chairman

J L GIBSON
Director

Brisbane, Qld
24 August 2011

AUDITOR'S INDEPENDENCE DECLARATION

(for entities subject to the Corporations Act 2001)

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 2011, 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

AUDITOR GENERAL
24 AUG 2011
OF QUEENSLAND

Queensland Audit Office
Brisbane

FINANCIAL REPORT

For the year ended 30 June 2011

General information

The financial statements cover both SunWater Limited as the parent entity and the consolidated entity consisting of SunWater Limited and its subsidiaries.

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.

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

Level 10, 179 Turbot Street
BRISBANE QLD 4000

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	NOTES	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Revenue from continuing operations	4	202,561	196,442	192,232	207,701
Other income	5	1,808	3,605	1,808	3,579
EXPENSES FROM CONTINUING OPERATIONS:					
Employee benefits expense		(36,852)	(39,431)	(36,897)	(40,970)
Depreciation and amortisation expense		(22,594)	(24,377)	(18,037)	(17,702)
Impairment expense		(383)	(3,041)	-	(1,916)
Contracted services expense		(17,052)	(10,760)	(16,962)	(26,904)
Electricity expense		(13,374)	(18,783)	(12,391)	(18,079)
Materials expense		(3,947)	(3,124)	(4,160)	(6,884)
Plant hire expense		(3,605)	(2,763)	(3,625)	(2,876)
Motor vehicle operating leases expense		(2,356)	(2,556)	(2,356)	(2,556)
IT charges		(785)	(1,160)	(785)	(1,160)
Loss on disposal of assets		(1,430)	(66)	(1,425)	(66)
Travel expense		(1,063)	(1,438)	(1,065)	(1,509)
Accommodation expense		(2,215)	(2,706)	(2,215)	(2,776)
Insurance expense		(4,508)	(5,202)	(4,232)	(4,758)
Legal expense		(3,295)	(2,820)	(3,529)	(982)
Rates and land tax expense		(1,656)	(1,352)	(1,525)	(1,213)
Telephone, facsimile and data lines expense		(1,279)	(1,580)	(1,275)	(1,576)
Cost of water allocations sold		(131)	(739)	-	-
Other expenses		(2,836)	(1,572)	(2,813)	(1,653)
Finance costs	6	(17,996)	(17,413)	(16,833)	(15,583)
Profit before income tax equivalents		**67,012**	**59,164**	**63,915**	**62,117**
Income tax equivalents expense	7	(20,641)	(14,403)	(14,761)	(13,627)
Profit for the year		**46,371**	**44,761**	**49,154**	**48,490**
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**46,371**	**44,761**	**49,154**	**48,490**

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

BALANCE SHEETS

As at 30 June 2011

		CONSOLIDATED		PARENT	
		2011	2010	2011	2010
	NOTES	$'000	$'000	$'000	$'000
ASSETS					
Current assets					
Cash	8	253,364	216,517	236,146	202,806
Receivables	9	4,662	8,076	12,970	8,062
Inventories	10	2,356	2,572	2,356	2,572
Other current assets	11	20,718	16,499	13,533	11,740
Total current assets		**281,100**	**243,664**	**265,005**	**225,180**
Non-current assets					
Receivables	9	-	126	24,576	27,529
Other financial assets	12	-	-	81,296	81,296
Property, plant and equipment	13	704,606	667,288	595,624	553,859
Intangible assets	14	54,855	54,843	6,039	5,895
Deferred tax assets	15	8,028	9,636	6,240	7,536
Total non-current assets		767,489	731,893	713,775	676,115
Total assets		1,048,589	975,557	978,780	901,295
LIABILITIES					
Current liabilities					
Payables	16	24,307	20,932	22,926	19,477
Provisions	17	52,826	18,042	52,826	18,042
Borrowings	18	2,914	2,839	21,770	21,034
Other	19	5,846	7,362	5,846	7,362
Total current liabilities		**85,893**	**49,175**	**103,368**	**65,915**
Non-current liabilities					
Provisions	17	1,186	1,173	1,186	1,173
Borrowings	18	244,359	245,977	230,273	230,273
Other	19	2,018	2,226	2,018	2,226
Deferred tax liabilities	20	39,200	34,166	23,068	18,717
Total non-current liabilities		**286,763**	**283,542**	**256,545**	**252,389**
Total liabilities		**372,656**	**332,717**	**359,913**	**318,304**
Net assets		675,933	642,840	618,867	582,991
EQUITY					
Contributed equity	22	380,047	359,320	380,047	359,320
Retained earnings		295,886	283,520	238,820	223,671
Total equity		675,933	642,840	618,867	582,991

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2011

	NOTES	CONTRIBUTED EQUITY $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
CONSOLIDATED				
Balance at 1 July 2009		288,711	249,399	538,110
Total comprehensive income for the year		-	44,761	44,761
Transactions with owners as owners				
Contributions of equity	22	70,609	-	70,609
Dividends	23	-	(10,640)	(10,640)
Balance at 30 June 2010		**359,320**	**283,520**	**642,840**
Total comprehensive income for the year		-	46,371	46,371
Transactions with owners as owners				
Contributions of equity	22	20,727	-	20,727
Dividends	23	-	(34,005)	(34,005)
Balance at 30 June 2011		**380,047**	**295,886**	**675,933**
PARENT				
Balance at 1 July 2009		288,711	185,821	474,532
Total comprehensive income for the year		-	48,490	48,490
Transactions with owners as owners				
Contributions of equity	22	70,609	-	70,609
Dividends	23	-	(10,640)	(10,640)
Balance at 30 June 2010		**359,320**	**223,671**	**582,991**
Total comprehensive income for the year		-	49,154	49,154
Transactions with owners as owners				
Contributions of equity	22	20,727	-	20,727
Dividends	23	-	(34,005)	(34,005)
Balance at 30 June 2011		**380,047**	**238,820**	**618,867**

