

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2013

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GENERAL INFORMATION

The financial statements cover both SunWater Limited (ACN 131 034 985) 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 2013

| | NOTES | CONSOLIDATED | | PARENT | |
|--|--------|----------------|-----------------|----------------|-----------------|
| | | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Revenue from continuing operations | 4 | 227,474 | 220,771 | 208,728 | 200,096 |
| Other income | 5 | 505 | 4,464 | 505 | 3,672 |
| Expenses from continuing operations: | | | | | |
| Employee benefits expense | | (39,643) | (40,039) | (39,640) | (40,039) |
| Depreciation and amortisation expense | 13, 14 | (23,695) | (22,972) | (19,045) | (18,326) |
| Impairment expense | 13 | (12,832) | (95,895) | (12,832) | (95,895) |
| Contracted services expense | | (41,830) | (22,737) | (22,490) | (20,970) |
| Electricity expense | | (23,459) | (17,747) | (21,920) | (16,457) |
| Materials expense | | (9,589) | (6,136) | (9,096) | (5,559) |
| Plant hire expense | | (5,291) | (4,183) | (5,250) | (3,920) |
| Motor vehicle operating leases expense | | (1,798) | (1,836) | (1,798) | (1,836) |
| IT charges | | (994) | (925) | (994) | (925) |
| Loss on disposal of assets | | (278) | (468) | (278) | (468) |
| Travel expense | | (1,890) | (1,388) | (1,887) | (1,388) |
| Accommodation expense | | (2,738) | (2,322) | (2,738) | (2,322) |
| Insurance expense | | (8,842) | (5,338) | (8,324) | (5,061) |
| Legal expense | | (1,845) | (2,281) | (1,687) | (2,267) |
| Rates and land tax expense | | (1,778) | (1,688) | (1,618) | (1,522) |
| Telephone, facsimile and data lines expense | | (1,308) | (1,369) | (1,306) | (1,367) |
| Cost of water allocations sold | | (100) | (427) | - | - |
| Other expenses | | (4,961) | (3,254) | (4,097) | (3,170) |
| Finance costs | 6 | (17,598) | (18,236) | (17,420) | (18,070) |
| Profit/(loss) before income tax equivalents | | 27,510 | (24,006) | 36,813 | (35,794) |
| Income tax equivalents expense/(credit) | 7 | (6,602) | 6,936 | (9,393) | 12,722 |
| Profit/(loss) for the year | | 20,908 | (17,070) | 27,420 | (23,072) |
| Other comprehensive income | | - | - | - | - |
| Total comprehensive income for the year | | 20,908 | (17,070) | 27,420 | (23,072) |

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

BALANCE SHEETS

AS AT 30 JUNE 2013

| | NOTES | CONSOLIDATED | | PARENT | |
|--------------------------------------|-------|------------------|----------------|------------------|----------------|
| | | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash | 8 | 338,818 | 187,785 | 327,628 | 176,159 |
| Receivables | 9 | 26,865 | 7,580 | 30,887 | 12,976 |
| Inventories | 10 | 2,273 | 2,223 | 2,273 | 2,223 |
| Other current assets | 11 | 22,576 | 21,351 | 23,881 | 17,810 |
| Total current assets | | 390,532 | 218,939 | 384,669 | 209,168 |
| Non-current assets | | | | | |
| Receivables | 9 | - | - | 10,541 | 18,021 |
| Other financial assets | 12 | - | - | 81,296 | 81,296 |
| Property, plant and equipment | 13 | 778,166 | 685,727 | 675,836 | 579,708 |
| Intangible assets | 14 | 72,237 | 59,725 | 23,947 | 11,335 |
| Deferred tax assets | 15 | 20,912 | 15,550 | 11,688 | 12,566 |
| Total non-current assets | | 871,315 | 761,002 | 803,308 | 702,926 |
| Total assets | | 1,261,847 | 979,941 | 1,187,977 | 912,094 |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Payables | 16 | 77,159 | 25,627 | 78,798 | 24,395 |
| Provisions | 17 | 60,308 | 26,310 | 33,911 | 21,362 |
| Borrowings | 18 | 189,781 | 1,985 | 231,666 | 40,984 |
| Other | 19 | 6,061 | 5,962 | 6,061 | 5,962 |
| Total current liabilities | | 333,309 | 59,884 | 350,436 | 92,703 |
| Non-current liabilities | | | | | |
| Provisions | 17 | 1,210 | 1,199 | 1,210 | 1,199 |
| Borrowings | 18 | 238,480 | 240,247 | 217,501 | 217,522 |
| Other | 19 | 1,397 | 1,707 | 1,397 | 1,707 |
| Deferred tax liabilities | 20 | 20,328 | 17,819 | 6,866 | 2,946 |
| Total non-current liabilities | | 261,415 | 260,972 | 226,974 | 223,374 |
| Total liabilities | | 594,724 | 320,856 | 577,410 | 316,077 |
| Net assets | | 667,123 | 659,085 | 610,567 | 596,017 |
| EQUITY | | | | | |
| Contributed equity | 22 | 380,269 | 380,269 | 380,269 | 380,269 |
| Retained earnings | | 286,854 | 278,816 | 230,298 | 215,748 |
| Total equity | | 667,123 | 659,085 | 610,567 | 596,017 |

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

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2013

| | NOTES | CONTRIBUTED EQUITY \$'000 | RETAINED EARNINGS \$'000 | TOTAL EQUITY \$'000 |
|---|-------|---------------------------------|--------------------------------|---------------------------|
| Consolidated | | | | |
| Balance at 30 June 2011 | | 380,047 | 295,886 | 675,933 |
| Total comprehensive income for the year | | - | (17,070) | (17,070) |
| Transactions with owners as owners | | | | |
| Contributions of equity | 22 | 222 | - | 222 |
| Dividends | 23 | - | - | - |
| Balance at 30 June 2012 | | 380,269 | 278,816 | 659,085 |
| Total comprehensive income for the year | | - | 20,908 | 20,908 |
| Transactions with owners as owners | | | | |
| Dividends | 23 | - | (12,870) | (12,870) |
| Balance at 30 June 2013 | | 380,269 | 286,854 | 667,123 |
| Parent | | | | |
| Balance at 30 June 2011 | | 380,047 | 238,820 | 618,867 |
| Total comprehensive income for the year | | - | (23,072) | (23,072) |
| Transactions with owners as owners | | | | |
| Contributions of equity | 22 | 222 | - | 222 |
| Dividends | 23 | - | - | - |
| Balance at 30 June 2012 | | 380,269 | 215,748 | 596,017 |
| Total comprehensive income for the year | | - | 27,420 | 27,420 |
| Transactions with owners as owners | | | | |
| Dividends | 23 | - | (12,870) | (12,870) |
| Balance at 30 June 2013 | | 380,269 | 230,298 | 610,567 |