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 2011

		CONSOLIDATED		PARENT	
		2011	2010	2011	2010
	NOTES	$'000	$'000	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of GST and refunded GST)		191,962	206,458	167,424	179,373
Community service obligations received		7,737	2,354	3,241	1,125
Interest received		146	158	131	132
Intercompany taxes received		-	-	3,241	3,284
Payments to suppliers and employees (inclusive of GST)		(99,719)	(102,484)	(98,391)	(126,256)
Intercompany taxes paid		-	-	(1,611)	-
Income taxes paid		(7,167)	-	(7,167)	-
Net cash inflow (outflow) from operating activities	25	**92,959**	**106,486**	**66,868**	**57,658**
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		2,760	2,480	2,760	2,443
Proceeds from term debtors		5	9	5	9
Repayments of intercompany borrowings		-	-	1,477	3,162
Interest received		7,238	4,912	9,175	5,273
Dividends received		-	-	16,500	14,000
Payments for property, plant and equipment		(58,244)	(79,350)	(57,050)	(49,113)
Net cash inflow (outflow) from investing activities		**(48,241)**	**(71,949)**	**(27,133)**	**(24,226)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Government grant received		355	266	-	-
Equity contributions		20,727	70,609	20,727	70,609
Interest paid		(16,765)	(15,186)	(16,482)	(13,926)
Repayments of borrowings		(1,548)	(1,185)	-	-
Dividends paid		(10,640)	(7,625)	(10,640)	(7,625)
Net cash inflow (outflow) from financing activities		**(7,871)**	**46,879**	**(6,395)**	**49,058**
Net increase (decrease) in cash held		**36,847**	**81,416**	**33,340**	**82,490**
Cash at the beginning of the financial year		216,517	135,101	202,806	120,316
Cash at the end of the financial year		253,364	216,517	236,146	202,806

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

NOTES TO THE FINANCIAL STATEMENTS
30 June 2011

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, the *Corporations Act 2001* and the provisions of the *Government Owned Corporations Act 1993* (Qld) (GOC Act).

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 13.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the parent entity as at 30 June 2011 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 12).

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

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

(c) 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

(i) Community service obligation (CSO) payments

The parent entity receives 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, urban water deliveries to a local council and certain other activities for which there are no other revenue sources. As these are subsidies from the Queensland Government, no conditions (apart from normal commercial considerations in maintaining water deliveries) are required to be met. These amounts are recorded as revenue. 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 unearned revenue. Revenue is recognised on a systematic basis over the accounting periods in which the consumption of the asset is recognised.

(ii) Water allocations

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 (refer note 1(o)(i)). All other water allocations granted free of charge are recognised, when granted, at fair value which is nominal cost ($1) (refer note 1 (o) (i)).

Note 1 Summary of significant accounting policies (continued)

(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.

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 16).

(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.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, 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) 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. All other assets are assessed on an annual basis for indicators of impairment.

Note 1 Summary of significant accounting policies (continued)

Where an indicator of impairment exists, an estimate of the recoverable amount of the asset is undertaken. 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 applied in estimating the recoverable amount. An impairment loss is recognised immediately in the statements of comprehensive income.

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. Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, which cannot exceed the original cost or deemed cost of that asset. A reversal of an impairment loss is recognised in the statements of comprehensive income.

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.

(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 twelve 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) Trade 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. All known bad debts are written off. An allowance 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 statements of comprehensive income. 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 statements of comprehensive income.

(ii) Term trade debtors

Term trade debtors represent the term sale of water allocations. The settlement date on these debtors is within twelve months.

(l) Inventories

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

(m) 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 1 *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(r)). 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 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.

(n) 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.

Note 1 Summary of significant accounting policies (continued)

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%

(o) 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 1 *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, all water allocations are carried at cost less any accumulated impairment losses. Water allocations have an indefinite life and are not amortised but are tested annually for impairment by comparing their carrying amounts with their recoverable amounts. No recognition threshold is applied.

(ii) Software

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

(iii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of SunWater's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is not amortised. Instead, goodwill is tested for impairment 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

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Note 1 Summary of significant accounting policies (continued)

(t) 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.

(u) 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. As sick leave is non-vesting, no liability is recognised.

(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.

(v) 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.

(w) 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.

(x) 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.

(y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. SunWater's assessment of the impact of these new standards and interpretations is set out below.

(i) 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, measurement and derecognition of financial assets and financial liabilities. 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. However, a preliminary view is that when adopted, the standard is not expected to significantly affect the group's accounting for its financial assets and liabilities.

(ii) 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. This is expected to reduce the group's related party disclosures. There will be no impact on any of the amounts recognised in the financial statements.

(iii) 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 operate a defined benefits superannuation scheme (refer note 1 (u) (iii)).

Note 1 Summary of significant accounting policies (continued)

(iv) AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards* arising from Reduced Disclosure Requirements (effective from 1 July 2013)

On 30 June 2010 the AASB released a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Tier 1 requirements comprise the full range of AASB recognition, measurement, presentation and disclosure requirements that are currently applicable to reporting entities in Australia. The only difference between the tier 1 and tier 2 requirements is that tier 2 requires fewer disclosures than tier 1. AASB 2010-2 sets out the details of which disclosures in standards and interpretations are not required under tier 2 reporting.

SunWater is a government owned corporation and it is likely that Treasury will mandate adoption of tier 1 reporting. As a consequence, the two standards will have no impact on the financial statements of the entity.

(v) AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

In November 2010, the AASB made amendments to AASB 7 *Financial Instruments: Disclosures* which introduce additional disclosures in respect of risk exposures arising from financial assets. This standard does not impact SunWater as it does not sell, factor, securitise, lend or otherwise transfer financial assets to other parties.

(vi) AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. This standard does not impact SunWater as it does not own investment properties.

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 primarily 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 ageing 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 2010-11, 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 2010-11, 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.

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Note 2 Financial risk management (continued)

CONSOLIDATED		2011 INTEREST RATE RISK			
	CARRYING	-1%		+1%	
	AMOUNT	PROFIT	EQUITY	PROFIT	EQUITY
FINANCIAL INSTRUMENTS	$'000	$'000	$'000	$'000	$'000
Cash	253,364	(2,299)	(2,299)	2,299	2,299
QTC borrowings	247,273	2,768	2,768	(2,768)	(2,768)
Overall effect on profit and equity		**469**	**469**	**(469)**	**(469)**

CONSOLIDATED		2010 INTEREST RATE RISK			
	CARRYING	-1%		+1%	
	AMOUNT	PROFIT	EQUITY	PROFIT	EQUITY
FINANCIAL INSTRUMENTS	$'000	$'000	$'000	$'000	$'000
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)**

(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 $25M 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 2010-11, SunWater had no transactions involving derivative financial instruments.

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	2011 $'000	2010 $'000
CONSOLIDATED			
Cash at bank and at call invested in Australian institutions rated AA- or higher*	8	48,506	74,975
Held-to-maturity investments in Australian institutions rated A- to A+*	8	51,700	20,257
Held-to-maturity investments in Australian institutions rated AA- or higher*	8	153,150	121,274
Other cash and cash equivalents	8	8	11
Receivables – current	9	4,662	8,076
Receivables – non-current	9	-	126
Advance to Burnett Dam Alliance	11	1,000	1,000
		259,026	**225,719**
PARENT			
Cash at bank and at call invested in Australian institutions rated AA- or higher*	8	31,288	61,264
Held-to-maturity investments in Australian institutions rated A- to A+*	8	51,700	20,257
Held-to-maturity investments in Australian institutions rated AA- or higher*	8	153,150	121,274
Cash and cash equivalents	8	8	11
Receivables – current	9	12,970	8,062
Receivables – non-current	9	24,576	27,529
		273,692	**238,397**

* Inclusive of accrued interest.

Note 2 Financial risk management (continued)

For some trade receivables, SunWater may also obtain security in the form of bank guarantees. 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 or financial circumstances.

(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.

SunWater had an approved borrowing program of $50M during 2010/11 (undrawn). This facility is reviewed and renewed annually. SunWater has a rolling $30M working capital facility with QTC. This facility (undrawn during 2010/11) operates as an overdraft arrangement which is used to cover temporary funding shortfalls. The facility is repayable on demand.

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.

2011 CONSOLIDATED $'000	CARRYING AMOUNT $'000	LESS THAN 1 YEAR $'000	1-5 YEARS $'000	OVER 5 YEARS $'000	TOTAL CASH FLOWS (CONTRACTUAL) $'000
Payables	24,307	24,307	-	-	24,307
Borrowings – QTC	247,273	19,570	78,150	242,502*	340,222
Deposits payable	439	14	25	400	439
Other	19	19	-	-	19
	272,038	43,910	78,175	242,902	364,987
PARENT					
Payables	22,926	22,926	-	-	22,926
Borrowings – QTC	217,543	16,013	63,922	216,223*	296,158
Intercompany loan	34,501	20,625	13,876	-	34,501
Deposits payable	439	14	25	400	439
Other	19	19	-	-	19
	275,428	59,597	77,823	216,623	354,043

2010 CONSOLIDATED $'000	CARRYING AMOUNT $'000	LESS THAN 1 YEAR $'000	1-5 YEARS $'000	OVER 5 YEARS $'000	TOTAL CASH FLOWS (CONTRACTUAL) $'000
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

* 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 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.

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

- Water charges applied to irrigators are regulated by the Queensland Government which subsidises water prices by way of community service obligation payments for the forecast shortfall between revenue raised in accordance with the regulated charges and the estimated efficient costs of storage and distribution of water for irrigation purposes. As the regulated price does not provide for a commercial return on capital, the reduced cash flows substantially impact on the values assigned to the water infrastructure assets.
- The Queensland Competition Authority (QCA) has been appointed to conduct an independent review and make recommendations to government on future irrigation water pricing.

  The deadline for the QCA's report has been revised by government to April 2012. The result of this extension is that SunWater's new irrigation price path will now commence on 1 July 2012. In the intervening period, SunWater's 2010/11 prices will be rolled over into 2011/12 with price increases in some schemes exceeding inflation. These changes have been incorporated into a direction by the government.

  The QCA's report will inform the government's determination of price paths to apply to SunWater's irrigation water prices for the period commencing 1 July 2012 and ending 30 June 2017.
- 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 inputs.

  In the absence of an approved future pricing structure after 1 July 2012, 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 and incorporating approved interim increases. Estimates of future cash outflows have been based on SunWater's Network Service Plans that have been submitted to the QCA to assist in their reviews.

  However, as outcomes from SunWater's model are sensitive to small variations in the key inputs, possible outcomes, subject to QCA review, 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 minimise 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 review, 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 anticipate that business efficiencies will be achieved over time to meet QCA determined efficient costs and that future price paths will recover 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(n).

(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.

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Note 4 Revenue

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
REVENUE FROM CONTINUING OPERATIONS ACTIVITIES				
Industrial water charges	102,617	99,919	75,350	74,272
Irrigation water charges	42,460	49,815	41,383	48,863
Urban water charges	7,548	6,855	7,382	6,855
Drainage charges	1,316	1,287	1,316	1,287
Water allocations revenue	10,919	11,991	10,010	9,151
Consulting and facilities services revenue	14,576	13,259	21,571	41,453
Electricity generation	841	684	595	587
Community service obligation – irrigation	1,224	1,635	1,224	1,635
Community service obligation – urban	4,799	1,162	-	-
Community service obligation – other	695	493	695	493
Other fees and charges	165	367	165	367
Grants	345	736	(10)	736
Interest	14,256	7,250	15,336	7,089
Dividends received	-	-	16,500	14,000
Rent received	189	240	189	240
Other	611	749	526	673
Total revenue from continuing operations	**202,561**	**196,442**	**192,232**	**207,701**

Note 5 Other income

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
OTHER INCOME				
Gain on disposal of non-current assets	1,652	1,423	1,652	1,397
Proceeds from insurance settlement	156	2,182	156	2,182
Total other income	**1,808**	**3,605**	**1,808**	**3,579**

Note 6 Finance costs

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Interest and finance charges paid/payable	17,996	17,413	16,833	15,583
Finance costs expensed	**17,996**	**17,413**	**16,833**	**15,583**

NOTES TO THE FINANCIAL STATEMENTS

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Note 7 Income tax and income tax equivalents

	CONSOLIDATED		PARENT	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
(a) Income tax equivalents expense				
Current tax equivalents expense	13,606	11,012	8,721	10,063
Deferred tax equivalents expense	6,642	3,825	5,647	3,998
Under/(over)-provided in prior years	393	(434)	393	(434)
	20,641	**14,403**	**14,761**	**13,627**
Income tax equivalents expense is attributable to:				
Profit from continuing operations	20,641	14,403	14,761	13,627
Deferred tax equivalents expense included in income tax equivalents expense comprises:				
Decrease/(increase) in deferred tax assets (note 15)	1,608	870	1,296	468
Increase in deferred tax liabilities (note 20)	5,034	2,955	4,351	3,530
	6,642	**3,825**	**5,647**	**3,998**
(b) Numerical reconciliation of income tax equivalents expense to prima facie tax equivalents payable				
Profit from continuing operations before income tax equivalents expense	67,012	59,164	63,915	62,117
Tax at 30%	20,103	17,749	19,173	18,635
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Entertainment expenses	20	23	20	23
Dividends from subsidiaries	-	-	(4,950)	(4,200)
Sundry items	125	44	125	55
Prior year under/(over) provision	393	(434)	393	(434)
Investment allowance	-	(2,979)	-	(452)
Income tax equivalents expense	**20,641**	**14,403**	**14,761**	**13,627**

Note 8 Cash and cash equivalents

	CONSOLIDATED		PARENT	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Cash on hand	8	11	8	11
Cash at bank	9,130	1,878	2,536	1,384
Deposits on call	39,376	73,097	28,752	59,880
Term deposits	204,850	141,531	204,850	141,531
	253,364	**216,517**	**236,146**	**202,806**

(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	**253,364**	**216,517**	**236,146**	**202,806**

(b) Risk exposure

SunWater's risk exposure is reported in note 2.