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 2013

| | NOTES | CONSOLIDATED | | PARENT | |
|---|-------|------------------|-----------------|------------------|-----------------|
| | | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| <i>Cash flows from operating activities</i> | | | | | |
| Receipts from customers (inclusive of GST and refunded GST) | | 245,793 | 232,784 | 213,647 | 202,861 |
| Government grant received | | 711 | 3,107 | 711 | 3,107 |
| Community service obligations received | | 9,754 | 9,434 | 4,718 | 4,217 |
| Interest received | | 1,045 | 202 | 1,016 | 154 |
| Intercompany taxes received | | - | - | 8,242 | 5,320 |
| Payments to suppliers and employees (inclusive of GST) | | (120,909) | (147,853) | (105,509) | (139,080) |
| Income taxes paid | | (21,947) | (21,175) | (21,947) | (21,175) |
| Net cash inflow (outflow) from operating activities | 25 | 114,447 | 76,499 | 100,878 | 55,404 |
| <i>Cash flows from investing activities</i> | | | | | |
| Proceeds from sale of property, plant and equipment | | 708 | 1,454 | 708 | 1,454 |
| Proceeds from term debtors | | 29 | 49 | 29 | 49 |
| Repayments of intercompany borrowings | | - | - | 7,888 | 8,741 |
| Interest received | | 9,706 | 13,337 | 10,135 | 15,436 |
| Dividends received | | - | - | - | 7,500 |
| Payments for property, plant and equipment | | (142,622) | (103,202) | (141,758) | (103,200) |
| Net cash inflow (outflow) from investing activities | | (132,179) | (88,362) | (122,998) | (70,020) |
| <i>Cash flows from financing activities</i> | | | | | |
| Government grant received | | - | 286 | - | - |
| Equity contributions | | - | 222 | - | 222 |
| Repayments of advances | | - | 1,000 | - | - |
| Proceeds from external borrowings ⁽¹⁾ | | 188,100 | - | 188,100 | - |
| Proceeds from intercompany borrowings | | - | - | 5,000 | 6,000 |
| Interest paid | | (17,264) | (18,213) | (17,080) | (17,567) |
| Repayments of borrowings | | (2,071) | (3,006) | (2,431) | (21) |
| Dividends paid | | - | (34,005) | - | (34,005) |
| Net cash inflow (outflow) from financing activities | | 168,765 | (53,716) | 173,589 | (45,371) |
| Net increase (decrease) in cash and cash equivalents held | | 151,033 | (65,579) | 151,469 | (59,987) |
| Cash & cash equivalents at the beginning of the financial year | | 187,785 | 253,364 | 176,159 | 236,146 |
| Cash & cash equivalents at the end of the financial year | 8 | 338,818 | 187,785 | 327,628 | 176,159 |

⁽¹⁾ An interest free bridging loan of \$188.100 M was received from a customer to part fund the construction of the Woleebee Pipeline and deposited into a separate account. Withdrawals from this account can only be made to pay for construction expenditure and can only be made with the approval of the customer. The account is not available on demand and is not available to meet SunWater's short-term cash commitments.

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

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, being 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* (Cth) 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 note 3.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the parent entity as at 30 June 2013 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 consolidated 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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* (Qld). 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) (note 1 (o) (i)).

(f) Income tax

SunWater is exempt from income tax under section 24AM of the *Income Tax Assessment Act 1997* (Cth) 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 current 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).

Entities within the group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (e.g the Research and Development Tax Incentive regime or other investment allowances). The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

(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 (refer note 26(b)). 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 CGU. Each hydro-electricity generating station is regarded as a CGU.

(j) Cash and cash equivalents

For statements of cash flow 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

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are calculated on a straight-line basis so as to write off the cost or deemed cost of each depreciable asset, less its estimated residual value, progressively over its estimated useful life to the entity. Useful life to the entity is determined after considering a number of factors such as manufacturer's specifications, engineering life, climatic conditions, geographic conditions and contractual life.

For each class of depreciable asset the following depreciation rates are used:

| ASSET CLASS | DEPRECIATION RATES |
|---------------------------------|-------------------------|
| Land | Land is not depreciated |
| Buildings and land improvements | 1.65% to 20% |
| Plant and equipment | 8% to 33.33% |
| Infrastructure | 0.5% to 10% |

(o) Non-current intangible assets

(i) Water allocations

Water allocations 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 12.5% to 33%.

(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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings are derecognised 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 for certain types of repairs, legal costs and restructuring 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.

(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 recognised as a current liability on the balance sheet.

(u) Employee benefits

(i) Wages, salaries and annual leave

Liabilities for wages, salaries and annual leave due but unpaid at the reporting date are recognised in payables at the remuneration rates expected to apply at the time of settlement and include related on-costs such as payroll tax, workers compensation premiums, long service leave levies and employer superannuation contributions.

(ii) Long service leave

SunWater is levied under the Queensland Government's long service leave scheme at rates determined by actuarial assessment. Levies are expensed in the period in which they are paid or payable. Amounts paid to employees for long service leave are claimed from the scheme as and when leave is taken. No provision for long service leave entitlements is taken up in the financial statements as the liability is held on a whole-of-government basis.

(iii) Sick leave

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

(iv) 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 2013 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* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* and AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* (effective from first full reporting period after 1 January 2015).**

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 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) **AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements*, AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* and AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments* (effective from first full reporting period after 1 January 2013).**

In August 2011, the AASB issued a suite of six new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. SunWater is yet to assess their full impact. However, a preliminary view is that when adopted, the standards are not expected to significantly affect the group's accounting for its financial assets and liabilities.

The group will adopt the new standards from their operative date. They will therefore be applied in the financial statements for the annual reporting period ending 30 June 2014.

- (iii) **AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective from first full reporting period after 1 January 2013).**

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. SunWater has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to assess the impact, if any, of the new rules on amounts recognised in the financial statements.

The group will adopt the new standards from their operative date. They will therefore be applied in the financial statements for the annual reporting period ending 30 June 2014.

- (iv) **Revised AASB 119 *Employee Benefits* and AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 September 2011* (effective from first full reporting period after 1 January 2013).**

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income. This standard will not apply to SunWater because it does not operate a defined benefit superannuation scheme (refer note 1(u)(iv)).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

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 liquid assets.

(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 2012–13, 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

During 2012–13, 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.

| CONSOLIDATED | CARRYING AMOUNT \$'000 | 2013 INTEREST RATE RISK | | | |
|--|------------------------------|-------------------------|-------------------------|------------------|-------------------------|
| | | PROFIT \$'000 | -1% EQUITY \$'000 | PROFIT \$'000 | +1% EQUITY \$'000 |
| FINANCIAL INSTRUMENTS | | | | | |
| Cash | 338,818 | (2,106) | (2,106) | 2,106 | 2,106 |
| QTC borrowings | 240,161 | 2,770 | 2,770 | (2,770) | (2,770) |
| Overall effect on profit and equity | | 664 | 664 | (664) | (664) |

The bridging loan received from a customer during 2013 to part fund construction of the Woleebee Pipeline is not included in this sensitivity analysis as it is interest free.

| CONSOLIDATED | CARRYING AMOUNT \$'000 | 2012 INTEREST RATE RISK | | | |
|--|------------------------------|-------------------------|-------------------------|------------------|-------------------------|
| | | PROFIT \$'000 | -1% EQUITY \$'000 | PROFIT \$'000 | +1% EQUITY \$'000 |
| FINANCIAL INSTRUMENTS | | | | | |
| Cash | 187,785 | (2,152) | (2,152) | 2,152 | 2,152 |
| QTC borrowings | 242,232 | 2,849 | 2,849 | (2,849) | (2,849) |
| Overall effect on profit and equity | | 697 | 697 | (697) | (697) |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 2 FINANCIAL RISK MANAGEMENT (continued)

(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 \$25 M may be invested with an Australian institution that has a current credit rating of A- to A+, up to an aggregate cap of \$50 M for all institutions in this rating category.
2. Deposits up to a cap of \$50 M may be invested with an Australian institution that has a current credit rating of AA- or higher.
3. Deposits up to \$50 M may be invested with Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited and Westpac Banking Corporation.
4. Deposits of any amount may be invested with QTC.

During 2012-13, 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 | 2013 \$'000 | 2012 \$'000 |
|---|------|----------------|----------------|
| Consolidated | | | |
| Cash at bank and at call invested in Australian institutions rated AA- or higher* | 8 | 172,401 | 40,501 |
| Held-to-maturity investments in Australian institutions rated A- to A+* | 8 | 50,256 | 45,724 |
| Held-to-maturity investments in Australian institutions rated AA- or higher* | 8 | 116,156 | 101,554 |
| Other cash and cash equivalents | 8 | 5 | 6 |
| Receivables – current | 9 | 26,865 | 7,580 |
| | | 365,683 | 195,365 |
| Parent | | | |
| Cash at bank and at call invested in Australian institutions rated AA- or higher* | 8 | 161,211 | 28,875 |
| Held-to-maturity investments in Australian institutions rated A- to A+* | 8 | 50,256 | 45,724 |
| Held-to-maturity investments in Australian institutions rated AA- or higher* | 8 | 116,156 | 101,554 |
| Cash and cash equivalents | 8 | 5 | 6 |
| Receivables – current | 9 | 30,887 | 12,976 |
| Receivables – non-current | 9 | 10,541 | 18,021 |
| | | 369,056 | 207,156 |

* Inclusive of accrued interest.

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

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 \$305 M during 2012-13 (undrawn). This facility is reviewed and renewed annually. SunWater has a rolling \$50 M working capital facility with QTC. This facility (undrawn during 2012-13) operates as an overdraft arrangement which is used to cover temporary funding shortfalls. The facility is repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 2 FINANCIAL RISK MANAGEMENT (continued)

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.

| | CARRYING AMOUNT \$'000 | LESS THAN 1 YEAR \$'000 | 1 – 5 YEARS \$'000 | OVER 5 YEARS \$'000 | TOTAL CASH FLOWS (CONTRACTUAL) \$'000 |
|----------------------------|------------------------------|-------------------------------|--------------------------|---------------------------|--|
| 2013 | | | | | |
| Consolidated | | | | | |
| Payables | 90,029 | 90,029 | - | - | 90,029 |
| Borrowings – QTC | 240,161 | 18,467 | 73,909 | 229,846* | 322,222 |
| Borrowings – bridging loan | 188,100 | 188,100 | - | - | 188,100 |
| Deposits payable | 578 | 39 | 38 | 501 | 578 |
| | 518,868 | 296,635 | 73,947 | 230,347 | 600,929 |
| Parent | | | | | |
| Payables | 91,669 | 91,669 | - | - | 91,669 |
| Borrowings – QTC | 217,501 | 15,005 | 60,061 | 215,536* | 290,602 |
| Borrowings – bridging loan | 188,100 | 188,100 | - | - | 188,100 |
| Intercompany loan | 43,566 | 43,566 | - | - | 43,566 |
| Deposits payable | 578 | 39 | 38 | 501 | 578 |
| | 541,414 | 338,379 | 60,099 | 216,037 | 614,515 |
| 2012 | | | | | |
| Consolidated | | | | | |
| Payables | 25,627 | 25,627 | - | - | 25,627 |
| Borrowings – QTC | 242,232 | 19,243 | 77,016 | 232,485* | 328,744 |
| Deposits payable | 408 | 39 | 38 | 331 | 408 |
| | 268,267 | 44,909 | 77,054 | 232,816 | 354,779 |
| Parent | | | | | |
| Payables | 24,395 | 24,395 | - | - | 24,395 |
| Borrowings – QTC | 217,522 | 15,686 | 62,788 | 215,232* | 293,706 |
| Intercompany loan | 40,984 | 40,984 | - | - | 40,984 |
| Deposits payable | 408 | 39 | 38 | 331 | 408 |
| | 283,309 | 81,104 | 62,826 | 215,563 | 359,493 |

* Cash flows over five 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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), appointed to conduct an independent review and make recommendations to government on future irrigation water pricing, handed down its final report *SunWater Irrigation Price Review: 2012-17* in May 2012. In June 2012, SunWater's shareholding Ministers directed SunWater to charge its irrigation customers the final recommended prices as defined in this report for the period commencing 1 July 2012 and ending 30 June 2017.
- The cash flow projections used in SunWater's model are based on these approved irrigation pricing arrangements and likely future pricing trends.
- 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 factor, used in the calculation of WACC, is based on a five year moving average of the daily risk-free rate.
- There is no 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 Plan conditions will continue in perpetuity.

NOTE 4 REVENUE

| | CONSOLIDATED | | PARENT | |
|---|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Revenue from continuing operations | | | | |
| Industrial water charges | 119,019 | 109,599 | 90,540 | 80,864 |
| Irrigation water charges | 47,159 | 48,893 | 46,213 | 48,019 |
| Urban water charges | 9,225 | 8,624 | 8,872 | 8,449 |
| Drainage charges | 1,407 | 1,364 | 1,407 | 1,364 |
| Water allocations revenue | 12,323 | 12,784 | 11,931 | 11,552 |
| Consulting and facilities services revenue | 12,368 | 13,418 | 28,480 | 21,003 |
| Electricity generation | 489 | 491 | 489 | 485 |
| Community service obligation – irrigation | 8,997 | 6,289 | 8,997 | 6,289 |
| Community service obligation – urban | 5,037 | 4,971 | - | - |
| Community service obligation – other | - | - | - | - |
| Other fees and charges | 279 | 286 | 279 | 285 |
| Grants | 27 | 302 | 27 | 16 |
| Interest | 9,851 | 12,523 | 10,251 | 13,097 |
| Dividends received | - | - | - | 7,500 |
| Rent received | 458 | 283 | 458 | 283 |
| Other | 835 | 944 | 784 | 890 |
| Total revenue from continuing operations | 227,474 | 220,771 | 208,728 | 200,096 |

NOTE 5 OTHER INCOME

| | CONSOLIDATED | | PARENT | |
|--|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Other income | | | | |
| Gain on disposal of non-current assets | 474 | 1,022 | 474 | 1,022 |
| Proceeds from insurance settlement | 31 | 3,442 | 31 | 2,650 |
| Total other income | 505 | 4,464 | 505 | 3,672 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 6 FINANCE COSTS

| | CONSOLIDATED | | PARENT | |
|---|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Interest and finance charges paid/payable | 17,598 | 18,238 | 17,420 | 18,072 |
| Amount capitalised | - | (2) | - | (2) |
| Finance costs expended | 17,598 | 18,236 | 17,420 | 18,070 |

NOTE 7 INCOME TAX AND INCOME TAX EQUIVALENTS

| | CONSOLIDATED | | PARENT | |
|---|----------------|-----------------|----------------|-----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| (a) Income tax equivalents expense | | | | |
| Current tax equivalents expense | 10,982 | 21,698 | 6,122 | 13,457 |
| Deferred tax equivalents expense/(credit) | (2,853) | (28,903) | 4,798 | (26,448) |
| Prior year (over)/under provision | (1,527) | 269 | (1,527) | 269 |
| | 6,602 | (6,936) | 9,393 | (12,722) |
| Income tax equivalents expense/(credit) is attributable to: | | | | |
| Profit/(loss) from continuing operations | 6,602 | (6,936) | 9,393 | (12,722) |
| Deferred tax equivalents expense/(credit) included in income tax equivalents expense comprises: | | | | |
| Decrease/(increase) in deferred tax assets (note 15) | (5,362) | (7,522) | 878 | (6,326) |
| Increase/(decrease) in deferred tax liabilities (note 20) | 2,509 | (21,381) | 3,920 | (20,122) |
| | (2,853) | (28,903) | 4,798 | (26,448) |

| | CONSOLIDATED | | PARENT | |
|---|----------------|----------------|----------------|-----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| (b) Numerical reconciliation of income tax equivalents expense/(credit) to prima facie tax equivalents payable | | | | |
| Profit/(loss) from continuing operations before income tax equivalents expense/(credit) | 27,510 | (24,006) | 36,813 | (35,794) |
| Tax at 30% | 8,253 | (7,202) | 11,044 | (10,738) |
| Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income: | | | | |
| Entertainment expenses | 20 | 23 | 20 | 23 |
| Non deductible payment | 33 | - | 33 | (2,250) |
| Sundry items | (178) | (26) | (178) | (26) |
| Prior year (over)/under provision | (1,526) | 269 | (1,526) | 269 |
| Income tax equivalents expense/(credit) | 6,602 | (6,936) | 9,393 | (12,722) |

NOTE 8 CASH AND CASH EQUIVALENTS

| | CONSOLIDATED | | PARENT | |
|-----------------------------|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Cash on hand | 5 | 6 | 5 | 6 |
| Cash at bank ⁽¹⁾ | 130,036 | 2,482 | 129,733 | 1,767 |
| Deposits on call | 42,365 | 38,019 | 31,478 | 27,108 |
| Term deposits | 166,412 | 147,278 | 166,412 | 147,278 |
| | 338,818 | 187,785 | 327,628 | 176,159 |

⁽¹⁾ During the year, an interest free bridging loan of \$188.100 M was received from a customer to part fund the construction of the Woleebee Pipeline and deposited into a separate account (note 18). Withdrawals from this account can only be made to pay for construction expenditure and can only be made with the approval of the customer. The account is not available on demand and is not available to meet SunWater's short-term cash commitments. Construction is expected to be finalised by 30 June 2014. At 30 June 2013, \$127.883 M was undrawn.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 8 CASH AND CASH EQUIVALENTS (continued)

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

The above figures reconcile 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 | 388,818 | 187,785 | 327,628 | 176,159 |
|---|---------|---------|---------|---------|

(b) Risk exposure

SunWater's risk exposure is set out in note 2.