Note 9 Receivables

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
CURRENT				
Trade debtors	5,784	9,138	5,484	4,424
Term trade debtors	178	38	178	38
Intercompany receivables	-	-	3,288	1,460
Intercompany taxation receivables	-	-	5,320	3,240
	5,962	9,176	14,270	9,162
Less: Allowance for impairment of receivables	1,300	1,100	1,300	1,100
	4,662	**8,076**	**12,970**	**8,062**
NON-CURRENT				
Term trade debtors	-	126	-	126
Intercompany receivables	-	-	24,576	27,403
	-	**126**	**24,576**	**27,529**

(a) Impaired receivables

The ageing of trade receivables is as follows:

CONSOLIDATED	GROSS RECEIVABLE 2011 $'000	IMPAIRMENT 2011 $'000	GROSS RECEIVABLE 2010 $'000	IMPAIRMENT 2010 $'000
Not past due	3,164	202	6,272	256
Past due 0-30 days	1,444	279	805	125
Past due 31-60 days	256	297	930	102
More than 60 days	920	522	1,131	617
	5,784	**1,300**	**9,138**	**1,100**

Movements in the allowance for impairment of receivables are set out below:

	2011 $'000	2010 $'000
At 1 July	1,100	1,100
Allowances added/(written back)	200	-
Carrying amount at 30 June	**1,300**	**1,100**

The addition to the allowance for impairment of receivables has been included in "other expenses" in the statements of comprehensive income.

(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.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011

Note 10 Inventories

	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Materials and stores	**2,356**	**2,572**	**2,356**	**2,572**

Inventory expense

Inventories recognised as expense during the year ended 30 June 2011 amounted to $1.439M (2010: $1.765M). There were no write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2011 (2010: nil). Inventory to the value of $0.078M was written off during the year (2010: $0.341M). There were no reversals of previous write-downs (2010: nil).

Note 11 Other current assets

	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
GST receivable	1,593	1,054	1,530	961
Prepayments	887	1,172	887	1,172
Advance to Burnett Dam Alliance	1,000	1,000	-	-
Accrued revenue[1]	17,238	13,273	11,116	9,607
	20,718	**16,499**	**13,533**	**11,740**

[1] Includes water delivered to 30 June but not invoiced.

Note 12 Other financial assets

	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Shares in controlled entities – at cost	**-**	**-**	**81,296**	**81,296**

Information relating to the controlled entities is set out below.

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING 2011 %	EQUITY HOLDING 2010 %
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

Note 13 Property, plant and equipment

	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Land[1]	**7,904**	**8,134**	**7,904**	**8,134**
Buildings and land improvements[1]	14,969	13,569	14,935	13,535
Less: accumulated depreciation	3,207	2,998	3,198	2,990
Total buildings and land improvements	**11,762**	**10,571**	**11,737**	**10,545**
Plant and equipment[1]	19,615	18,453	19,604	18,442
Less: accumulated depreciation	10,287	9,591	10,284	9,588
Less: accumulated impairment	365	365	365	365
Total plant and equipment	**8,963**	**8,497**	**8,955**	**8,489**
Water infrastructure[1]	796,023	749,922	640,663	596,643
Less: accumulated depreciation	104,300	86,656	64,130	51,040
Less: accumulated impairment	105,630	105,247	99,273	99,273
Total water infrastructure	**586,093**	**558,019**	**477,260**	**446,330**
Assets under construction[1][2]	**89,884**	**82,067**	**89,768**	**80,361**
Total property, plant and equipment	**704,606**	**667,288**	**595,624**	**553,859**

[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, the full value is written off at that time. During the year, 2 projects were discontinued and accumulated costs of $5.069M were written off direct to the statements of comprehensive income (2010: nil).

Note 13 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 each period are set out below.

	LAND $'000	BUILDINGS & LAND IMPROVEMENTS $'000	PLANT & EQUIPMENT $'000	WATER INFRASTRUCTURE $'000	ASSETS UNDER CONSTRUCTION $'000	TOTAL $'000
CONSOLIDATED						
YEAR ENDED 30 JUNE 2011						
Carrying amount at 1 July 2010	8,134	10,571	8,497	558,019	82,067	667,288
Additions	103	2,452	2,757	48,421	62,977	116,710
Disposals	(333)	(812)	(60)	(1,333)	-	(2,538)
Transfer between classes	-	10	(10)	-	(55,160)	(55,160)
Depreciation expense	-	(459)	(2,221)	(18,631)	-	(21,311)
Impairment loss	-	-	-	(383)	-	(383)
Carrying amount at 30 June 2011	**7,904**	**11,762**	**8,963**	**586,093**	**89,884**	**704,606**
YEAR ENDED 30 JUNE 2010						
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	-	-	-	1,916	-	1,916
Depreciation expense	-	(513)	(2,076)	(20,363)	-	(22,952)
Impairment loss	-	-	-	(3,041)	-	(3,041)
Carrying amount at 30 June 2010	**8,134**	**10,571**	**8,497**	**558,019**	**82,067**	**667,288**
PARENT						
YEAR ENDED 30 JUNE 2011						
Carrying amount at 1 July 2010	8,134	10,545	8,489	446,330	80,361	553,859
Additions	103	2,452	2,757	46,333	62,479	114,124
Disposals	(333)	(812)	(60)	(1,328)	-	(2,533)
Transfer between classes	-	10	(10)	-	(53,072)	(53,072)
Depreciation expense	-	(458)	(2,221)	(14,075)	-	(16,754)
Impairment loss	-	-	-	-	-	-
Carrying amount at 30 June 2011	**7,904**	**11,737**	**8,955**	**477,260**	**89,768**	**595,624**
YEAR ENDED 30 JUNE 2010						
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	-	-	-	1,916	-	1,916
Depreciation expense	-	(512)	(2,076)	(13,689)	-	(16,277)
Impairment loss	-	-	-	(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 significant impairment losses were recognised or (reversed) during the financial year are:

	CONSOLIDATED		PARENT	
	LOSS $'000	(REVERSED) $'000	LOSS $'000	(REVERSED) $'000
Kirar Weir[1]	383	-	-	-

[1] This CGU comprises the Kirar Weir water infrastructure asset owned by SunWater's subsidiary company, Burnett Water Pty Ltd. The impairment loss arises because the carrying amount of the asset exceeds its recoverable amount (determined as its value in use). The excess carrying amount is the result of additional post commissioning expenditure required to bring the weir to operating condition.

Note 14 Intangible assets

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Software[(1)]	15,481	13,939	15,481	13,939
Less accumulated amortisation	13,604	12,206	13,604	12,206
Less accumulated impairment	359	359	359	359
	1,518	1,374	1,518	1,374
Trade names	8	8	8	8
Water allocations[(1)]	53,329	53,461	4,513	4,513
	54,855	**54,843**	**6,039**	**5,895**

[(1)] At cost or deemed cost.

Reconciliations

Reconciliations of the carrying amounts of intangible assets at the beginning and end of each period are set out below.

	SOFTWARE $'000	TRADE NAMES $'000	WATER ALLOCATIONS $'000
CONSOLIDATED			
YEAR ENDED 30 JUNE 2011			
Carrying amount at 1 July 2010	1,374	8	53,461
Additions – at cost	1,427	-	-
Disposals/retirements	-	-	(132)
Amortisation expense	(1,283)	-	-
Carrying amount at 30 June 2011[(1)]	**1,518**	**8**	**53,329**
YEAR ENDED 30 JUNE 2010			
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**

[(1)] Net of retirements (fully written down).

	SOFTWARE $'000	TRADE NAMES $'000	WATER ALLOCATIONS $'000
PARENT			
YEAR ENDED 30 JUNE 2011			
Carrying amount at 1 July 2010	1,374	8	4,513
Additions – at cost	1,427	-	-
Disposals/retirements	-	-	-
Amortisation expense	(1,283)	-	-
Carrying amount at 30 June 2011[(1)]	**1,518**	**8**	**4,513**
YEAR ENDED 30 JUNE 2010			
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 15 Deferred tax assets

	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
The balance comprises temporary differences attributable to:				
Allowance for impairment of receivables	390	330	390	330
Property, plant and equipment	1,756	2,083	-	-
Accrued payables	1,359	35	1,327	18
Accrued employee benefits	1,340	1,272	1,340	1,272
Revenue received in advance	605	936	605	936
Provision for Rocklea land commitment	356	352	356	352
Unearned renewal annuity	1,524	1,993	1,524	1,993
Rent incentive	698	761	698	761
Tax losses included in deferred tax assets	-	1,874	-	1,874
Balance at 30 June	**8,028**	**9,636**	**6,240**	**7,536**
MOVEMENTS:				
Opening balance at 1 July	9,636	17,920	7,536	15,419
Credited/(charged) to the income statement	177	(435)	489	(34)
Losses utilised to offset current tax payable	(1,785)	(7,849)	(1,785)	(7,849)
Closing balance at 30 June	**8,028**	**9,636**	**6,240**	**7,536**
Deferred tax assets to be recovered after more than 12 months	4,939	7,906	3,183	5,916
Deferred tax assets to be recovered within 12 months	3,089	1,730	3,057	1,620
Closing balance at 30 June	**8,028**	**9,636**	**6,240**	**7,536**

Note 16 Payables

	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Trade creditors	5,122	4,118	5,119	4,107
Intercompany taxation payables	-	-	437	2,291
Other creditors and accruals	19,185	16,814	17,370	13,079
	24,307	**20,932**	**22,926**	**19,477**

Note 17 Provisions

	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
CURRENT				
Employee benefits (note 21) [(1)]	4,467	4,239	4,467	4,239
Flood repairs [(2)]	2,852	-	2,852	-
Legal costs [(3)]	1,508	-	1,508	-
Income tax	9,994	3,163	9,994	3,163
Dividends	34,005	10,640	34,005	10,640
	52,826	**18,042**	**52,826**	**18,042**
NON-CURRENT				
Land commitment [(4)]	1,186	1,173	1,186	1,173
	1,186	**1,173**	**1,186**	**1,173**

[(1)] The current provision for employee benefits includes accrued annual leave, banked time and time off in lieu (TOIL). The entire amount of the provision is presented as current since SunWater does not have an unconditional right to defer settlement of any of these obligations.

[(2)] SunWater's water infrastructure suffered damage in late 2010 and early 2011 due to the impact of widespread flooding and cyclone Yasi. The provision represents management's estimate of the amount of damage incurred but not rectified as at 30 June 2011. All remedial works are expected to be carried out within the next financial year.

[(3)] The provision represents management's estimate of the costs associated with certain legal proceedings. (Refer also to note 28).

[(4)] 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.

Note 17 Provisions (continued)

Movements in provisions

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

	FLOOD REPAIRS $'000	LEGAL COSTS $'000	INCOME TAX $'000	LAND COMMITMENT $'000
CONSOLIDATED				
Carrying amount at 1 July 2010	-	-	3,163	1,173
Provisions added/(written back)	2,852	1,508	13,998	13
Payments made during the year	-	-	(7,167)	-
Carrying amount at 30 June 2011	**2,852**	**1,508**	**9,994**	**1,186**
PARENT				
Carrying amount at 1 July 2010	-	-	3,163	1,173
Provisions added/(written back)	2,852	1,508	13,998	13
Payments made during the year	-	-	(7,167)	-
Carrying amount at 30 June 2011	**2,852**	**1,508**	**9,994**	**1,186**

Note 18 Borrowings

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Unsecured[(1)]				
QTC loan	247,273	248,816	217,542	217,530
Intercompany loan	-	-	34,501	33,777
	247,273	**248,816**	**252,043**	**251,307**
Represented by:				
Current	2,914	2,839	21,770	21,034
Non-current	244,359	245,977	230,273	230,273
	247,273	**248,816**	**252,043**	**251,307**

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

(a) Financing arrangements

The loans from QTC are interest bearing. Parent entity non-current borrowings are interest only and have no fixed repayment date. The terms of the facilities are reviewed by QTC annually. 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 through QTC's generic debt pool. SunWater may draw up to the amount of the approved borrowing program of $50 million in 2011 (2010: nil)). This facility was unused at 30 June 2011.

SunWater has a rolling $30 million working capital facility with QTC. This facility, which is repayable on demand, operates as an overdraft arrangement which is used to cover temporary funding shortfalls. The facility was undrawn as at 30 June 2011 (2010: undrawn).