NOTE 9 RECEIVABLES

| | CONSOLIDATED | | PARENT | |
|---|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Current | | | | |
| Trade debtors ⁽¹⁾ | 29,065 | 8,969 | 24,637 | 5,047 |
| Term trade debtors | 85 | 111 | 85 | 111 |
| Intercompany receivables | - | - | 667 | 1,076 |
| Intercompany taxation receivables | - | - | 7,783 | 8,242 |
| | 29,150 | 9,080 | 33,172 | 14,476 |
| Allowance for impairment of receivables | (2,285) | (1,500) | (2,285) | (1,500) |
| | 26,865 | 7,580 | 30,887 | 12,976 |
| Non-current | | | | |
| Intercompany receivables | - | - | 10,541 | 18,021 |
| | - | - | 10,541 | 18,021 |

⁽¹⁾ Includes costs recoverable from customers in respect of projects which did not proceed to construction.

(a) Impaired receivables

The ageing of trade receivables is as follows:

| | GROSS RECEIVABLE | | GROSS RECEIVABLE | |
|-----------------------|------------------|------------------------------|------------------|------------------------------|
| | 2013 \$'000 | IMPAIRMENT 2013 \$'000 | 2012 \$'000 | IMPAIRMENT 2012 \$'000 |
| Consolidated | | | | |
| Not past due | 20,570 | 217 | 6,219 | 203 |
| Past due 0 – 30 days | 1,277 | 262 | 530 | 200 |
| Past due 31 – 60 days | 1,408 | 148 | 1,005 | 302 |
| More than 60 days | 5,810 | 1,658 | 1,215 | 795 |
| | 29,065 | 2,285 | 8,969 | 1,500 |

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

| | 2013 \$'000 | 2012 \$'000 |
|-----------------------------------|----------------|----------------|
| At 1 July | 1,500 | 1,300 |
| Allowances added/(written back) | 785 | 200 |
| Carrying amount at 30 June | 2,285 | 1,500 |

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 set out 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 2013

NOTE 10 INVENTORIES

| | CONSOLIDATED | | PARENT | |
|-----------------------------|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Materials and stores | 2,273 | 2,223 | 2,273 | 2,223 |

Inventory expense

Inventories recognised as expense during the year ended 30 June 2013 amounted to \$1.618 M (2012: \$2.000 M). There were no write-downs of inventories to net realisable value charged as an expense during the year ended 30 June 2013 (2012: nil). Inventory to the value of \$0.001 M was written off during the year (2012: \$0.060 M). There were no reversals of previous write-downs (2012: nil).

NOTE 11 OTHER CURRENT ASSETS

| | CONSOLIDATED | | PARENT | |
|--------------------------------|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| GST receivable | 2,544 | 1,783 | 2,315 | 1,689 |
| Prepayments | 693 | 710 | 690 | 710 |
| Prepaid income tax | 1,706 | - | 1,706 | - |
| Accrued revenue ^[1] | 17,633 | 18,858 | 19,170 | 15,411 |
| | 22,576 | 21,351 | 23,881 | 17,810 |

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

NOTE 12 OTHER FINANCIAL ASSETS

| | CONSOLIDATED | | PARENT | |
|--|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'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 | |
|--|--------------------------|-----------------|----------------|-----------|
| | | | 2013 % | 2012 % |
| 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 | | PARENT | |
|---|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Land^[1] | 7,987 | 7,653 | 7,987 | 7,653 |
| Buildings and land improvements ^[1] | 19,802 | 16,277 | 19,768 | 16,243 |
| Accumulated depreciation | (4,072) | (3,580) | (4,061) | (3,570) |
| Total buildings and land improvements | 15,730 | 12,697 | 15,707 | 12,673 |
| Plant and equipment ^[1] | 19,058 | 19,205 | 19,045 | 19,193 |
| Accumulated depreciation | (12,101) | (11,315) | (12,097) | (11,311) |
| Accumulated impairment | (365) | (365) | (365) | (365) |
| Total plant and equipment | 6,592 | 7,525 | 6,583 | 7,517 |
| Water infrastructure ^[1] | 870,842 | 810,990 | 715,411 | 655,559 |
| Accumulated depreciation | (143,841) | (123,799) | (94,379) | (78,985) |
| Accumulated impairment | (183,141) | (172,781) | (176,784) | (166,424) |
| Total water infrastructure | 543,860 | 514,410 | 444,248 | 410,150 |
| Assets under construction^{[1][2]} | 203,997 | 172,186 | 201,311 | 170,459 |
| Accumulated impairment | - | (28,744) | - | (28,744) |
| Total assets under construction | 203,997 | 143,442 | 201,311 | 141,715 |
| Total property, plant and equipment | 778,166 | 685,727 | 675,836 | 579,708 |

^[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 unrecoverable value is written off at that time.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

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 2013 | | | | | | |
| Carrying amount at 1 July 2012 | 7,653 | 12,697 | 7,525 | 514,410 | 143,442 | 685,727 |
| Additions | 395 | 3,764 | 1,161 | 60,187 | 141,806 | 207,313 |
| Disposals | (61) | (175) | (44) | (230) | - | (510) |
| Transfer between classes | - | - | - | - | (78,779) | (78,779) |
| Depreciation expense | - | (556) | (2,050) | (20,147) | - | (22,753) |
| Impairment loss | - | - | - | (10,360) | (2,472) | (12,832) |
| Carrying amount at 30 June 2013 | 7,987 | 15,730 | 6,592 | 543,860 | 203,997 | 778,166 |

| | LAND \$'000 | BUILDINGS & LAND IMPROVEMENTS \$'000 | PLANT & EQUIPMENT \$'000 | WATER INFRASTRUCTURE \$'000 | ASSETS UNDER CONSTRUCTION \$'000 | TOTAL \$'000 |
|--|----------------|--|--------------------------------|-----------------------------------|--|-----------------|
| Year ended 30 June 2012 | | | | | | |
| Carrying amount at 1 July 2011 | 7,904 | 11,762 | 8,963 | 586,093 | 89,884 | 704,606 |
| Additions | - | 1,680 | 802 | 15,393 | 101,129 | 119,004 |
| Disposals | (251) | (224) | (53) | (372) | - | (900) |
| Transfer between classes | - | - | - | - | (18,827) | (18,827) |
| Depreciation expense | - | (521) | (2,187) | (19,553) | - | (22,261) |
| Impairment loss | - | - | - | (67,151) | (28,744) | (95,895) |
| Carrying amount at 30 June 2012 | 7,653 | 12,697 | 7,525 | 514,410 | 143,442 | 685,727 |

| | LAND \$'000 | BUILDINGS & LAND IMPROVEMENTS \$'000 | PLANT & EQUIPMENT \$'000 | WATER INFRASTRUCTURE \$'000 | ASSETS UNDER CONSTRUCTION \$'000 | TOTAL \$'000 |
|--|----------------|--|--------------------------------|-----------------------------------|--|-----------------|
| Parent | | | | | | |
| Year ended 30 June 2013 | | | | | | |
| Carrying amount at 1 July 2012 | 7,653 | 12,673 | 7,517 | 410,150 | 141,715 | 579,708 |
| Additions | 395 | 3,764 | 1,160 | 60,186 | 140,847 | 206,352 |
| Disposals | (61) | (175) | (44) | (230) | - | (510) |
| Transfer between classes | - | - | - | - | (78,779) | (78,779) |
| Depreciation expense | - | (555) | (2,050) | (15,498) | - | (18,103) |
| Impairment loss | - | - | - | (10,360) | (2,472) | (12,832) |
| Carrying amount at 30 June 2013 | 7,987 | 15,707 | 6,583 | 444,248 | 201,311 | 675,836 |

| | LAND \$'000 | BUILDINGS & LAND IMPROVEMENTS \$'000 | PLANT & EQUIPMENT \$'000 | WATER INFRASTRUCTURE \$'000 | ASSETS UNDER CONSTRUCTION \$'000 | TOTAL \$'000 |
|--|----------------|--|--------------------------------|-----------------------------------|--|-----------------|
| Year ended 30 June 2012 | | | | | | |
| Carrying amount at 1 July 2011 | 7,904 | 11,737 | 8,955 | 477,260 | 89,768 | 595,624 |
| Additions | - | 1,680 | 802 | 15,321 | 99,446 | 117,249 |
| Disposals | (251) | (224) | (53) | (372) | - | (900) |
| Transfer between classes | - | - | - | - | (18,755) | (18,755) |
| Depreciation expense | - | (520) | (2,187) | (14,908) | - | (17,615) |
| Impairment loss | - | - | - | (67,151) | (28,744) | (95,895) |
| Carrying amount at 30 June 2012 | 7,653 | 12,673 | 7,517 | 410,150 | 141,715 | 579,708 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 13 PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment

Cash generating units

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

| | CONSOLIDATED | | PARENT | |
|---|---------------|-----------------|---------------|-----------------|
| | LOSS | (REVERSED) | LOSS | (REVERSED) |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| <i>Bowen Broken Water Supply Scheme</i> | | (3,643) | | (3,643) |
| This CGU comprises all of the water infrastructure assets in the Bowen Broken Water Supply Scheme. The reversal of previously recognised impairment losses arises mainly because revised cash inflows are now expected to recover certain previously recognised future cash outflows. Recoverable amount is determined as value in use. The discount rate used was 9.4% (2012:10.6%). | | | | |
| <i>Boyne Water Supply Scheme</i> | 2,922 | | 2,922 | |
| This CGU comprises all of the water infrastructure assets in the Boyne Water Supply Scheme. The impairment loss mainly arises because additional future cash outflows are expected to fully absorb currently forecast cash inflows. Recoverable amount is determined as value in use. The discount rate used was 9.4% (2012:10.6%). | | | | |
| <i>Mareeba Dimbulah Water Supply Scheme</i> | 13,192 | | 13,192 | |
| This CGU comprises all of the water infrastructure assets in the Mareeba Dimbulah Water Supply Scheme. The impairment loss mainly arises because additional future cash outflows are expected to fully absorb currently forecast cash inflows. Recoverable amount is determined as value in use. The discount rate used was 9.4% (2012: 10.6%). | | | | |
| <i>Nogoa Mackenzie Water Supply Scheme</i> | | (4,498) | | (4,498) |
| This CGU comprises all of the water infrastructure assets in the Nogoa Mackenzie Water Supply Scheme. The reversal of previously recognised impairment losses arises mainly because revised cash inflows are now expected to recover certain previously recognised future cash outflows. Recoverable amount is determined as value in use. The discount rate used was 9.4% (2012: 10.6%). | | | | |
| Other cash generating units – individually not significant. Recoverable amount is determined as value in use. The discount rate used was 9.4% (2012: 10.6%). | 4,616 | (2,229) | 4,616 | (2,229) |
| Total | 20,730 | (10,370) | 20,730 | (10,370) |

Assets under construction

Assets under construction against which significant impairment losses were recognised (or reversed) during the financial year are:

| | CONSOLIDATED | | PARENT | |
|--------------------------------|--------------|------------|--------|------------|
| | LOSS | (REVERSED) | LOSS | (REVERSED) |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Connors River Dam and Pipeline | 2,472 | | 2,472 | |

On 25 July 2012, SunWater's Board resolved to cease all project activities associated with the Connors River Dam and Pipeline projects due to insufficient customer commitment to the projects to enable them to continue. Impairment of \$28,744 M being pre-construction costs of \$45.100 M (ex GST) of which \$16.356 M (ex GST) was recoverable from customers, was recorded in last year's financial statements. Since that time, additional expenditure has been incurred to fully close out the project.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 14 INTANGIBLE ASSETS

| | CONSOLIDATED | | PARENT | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Software ⁽¹⁾ | 29,702 | 16,433 | 29,702 | 16,433 |
| Accumulated amortisation | (15,255) | (14,315) | (15,255) | (14,315) |
| Accumulated impairment | (359) | (359) | (359) | (359) |
| | 14,088 | 1,759 | 14,088 | 1,759 |
| Trade names | 8 | 8 | 8 | 8 |
| Water allocations ⁽¹⁾ | 58,141 | 57,958 | 9,851 | 9,568 |
| | 72,237 | 59,725 | 23,947 | 11,335 |

⁽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 2013 | | | |
| Carrying amount at 1 July 2012 | 1,759 | 8 | 57,958 |
| Additions – at cost | 13,271 | - | 283 |
| Disposals/retirements | - | - | (100) |
| Amortisation expense | (942) | - | - |
| Carrying amount at 30 June 2013⁽¹⁾ | 14,088 | 8 | 58,141 |
| Year ended 30 June 2012 | | | |
| Carrying amount at 1 July 2011 | 1,518 | 8 | 53,329 |
| Additions – at cost | 952 | - | 5,055 |
| Disposals/retirements | - | - | (426) |
| Amortisation expense | (711) | - | - |
| Carrying amount at 30 June 2012⁽¹⁾ | 1,759 | 8 | 57,958 |
| Parent | | | |
| Year ended 30 June 2013 | | | |
| Carrying amount at 1 July 2012 | 1,759 | 8 | 9,568 |
| Additions – at cost | 13,271 | - | 283 |
| Disposals/retirements | - | - | - |
| Amortisation expense | (942) | - | - |
| Carrying amount at 30 June 2013⁽¹⁾ | 14,088 | 8 | 9,851 |
| Year ended 30 June 2012 | | | |
| Carrying amount at 1 July 2011 | 1,518 | 8 | 4,513 |
| Additions – at cost | 952 | - | 5,055 |
| Disposals/retirements | - | - | - |
| Amortisation expense | (711) | - | - |
| Carrying amount at 30 June 2012⁽¹⁾ | 1,759 | 8 | 9,568 |

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 15 DEFERRED TAX ASSETS

| | CONSOLIDATED | | PARENT | |
|--|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| The balance comprises temporary differences attributable to: | | | | |
| Allowance for impairment of receivables | 685 | 450 | 685 | 450 |
| Property, plant and equipment | 1,299 | 7,362 | - | 5,865 |
| Accrued payables | 179 | 18 | 173 | 15 |
| Accrued employee benefits | 1,338 | 1,348 | 1,338 | 1,348 |
| Revenue received in advance | 2,098 | 530 | 2,098 | 530 |
| Provision for Rocklea land commitment | 363 | 360 | 363 | 360 |
| Unearned renewal annuity | 1,545 | 1,569 | 1,545 | 1,569 |
| Rent incentive | 512 | 605 | 512 | 605 |
| Provision for natural disaster repairs | 11,175 | 2,467 | 3,622 | 1,408 |
| Provision for legal fees | 368 | 416 | 323 | 416 |
| Provision for repairs Paradise Dam | 321 | 425 | - | - |
| Provision for restructuring | 1,029 | - | 1,029 | - |
| Balance at 30 June | 20,912 | 15,550 | 11,688 | 12,566 |

| | CONSOLIDATED | | PARENT | |
|--|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Movements: | | | | |
| Opening balance at 1 July | 15,550 | 8,028 | 12,566 | 6,240 |
| Credited/(charged) to the income statement | 5,362 | 7,522 | (878) | 6,326 |
| Closing balance at 30 June | 20,912 | 15,550 | 11,688 | 12,566 |
| Deferred tax assets to be recovered after 12 months | 19,395 | 13,759 | 9,492 | 10,753 |
| Deferred tax assets to be recovered within 12 months | 1,517 | 1,791 | 2,196 | 1,813 |
| Closing balance at 30 June | 20,912 | 15,550 | 11,688 | 12,566 |

NOTE 16 PAYABLES

| | CONSOLIDATED | | PARENT | |
|--------------------------------|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Trade creditors | 30,847 | 5,990 | 30,844 | 5,990 |
| Intercompany taxation payables | - | - | 2,923 | - |
| Other creditors and accruals | 46,312 | 19,637 | 45,031 | 18,405 |
| | 77,159 | 25,627 | 78,798 | 24,395 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 17 PROVISIONS

| | CONSOLIDATED | | PARENT | |
|--|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Current | | | | |
| Employee benefits (note 21) ⁽¹⁾ | 4,462 | 4,497 | 4,462 | 4,497 |
| Natural disaster repairs ⁽²⁾ | 37,251 | 8,225 | 12,075 | 4,694 |
| Legal costs ⁽³⁾ | 1,225 | 1,385 | 1,075 | 1,385 |
| Paradise Dam repairs ⁽⁴⁾ | 1,071 | 1,417 | - | - |
| Restructuring ⁽⁵⁾ | 3,429 | - | 3,429 | - |
| Income tax | - | 10,786 | - | 10,786 |
| Dividends | 12,870 | - | 12,870 | - |
| | 60,308 | 26,310 | 33,911 | 21,362 |
| Non-current | | | | |
| Land commitment ⁽⁶⁾ | 1,210 | 1,199 | 1,210 | 1,199 |
| | 1,210 | 1,199 | 1,210 | 1,199 |

⁽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, early 2011 and early 2013 due to the impact of widespread flooding and cyclones. The provision represents management's estimate of the amount of damage incurred but not rectified as at 30 June 2013. 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⁾ Agreement was reached between SunWater (on behalf of Burnett Water Pty Ltd) and the Burnett Dam Alliance (BDA) during 2012 over the amount payable by the BDA to rectify agreed defects associated with the construction of Paradise Dam. Remedial works are expected to be carried out within the next financial year.

⁽⁵⁾ In April 2013, the Commission of Audit recommended, and the Queensland Government accepted, that SunWater is to transfer its irrigation channels to private irrigators and to withdraw fully from this activity. The provision represents management's estimate of the present obligation required to implement this recommendation. (Refer also to Note 30).

⁽⁶⁾ By way of an agreement between the former State Water Projects and the Department of Energy and Water Supply, SunWater is required to settle with the department, the disposition of certain surplus land.

Movements in provisions

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

| | NATURAL DISASTER REPAIRS \$'000 | LEGAL COSTS \$'000 | PARADISE DAM REPAIRS \$'000 | RESTRUCTURING \$'000 | INCOME TAX \$'000 | LAND COMMITMENT \$'000 |
|--|--|-----------------------|-----------------------------------|-------------------------|----------------------|------------------------------|
| Consolidated | | | | | | |
| Carrying amount at 1 July 2012 | 8,225 | 1,385 | 1,417 | - | 10,786 | 1,199 |
| Provisions added/(written back) | 32,221 | 210 | - | 3,429 | 11,161 | 11 |
| Payments made during the year | (3,195) | (370) | (346) | - | (21,947) | - |
| Carrying amount at 30 June 2013 | 37,251 | 1,225 | 1,071 | 3,429 | - | 1,210 |
| Parent | | | | | | |
| Carrying amount at 1 July 2012 | 4,694 | 1,385 | - | - | 10,786 | 1,199 |
| Provisions added/(written back) | 8,356 | 60 | - | 3,429 | 11,161 | 11 |
| Payments made during the year | (975) | (370) | - | - | (21,947) | - |
| Carrying amount at 30 June 2013 | 12,075 | 1,075 | - | 3,429 | - | 1,210 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 18 BORROWINGS

| | CONSOLIDATED | | PARENT | |
|--------------------------------|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Unsecured⁽¹⁾ | | | | |
| QTC loan | 240,161 | 242,232 | 217,501 | 217,522 |
| Bridging loan | 188,100 | - | 188,100 | - |
| Intercompany loans | - | - | 43,566 | 40,984 |
| | 428,261 | 242,232 | 449,167 | 258,506 |
| Represented by: | | | | |
| Current | 189,781 | 1,985 | 231,666 | 40,984 |
| Non-current | 238,480 | 240,247 | 217,501 | 217,522 |
| | 428,261 | 242,232 | 449,167 | 258,506 |

⁽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 \$305 M in 2013 (2012: \$159 M). This facility was unused at 30 June 2013.

SunWater has a rolling \$50 M 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 2013 (2012: undrawn).

An interest free bridging loan of \$188.100 M was received from a customer to part fund the construction of the Woleebee Pipeline. Once construction is finalised and the pipeline is commissioned (anticipated to be 30 June 2014), the loan will be replaced with a prepaid (unearned) revenue liability, of equivalent amount, which will be progressively amortised to revenue over the period of the water supply and transportation contracts with the customer. (See also note 8.)

(b) Fair value

| | CONSOLIDATED | | | |
|--|------------------------------|-------------------------|------------------------------|-------------------------|
| | 2013 | | 2012 | |
| | 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 | 240,161 | 261,085 | 242,232 | 265,176 |
|-------------------|----------------|----------------|----------------|----------------|

| | PARENT | | | |
|--|------------------------------|-------------------------|------------------------------|-------------------------|
| | 2013 | | 2012 | |
| | 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 | 217,501 | 234,780 | 217,522 | 236,566 |
|-------------------|----------------|----------------|----------------|----------------|

Note: The difference between carrying amount and fair value represents the market realisation adjustment on borrowings from QTC. Generally, the SunWater group repays borrowings in accordance with the requirements of the relevant agreement, hence no adjustment to fair value is appropriate.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 19 OTHER LIABILITIES

| | CONSOLIDATED | | PARENT | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Current | | | | |
| Deposits payable | 578 | 408 | 578 | 408 |
| Unearned annuity ⁽¹⁾ | 5,150 | 5,231 | 5,150 | 5,231 |
| Rent incentive | 310 | 310 | 310 | 310 |
| Other | 23 | 13 | 23 | 13 |
| | 6,061 | 5,962 | 6,061 | 5,962 |
| Non-current | | | | |
| Rent incentive | 1,397 | 1,707 | 1,397 | 1,707 |
| | 1,397 | 1,707 | 1,397 | 1,707 |

⁽¹⁾ The level of expenditure required to maintain the serviceability and integrity of the asset portfolio can vary significantly from year to year. To even out the effect of expenditure peaks and troughs in irrigation prices, SunWater utilises an annuity approach for the irrigation sector. The following table shows the movement during the financial year for all water supply and distribution schemes.

| | OPENING BALANCE \$'000 | ANNUITY REVENUE \$'000 | REFURBISHMENT EXPENDITURE \$'000 | INTEREST \$'000 | MOVEMENT \$'000 | CLOSING BALANCE \$'000 |
|--------------------------------|------------------------------|------------------------------|--|--------------------|--------------------|------------------------------|
| Consolidated | | | | | | |
| Year ended 30 June 2013 | | | | | | |
| Water Supply Scheme | | | | | | |
| Barker Barambah Supply | 808 | (171) | 89 | 54 | (28) | 780 |
| Bowen Broken Supply | 452 | (3) | 1 | 3 | 1 | 453 |
| Boyne Supply | (464) | (1) | 158 | (7) | 150 | (314) * |
| Bundaberg Supply | 1,079 | (458) | 773 | 90 | 405 | 1,484 |
| Burdekin Supply | (1,090) | (300) | 332 | (121) | (89) | (1,179) * |
| Callide Supply | 306 | (34) | 48 | 3 | 17 | 323 |
| Chinchilla Weir Supply | (23) | - | 6 | - | 6 | (17) * |
| Cunnamulla Weir Supply | 1 | (6) | - | - | (6) | (5) * |
| Dawson Supply | (1,587) | 71 | 34 | (90) | 15 | (1,572) * |
| Eton Supply | 574 | (442) | 204 | 43 | (195) | 379 |
| Lower Fitzroy Supply | - | 97 | 1 | 10 | 108 | 108 |
| Lower Mary Supply | (94) | (36) | 13 | (4) | (27) | (121) * |
| Macintyre Brook Supply | 1,769 | (213) | 55 | 119 | (39) | 1,730 |
| Maranoa Supply | (7) | (5) | - | - | (5) | (12) * |
| Mareeba Supply | (1,771) | (50) | 115 | (81) | (16) | (1,787) * |
| Nogoa Supply | 842 | (212) | 268 | 54 | 110 | 952 |
| Pioneer Supply | 2,215 | (186) | 295 | 120 | 229 | 2,444 |
| Proserpine Supply | 146 | (57) | 7 | 6 | (44) | 102 |
| St George Supply | 683 | (608) | 749 | 60 | 201 | 884 |
| Tarong Pipelines | 16 | (16) | - | - | (16) | - |
| Three Moon Creek Supply | 108 | (62) | 122 | 5 | 65 | 173 |
| Upper Burnett Supply | 508 | (27) | 59 | 7 | 39 | 547 |
| Upper Condamine Supply | 772 | (60) | 13 | 9 | (38) | 734 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 19 OTHER LIABILITIES (continued)