(b) Fair value

	CONSOLIDATED			
	2011		2010	
	CARRYING AMOUNT $'000	FAIR VALUE $'000	CARRYING AMOUNT $'000	FAIR VALUE $'000
The carrying amounts and fair values of interest bearing liabilities at balance date are:				
Borrowings	**247,273**	**256,124**	**248,816**	**258,828**

	PARENT			
	2011		2010	
	CARRYING AMOUNT $'000	FAIR VALUE $'000	CARRYING AMOUNT $'000	FAIR VALUE $'000
The carrying amounts and fair values of interest bearing liabilities at balance date are:				
Borrowings	**217,542**	**224,667**	**217,530**	**225,781**

Note 19 Other liabilities

	CONSOLIDATED		PARENT	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
CURRENT				
Deposits payable	439	392	439	392
Unearned annuity	5,078	6,642	5,078	6,642
Rent incentive	310	310	310	310
Other	19	18	19	18
	5,846	**7,362**	**5,846**	**7,362**
NON-CURRENT				
Rent incentive	2,018	2,226	2,018	2,226
	2,018	**2,226**	**2,018**	**2,226**

Note 20 Deferred tax liabilities

	CONSOLIDATED		PARENT	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
The balance comprises temporary differences attributable to:				
Accrued interest receivable	-	95	-	79
Inventories	589	646	589	646
Accrued revenue	5,295	3,620	2,861	2,319
Water allocations	7,185	7,200	1,354	1,354
Property, plant and equipment	26,131	22,605	18,264	14,319
Closing balance at 30 June	**39,200**	**34,166**	**23,068**	**18,717**
MOVEMENTS				
Opening balance at 1 July	34,166	31,209	18,717	15,186
Charged/(credited) to the income statement	5,034	2,957	4,351	3,531
Closing balance at 30 June	**39,200**	**34,166**	**23,068**	**18,717**
Deferred tax liabilities to be settled after more than 12 months	33,316	29,805	19,618	15,673
Deferred tax liabilities to be settled within 12 months	5,884	4,361	3,450	3,044
Closing balance at 30 June	**39,200**	**34,166**	**23,068**	**18,717**

NOTES TO THE FINANCIAL STATEMENTS
30 June 2011

Note 21 Employee benefits

	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
EMPLOYEE BENEFITS LIABILITY				
Provision for employee benefits (note 17)	4,467	4,239	4,467	4,239
Accrued salaries and wages	222	1,209	222	1,209
Aggregate employee benefits liability	**4,689**	**5,448**	**4,689**	**5,448**
EMPLOYEE NUMBERS				
Number of employees (full time equivalents excluding casuals) as at 30 June	**470**	**494**	**470**	**494**

Note 22 Contributed equity

	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
(a) Share capital				
Issued and paid up capital:				
2 ordinary shares of $190.0235M each[1]	**380,047**	**359,320**	**380,047**	**359,320**

[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 2010	2	179,660	359,320
Equity injections	-	10,363	20,727
Closing balance 30 June 2011	**2**	**190,023**	**380,047**

(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 2011, SunWater's strategy was to maintain a market gearing ratio with a 50% upper limit (2010: 40%). The market gearing ratios at 30 June 2011 and 30 June 2010 were as follows:

	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Total borrowings	247,273	248,816	252,043	251,307
Total equity	675,933	642,840	618,867	582,991
Total capital	923,206	891,656	870,910	834,298
Market gearing ratio	**27%**	**28%**	**29%**	**30%**

SunWater's strategy may alter in the future if some or all of the portfolio of water infrastructure projects referred to in note 29 receive final approvals to commence development in which case both equity and borrowing requirements will increase consistent with SunWater retaining an investment grade credit rating.

Note 23 Dividends

	PARENT 2011 $'000	PARENT 2010 $'000
Ordinary shares		
2010 interim dividend of $5.3200M per share declared[(1) (2)]	-	10,640
2010 final dividend of $4.4765M per share declared in respect of prior financial year's profit from continuing operations and provided for but not paid as at 30 June 2011[(1) (2)]	8,953	-
2011 first and final dividend of $12.5260M per share declared and provided for but not paid as at 30 June 2011 [(1) (2)]	25,052	-
	34,005	**10,640**

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

(2) Dividend declared in accordance with s131 of the G*overnment Owned Corporations Act 1993* (Qld) and provided for as disclosed in note 17.

Note 24 Remuneration of auditors

During the year, fees of $0.153M (2010: $0.128M) 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 25 Reconciliation of profit after income tax equivalents to net cash inflow from operating activities

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Profit for the year	46,371	44,761	49,154	48,490
Depreciation and amortisation	22,594	24,377	18,037	17,702
Impairment	383	3,041	-	1,916
Bad and doubtful debts	200	11	200	11
Net (gain)/loss on sale or disposal of non-current assets	(221)	(1,358)	(227)	(1,331)
Interest received	(7,238)	(4,912)	(9,175)	(5,273)
Interest paid	16,765	16,791	16,495	15,035
Dividends received	-	-	(16,500)	(14,000)
Change in assets and liabilities:				
(Increase)/decrease in inventories and intangibles	347	807	216	67
(Increase)/decrease in deferred tax assets	1,608	8,284	1,296	7,882
(Increase)/decrease in receivables	2,586	(1,377)	(3,437)	(26,618)
(Increase)/decrease in other assets	(6,240)	6,762	(1,571)	6,651
(Decrease)/increase in creditors	7,721	2,566	3,846	1,001
(Decrease)/increase in deferred revenue	(3,782)	614	(2,647)	(569)
(Decrease)/increase in income taxes payable	6,830	3,163	6,830	3,163
(Decrease)/increase in deferred tax liabilities	5,035	2,956	4,351	3,531
Net cash inflow from operating activities	**92,959**	**106,486**	**66,868**	**57,658**

Note 26 Commitments for expenditure

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(a) Capital expenditure commitments				
Capital expenditure commitments (including GST) contracted for but not brought to account are as follows:				
ICT projects	341	247	341	247
Water infrastructure projects	32,651	27,330	32,651	27,831
	32,992	**27,577**	**32,992**	**28,078**
Payable:				
Not later than one year	**32,992**	**27,577**	**32,992**	**28,078**

Note 26 Commitments for expenditure (continued)

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(b) Non-cancellable operating lease expense commitments				
Future operating lease commitments (including GST) not brought to account and payable:				
Within one year	3,195	3,135	3,195	3,135
Later than one year but not later than five years	13,354	13,420	13,354	13,420
Later than five years	10,084	14,964	10,084	14,964
	26,633	**31,519**	**26,633**	**31,519**

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 29.