| | OPENING BALANCE \$'000 | ANNUITY REVENUE \$'000 | REFURBISHMENT EXPENDITURE \$'000 | INTEREST \$'000 | MOVEMENT \$'000 | CLOSING BALANCE \$'000 |
|----------------------------|------------------------------|------------------------------|--|--------------------|--------------------|------------------------------|
| Distribution System | | | | | | |
| Bundaberg Distribution | (195) | (1,427) | 1,493 | (14) | 52 | (143) * |
| Burdekin Distribution | 3,167 | (2,410) | 2,481 | 230 | 301 | 3,468 |
| Dawson Distribution | 1,198 | (89) | 379 | 87 | 377 | 1,575 |
| Emerald Distribution | 2,235 | (604) | 771 | 168 | 335 | 2,570 |
| Eton Distribution | 1,194 | (511) | 569 | 88 | 146 | 1,340 |
| Lower Mary Distribution | 759 | (448) | 191 | 57 | (200) | 559 |
| Mareeba Distribution | 2,257 | (1,724) | 460 | 166 | (1,098) | 1,159 |
| St George Distribution | 1,319 | (402) | 311 | 99 | 8 | 1,327 |
| Total | 17,177 | (10,394) | 9,997 | 1,161 | 764 | 17,941 |

* Only negative balances (where amounts received from irrigation customers are in excess of expenditure as at the end of the financial year) are booked.

| | OPENING BALANCE \$'000 | ANNUITY REVENUE \$'000 | REFURBISHMENT EXPENDITURE \$'000 | MOVEMENT \$'000 | CLOSING BALANCE \$'000 |
|--------------------------------|------------------------------|------------------------------|--|--------------------|------------------------------|
| Consolidated | | | | | |
| Year ended 30 June 2012 | | | | | |
| Water Supply Scheme | | | | | |
| Barker Barambah Supply | 675 | (137) | 270 | 133 | 808 |
| Bowen Broken Supply | 189 | (7) | 270 | 263 | 452 |
| Boyne Supply | (418) | (46) | - | (46) | (464) * |
| Bundaberg Supply | 804 | (626) | 901 | 275 | 1,079 |
| Burdekin Supply | (809) | (856) | 575 | (281) | (1,090) * |
| Callide Supply | 147 | (81) | 240 | 159 | 306 |
| Chinchilla Weir Supply | (26) | (3) | 6 | 3 | (23) * |
| Cunnamulla Weir Supply | 11 | (11) | 1 | (10) | 1 |
| Dawson Supply | (2,031) | (173) | 617 | 444 | (1,587) * |
| Eton Supply | 542 | (256) | 288 | 32 | 574 |
| Lower Mary Supply | 2 | (96) | - | (96) | (94) * |
| Macintyre Brook Supply | 1,782 | (213) | 200 | (13) | 1,769 |
| Maranoa Supply | (2) | (5) | - | (5) | (7) * |
| Mareeba Supply | (1,365) | (431) | 25 | (406) | (1,771) * |
| Nogoa Supply | 521 | (411) | 732 | 321 | 842 |
| Pioneer Supply | 1,895 | (238) | 558 | 320 | 2,215 |
| Proserpine Supply | 40 | (31) | 137 | 106 | 146 |
| St George Supply | (49) | (203) | 935 | 732 | 683 |
| Tarong Pipelines | 7 | (3) | 12 | 9 | 16 |
| Three Moon Creek Supply | 79 | (66) | 95 | 29 | 108 |
| Upper Burnett Supply | 268 | (290) | 530 | 240 | 508 |
| Upper Condamine Supply | 688 | (196) | 280 | 84 | 772 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 19 OTHER LIABILITIES (continued)

| | OPENING BALANCE \$'000 | ANNUITY REVENUE \$'000 | REFURBISHMENT EXPENDITURE \$'000 | MOVEMENT \$'000 | CLOSING BALANCE \$'000 |
|----------------------------|------------------------------|------------------------------|--|--------------------|------------------------------|
| Distribution System | | | | | |
| Bundaberg Distribution | (378) | (1,719) | 1,902 | 183 | (195) * |
| Burdekin Distribution | 3,521 | (1,765) | 1,411 | (354) | 3,167 |
| Dawson Distribution | 792 | (107) | 513 | 406 | 1,198 |
| Emerald Distribution | 1,900 | (314) | 649 | 335 | 2,235 |
| Eton Distribution | 962 | (449) | 681 | 232 | 1,194 |
| Lower Mary Distribution | 909 | (245) | 95 | (150) | 759 |
| Mareeba Distribution | 2,039 | (1,114) | 1,332 | 218 | 2,257 |
| St George Distribution | 1,365 | (271) | 225 | (46) | 1,319 |
| Total | 14,060 | (10,363) | 13,480 | 3,117 | 17,177 |

* Only negative balances (where amounts received from irrigation customers are in excess of expenditure as at the end of the financial year) are booked.

NOTE 20 DEFERRED TAX LIABILITIES

| | CONSOLIDATED | | PARENT | |
|--|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| The balance comprises temporary differences attributable to: | | | | |
| Inventories | 574 | 558 | 574 | 558 |
| Accrued revenue | 1,338 | 2,584 | 726 | 1,034 |
| Water allocations | 9,207 | 7,134 | 1,354 | 1,354 |
| Property, plant and equipment | 9,209 | 7,543 | 4,212 | - |
| Closing balance at 30 June | 20,328 | 17,819 | 6,866 | 2,946 |
| Movements | | | | |
| Opening balance at 1 July | 17,819 | 39,200 | 2,946 | 23,068 |
| Charged/(credited) to the income statement | 2,509 | (21,381) | 3,920 | (20,122) |
| Closing balance at 30 June | 20,328 | 17,819 | 6,866 | 2,946 |
| Deferred tax liabilities to be settled after 12 months | 18,416 | 14,677 | 5,566 | 1,354 |
| Deferred tax liabilities to be settled within 12 months | 1,912 | 3,142 | 1,300 | 1,592 |
| Closing balance at 30 June | 20,328 | 17,819 | 6,866 | 2,946 |

NOTE 21 EMPLOYEE BENEFITS

| | CONSOLIDATED | | PARENT | |
|---|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Employee benefits liability | | | | |
| Provision for employee benefits (note 17) | 4,462 | 4,497 | 4,462 | 4,497 |
| Aggregate employee benefits liability | 4,462 | 4,497 | 4,462 | 4,497 |
| Employee numbers | | | | |
| Number of employees (full time equivalents excluding casuals) as at 30 June | 498 | 490 | 498 | 490 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 22 CONTRIBUTED EQUITY

| | CONSOLIDATED | | PARENT | |
|--|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |

(a) Share capital

Issued and paid up capital:

| | | | | |
|---|----------------|----------------|----------------|----------------|
| 2 ordinary shares of \$190.1345 M each⁽¹⁾ | 380,269 | 380,269 | 380,269 | 380,269 |
|---|----------------|----------------|----------------|----------------|

⁽¹⁾ Shares have no par value.

| | NUMBER OF SHARES \$'000 | CONTRIBUTION PER SHARE \$'000 | TOTAL \$'000 |
|--|-------------------------------|-------------------------------------|-----------------|
| (b) Movements in ordinary share capital | | | |
| Opening balance 1 July 2011 | 2 | 190,023 | 380,047 |
| Equity injections | - | 111 | 222 |
| Closing balance 30 June 2012 | 2 | 190,134 | 380,269 |
| Closing balance 30 June 2013 | 2 | 190,134 | 380,269 |

(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 2013, SunWater's strategy was to maintain a market gearing ratio with a 50% upper limit (2012: 50%). The market gearing ratios at 30 June 2013 and 30 June 2012 were as follows:

| | CONSOLIDATED | | PARENT | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Total borrowings ⁽¹⁾ | 428,261 | 242,232 | 449,167 | 258,506 |
| Total equity | 667,123 | 659,085 | 610,567 | 596,017 |
| Total capital | 1,095,384 | 901,317 | 1,059,734 | 854,523 |
| Market gearing ratio | 39% | 27% | 42% | 30% |

⁽¹⁾ Includes interest free customer bridging loan (Refer note 18).