Note 27 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* (Qld). 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.

Key management personnel compensation disclosures by category

CATEGORY	2010-11 $'000	2009-10 $'000
CONSOLIDATED		
Short-term employee benefits	1,475	1,383
Post-employment benefits	123	141
	1,598	**1,524**
PARENT		
Short-term employee benefits	1,443	1,352
Post-employment benefits	121	139
	1,564	**1,491**

Compensation – directors

CONSOLIDATED – 2011	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
Scott Spencer, Chair	53	5	58
Jane Bertelsen, Deputy Chair	40	4	44
Tom Connor	31	2	33
John Gibson	37	3	40
Greg Moynihan	35	3	38
Kirstin Ferguson	32	3	35
Neil Turner*	32	-	32
Alan Millhouse (commenced 1.10.2010)	18	2	20

Note 27 Related parties disclosures (continued)

CONSOLIDATED – 2010	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
Phil Hennessy, Chair (retired 30.9.2009)	14	1	15
Scott Spencer, Chair (commenced 1.10.2009)	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
PARENT – 2011			
Scott Spencer, Chair	53	5	58
Jane Bertelsen, Deputy Chair	24	2	26
Tom Connor	27	2	29
John Gibson	33	3	36
Greg Moynihan	31	3	34
Kirstin Ferguson	32	3	35
Neil Turner*	28	-	28
Alan Millhouse (commenced 1.10.2010)	18	2	20
PARENT – 2010			
Phil Hennessy, Chair (retired 30.9.2009)	12	1	13
Scott Spencer, Chair (commenced 1.10.2009)	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

Directors' remuneration excludes insurance premiums (exclusive of GST) of $80,179 (2010 – $72,253) 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.

*Deceased 4.7.2011

Compensation – executives

PARENT 2011	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
Chief Executive Officer	427	22	449
General Manager, Corporate	259	32	291
General Manager, Infrastructure Management	222	17	239
General Manager, Infrastructure Development	223	22	245
General Manager Safety, Strategy and Risk (appointed 1.3.2011)	66	8	74
PARENT 2010			
Chief Executive Officer	411	38	449
General Manager, Corporate	264	33	297
Acting General Manager, Infrastructure Management (completed service 15.11.2009)	83	9	92
General Manager, Infrastructure Management (appointed 16.11.2009)	136	17	153
General Manager, Infrastructure Development	226	24	250

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011

Note 27 Related parties disclosures (continued)

Performance payments to employees

FINANCIAL YEAR	AGGREGATE AT-RISK PERFORMANCE REMUNERATION $'000	TOTAL FIXED SALARIES AND WAGES PAYMENTS $'000	EMPLOYEES RECEIVING PERFORMANCE PAYMENTS
2010-11	98	1,295	3
2009-10	73	1,193	3

Transactions with director-related entities

SunWater and its controlled entities used the legal services of Allens Arthur Robinson, a firm of which Mr Alan Millhouse is a consultant. During the period of Mr Millhouse's directorship, total value of the legal services (inclusive of GST) was $682,496. The services were procured on a commercial basis in accordance with board-approved processes and the State Purchasing Policy.

SunWater used the services of Sentis, an organisation of which Ms Kirstin Ferguson was the CEO during the period in which the services were provided. The services, valued at approximately $20,000 inclusive of GST were provided at no cost to SunWater.

Transactions with subsidiaries

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

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

	2011 $'000	2010 $'000
Sales of water to subsidiaries	4,218	4,011
Sales of water from subsidiaries	213	-
Sales of services to subsidiaries	7,009	28,194
Interest received from subsidiaries	1,941	496
Interest paid to subsidiaries	1,099	479
Current tax payable assumed from tax consolidated subsidiaries	5,320	3,241
Current tax losses assumed from tax consolidated subsidiaries	437	2,291
Dividends received from subsidiaries	16,500	14,000
Loan received from subsidiary	680	8,880
Loan issued to subsidiary	478	26,306

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

	2011 $'000	2010 $'000
Receivables and loans (note 9)	33,184	32,103
Payables and borrowings (notes 16, 18)	34,938	36,068

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	2011 $'000	2010 $'000
Cash (note 8)	Deposits on call	11,889	42,385
Receivables (note 9)	Water sales	1,954	3,140
Receivables (note 9)	Consultancies	471	463
Receivables (note 9)	Sale of goods, rent	-	(23)
Borrowings (note 18)	QTC borrowings	247,273	248,816
Payables (note 16)	Electricity, regulatory charges	1,249	1,190
Contributed equity (note 22)	Equity contributions from shareholders	20,727	70,609
Dividends (note 23)	Dividends declared	34,005	10,640
Revenue – interest (note 4)	Interest received from QTC	1,609	4,392
Revenue – all other (note 4)	Water sales, CSO, grants	20,232	17,094
Revenue – consulting fees (note 4)	Consultancies	5,554	9,357
Revenue – other revenue (note 4)	Sale of goods, rent	-	(37)
Expense – interest (note 6)	Interest paid to QTC	17,610	16,953
Expense – all other	Electricity, regulatory charges	44,896	47,998

NOTES TO THE FINANCIAL STATEMENTS
30 June 2011

Note 28 Contingencies

Resolution of prior year's contingency:

During the 2008 year an audit of Paradise Dam under the *Environment Protection and Biodiversity Conservation Act 1999* was carried out by the Department of Sustainability, Environment, Water, Populations and Communities (SEWPaC), previously the Department of the Environment, Water, Heritage and the Arts (DEWHA). The findings of the SEWPaC report concluded that Paradise Dam was partially compliant in relation to the operation of the fishway required to be installed under Condition 3 of the Approval. As a result of the successful defence of the Wide Bay Burnett Conservation Council (WBBCC) action (refer below), SEWPaC has published an addendum to the Final Compliance Audit Report which confirms that periods of non-operation of the fishway did not constitute a breach of Condition 3 of the Approval.

SunWater had contingent liabilities at 30 June 2011 in respect of:

(a) In November 2008, one of two inflatable dams mounted on top of Bedford Weir failed. In the ensuing unexpected release of a large volume of water downstream, a fatality occurred. The incident is the subject of an ongoing Workplace Health and Safety Queensland prosecution and may be subject to a later inquiry by the Coroner. In September 2009, the relatives of the deceased person also instituted legal action for personal injuries. At the date of this report, legal proceedings are continuing. A provision of $0.790M has been made in the financial statements for legal costs associated with these proceedings.

(b) In June 2010, the failure of a coffer dam at Marian Weir resulted in the sudden inflow of water into the coffer dam. A fatality involving an employee of the contractor engaged to design and construct the coffer dam occurred. This matter is subject to a Workplace Health and Safety Queensland prosecution. At the date of this report, legal proceedings are continuing. A provision of $0.600M has been made in the financial statements for legal costs associated with these proceedings.

(c) During the year, SunWater signed a letter of guarantee with a potential mining customer which requires delivery of an agreed water solution at a pre-determined time in the future. If SunWater is unable to supply the water solution as agreed, it will incur a financial penalty for every day the solution is delayed, up to a cap of $19.900M. At this date, there is no indication that the solution will be delayed or that the financial penalty will be incurred.

(d) SunWater was directed by the Treasurer of Queensland under section 68 of the *South East Queensland Water (Restructuring) Act 2007* to indemnify the Queensland Bulk Water Supply Authority in relation to assets transferred on 1 July 2008. This indemnity may give rise to claims on SunWater if any of the conditions are triggered. At the date of this report, there are no known claims or circumstances which would give rise to a claim under the indemnity.

(e) At 30 June 2011, SunWater was engaged in commercial disputes under various contracts. One of those disputes has resulted in legal action at the date of this report, however it is not possible to reliably estimate the eventual outcome of these disputes or the financial consequences of thereof.

SunWater had contingent assets at 30 June 2011 in respect of:

(a) In September 2008, the WBBCC commenced legal proceedings against Burnett Water Pty Ltd (BWPL), a wholly owned subsidiary of SunWater Limited, in connection with the design and subsequent operation of the upstream fish lift and the downstream fishway at Paradise Dam.

BWPL has successfully defended the action and in June 2011, was awarded a cost judgement of $1.040M. All costs associated with the legal proceedings have been expensed, and the proceeds of this judgement will be brought to account as received. No amounts had been received as at 30 June 2011.

(b) SunWater anticipates that it will make a claim under its insurance policies for losses attributable to the recent flooding events and the impact of cyclone Yasi. At 30 June 2011, no revenue from insurance proceeds has been taken up in the statements of comprehensive income.

(c) SunWater anticipates that it will make a claim under its insurance policies for legal costs associated with the Bedford Weir and Marian Weir incidents. At 30 June 2011, no revenue from insurance proceeds has been taken up in the statements of comprehensive income.

(d) SunWater anticipates that it will make a claim under its insurance policies for legal costs associated with the Commission of Inquiry into the recent flood events. At 30 June 2011, no revenue from insurance proceeds has been taken up in the statements of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2011

Note 29 Dam safety upgrade program

SunWater has in place a comprehensive Dam Safety Program to ensure the continuing integrity of its referable dams. This program incorporates an ongoing series of inspections, engineering assessments, and comprehensive risk assessments for all referable dams, taking into account all relevant factors including changes in design standards, hydrologic data and methods, industry best practice and regulator requirements.

The dam safety program has previously identified the need to upgrade a number of dam spillways in response to spillway adequacy reviews. Spillway upgrades have been completed for Fred Haigh Dam (2006) and Bjelke Petersen Dam (2008). Tinaroo Falls Dam upgrade achieved practical completion in 2011.

Whilst the initial program of safety upgrades was prioritised based on spillway adequacy, SunWater is progressively completing a Comprehensive Risk Assessment (CRA) for all of its referable dams. A CRA considers a much broader range of risk factors, and therefore provides a more complete view of upgrade requirements for each dam.

As each CRA is completed, the priority of upgrades within the portfolio is assessed, and if necessary revised. The table below provides a summary of the current prioritisation and estimate of cost for each upgrade currently scheduled.

SAFETY UPGRADE	COMMENCEMENT	ESTIMATED COSTS
Tinaroo Falls Dam	2008	$24.634M
Kinchant Dam	2011	$30.000M
Burdekin Falls Dam – Stage 1	2012	$11.700M
Burdekin Falls Dam – Stage 2	2018	$178.832M
Teemburra Dam	2014	$6.328M
Coolmunda Dam	2015	$4.634M
Wuruma Dam	2016	$8.911M

At this time, it is not possible to quantify the complete scope of works or the likely cost of the remainder of the safety upgrade program, and discussions with Government over funding support are continuing.

Note 30 Subsequent events

To date, no events have occurred subsequent to balance date that materially impact on these financial statements.

DIRECTORS' DECLARATION

In accordance with the *Corporations Act 2001* (Cth), the directors declare that:

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

(b) the 2010-2011 financial statements and notes set out on pages 1 to 46:

  (i) comply with Accounting Standards;

  (ii) comply with international financial reporting standards as set out in Note 1(a); and

  (iii) give a true and fair view of the company's financial position and performance and the financial position and performance of the consolidated entity;

(c) the directors have been given declarations pursuant to section 295A of the *Corporations Act 2001* (Cth) by the Chief Executive, General Manager – Corporate and Manager Finance.

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

S N SPENCER	J L GIBSON
Chairman	Director

Brisbane, Qld
24 August 2011

INDEPENDENT AUDITOR'S REPORT

To the Members of SunWater Limited

Report on the Financial Report

I have audited the accompanying financial report of SunWater Limited, which comprises the statements of financial position as at 30 June 2011, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

The *Auditor-General Act 2009* promotes the independence of the Auditor-General and all authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

In conducting the audit, the independence requirements of the *Corporations Act 2001* have been complied with. I confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of SunWater Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In my opinion –

(a) the financial report of SunWater Limited is in accordance with the *Corporations Act 2001*, including -

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

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

Emphasis of Matter – Significant Uncertainty Regarding Future Water Prices

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 3, for the purpose of assessing water infrastructure assets for impairment, value-in-use is calculated as the net present value of future cash flows associated with the use of those assets. The Queensland Competition Authority (QCA) has been appointed to conduct an independent review and make recommendations to the Queensland Government on future irrigation water pricing with new prices expected to be set by 1 July 2012.
As the financial model used by SunWater Limited is highly sensitive to small variations in key assumptions, including changes in prices, significant uncertainty exists over the calculation of value-in-use of infrastructure assets in the absence of an approved future pricing structure for irrigation water.

Other Matters – Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of SunWater Limited and the consolidated entity for the year ended 30 June 2011. Where the financial report is included on SunWater Limited's website the company's directors are responsible for the integrity of SunWater Limited's website and I have not been engaged to report on the integrity of SunWater Limited's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or otherwise included with the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

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

AUDITOR GENERAL
31 AUG 2011
OF QUEENSLAND

G G POOLE FCPA
Auditor-General of Queensland

Queensland Audit Office
Brisbane