SunWater's strategy in the future is to retain an investment grade credit rating or higher.

NOTE 23 DIVIDENDS

| | PARENT | |
|--|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |

Ordinary shares

2013 first and final dividend of \$6.435 M per share declared and provided for but not paid as at 30 June 2013⁽¹⁾⁽²⁾

| | | |
|--|---------------|----------|
| | 12,870 | - |
| | 12,870 | - |

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

⁽²⁾ Dividend declared in accordance with s131 of the Government Owned Corporations Act 1993 (Old) and provided for as disclosed in note 17.

NOTE 24 REMUNERATION OF AUDITORS

During the year, fees of \$0.156 M (2012: \$0.122 M) 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
- other services provided as a support to SunWater's internal audit function.

No other services were provided.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 25 RECONCILIATION OF PROFIT AFTER INCOME TAX EQUIVALENTS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | CONSOLIDATED | | PARENT | |
|---|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Profit/(loss) for the year | 20,908 | (17,070) | 27,420 | (23,072) |
| Non-cash items: | | | | |
| Depreciation and amortisation | 23,695 | 22,972 | 19,045 | 18,326 |
| Impairment | 12,832 | 95,895 | 12,832 | 95,895 |
| Bad and doubtful debts | 854 | 208 | 854 | 208 |
| Net (gain)/loss on sale or disposal of non-current assets | (197) | (554) | (197) | (554) |
| Interest received | (9,706) | (13,337) | (10,134) | (15,436) |
| Interest paid | 17,264 | 18,213 | 17,079 | 17,567 |
| Dividends received | | - | | (7,500) |
| Change in assets and liabilities: | | | | |
| (Increase)/decrease in inventories and intangibles | (232) | (4,495) | (332) | (4,922) |
| (Increase)/decrease in deferred tax assets | (5,362) | (7,522) | 878 | (6,326) |
| (Increase)/decrease in receivables | (19,381) | (5,010) | (18,883) | 673 |
| (Increase)/decrease in other assets | (5,047) | (4,288) | (4,695) | (6,681) |
| (Decrease)/increase in creditors | 62,284 | 9,160 | 38,948 | 3,650 |
| (Decrease)/increase in deferred revenue | 26,519 | 2,916 | 26,635 | 2,906 |
| (Decrease)/increase in income taxes payable | (12,492) | 792 | (12,492) | 792 |
| (Decrease)/increase in deferred tax liabilities | 2,508 | (21,381) | 3,920 | (20,122) |
| Net cash inflow from operating activities | 114,447 | 76,499 | 100,878 | 55,404 |

NOTE 26 COMMITMENTS FOR EXPENDITURE

| | CONSOLIDATED | | PARENT | |
|--|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |

(a) Capital expenditure commitments

Capital expenditure commitments (including GST) contracted for but not brought to account are as follows:

| | | | | |
|-------------------------------|----------------|---------------|----------------|---------------|
| ICT projects | 287 | 731 | 287 | 731 |
| Water infrastructure projects | 285,568 | 38,203 | 285,487 | 38,135 |
| | 285,855 | 38,934 | 285,774 | 38,866 |

Payable:

| | | | | |
|--------------------------------|----------------|---------------|----------------|---------------|
| Not later than one year | 285,855 | 38,934 | 285,774 | 38,866 |
|--------------------------------|----------------|---------------|----------------|---------------|

(b) Non-cancellable operating lease expense commitments

Future operating lease commitments (including GST) not brought to account and payable:

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Within one year | 3,286 | 3,619 | 3,286 | 3,619 |
| Later than one year but not later than five years | 14,645 | 15,169 | 14,645 | 15,169 |
| Later than five years | 2,649 | 7,074 | 2,649 | 7,074 |
| | 20,580 | 25,862 | 20,580 | 25,862 |

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 made in-principle commitments to investigate certain major capital projects. However, these projects 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

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 | 2013 \$'000 | 2012 \$'000 |
|----------------------------------|----------------|----------------|
| Consolidated | | |
| Short-term employee benefits | 1,657 | 1,665 |
| Post-employment benefits | 154 | 143 |
| At-risk performance remuneration | 138 | 139 |
| Total | 1,949 | 1,947 |
| Parent | | |
| Short-term employee benefits | 1,623 | 1,636 |
| Post-employment benefits | 152 | 141 |
| At-risk performance remuneration | 138 | 139 |
| Total | 1,913 | 1,916 |

Compensation – directors

| NAME OF DIRECTOR | SHORT-TERM EMPLOYEE BENEFITS \$'000 | POST-EMPLOYMENT BENEFITS \$'000 | TOTAL \$'000 |
|--|---|---------------------------------------|-----------------|
| Consolidated – 2013 | | | |
| Greg Moynihan, Chair | 39 | 3 | 42 |
| Will Siganto, Chair (retired 28 June 2013) | 55 | 5 | 60 |
| Tom Connor | 32 | 3 | 35 |
| John Gibson (retired 30 September 2012) | 12 | 1 | 13 |
| Kirstin Ferguson | 36 | 3 | 39 |
| Alan Millhouse | 43 | 4 | 47 |
| Anthony Mooney (retired 19 December 2012) | 17 | 2 | 19 |
| William Wild (appointed 20 December 2012) | 14 | 1 | 15 |
| Consolidated – 2012 | | | |
| Scott Spencer, Chair (retired 20 May 2012) | 53 | 5 | 58 |
| Will Siganto, Chair (appointed 31 May 2012) | - | - | - |
| Margaret (Jane) Bertelsen, Deputy Chair (retired 21 June 2012) | 44 | 4 | 48 |
| Tom Connor | 32 | 3 | 35 |
| John Gibson | 39 | 3 | 42 |
| Greg Moynihan | 38 | 3 | 41 |
| Kirstin Ferguson | 34 | 3 | 37 |
| Alan Millhouse | 25 | 2 | 27 |
| Anthony Mooney (appointed 1 October 2011) | 21 | 2 | 23 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 27 RELATED PARTIES DISCLOSURES (continued)

| NAME OF DIRECTOR | SHORT-TERM EMPLOYEE BENEFITS \$'000 | POST-EMPLOYMENT BENEFITS \$'000 | TOTAL \$'000 |
|--|---|---------------------------------------|-----------------|
| Parent – 2013 | | | |
| Greg Moynihan, Chair | 35 | 3 | 38 |
| Will Siganto, Chair (retired 28 June 2013) | 55 | 5 | 60 |
| Tom Connor | 28 | 3 | 31 |
| John Gibson (retired 30 September 2012) | 8 | 1 | 9 |
| Kirstin Ferguson | 36 | 3 | 39 |
| Alan Millhouse | 25 | 2 | 27 |
| Anthony Mooney (retired 19 December 2012) | 17 | 2 | 19 |
| William Wild (appointed 20 December 2012) | 10 | 1 | 11 |
| Parent – 2012 | | | |
| Scott Spencer, Chair (retired 30 May 2012) | 53 | 5 | 58 |
| Will Siganto, Chair (appointed 31 May 2012) | - | - | - |
| Margaret (Jane) Bertelsen, Deputy Chair (retired 21 June 2012) | 27 | 2 | 29 |
| Tom Connor | 28 | 3 | 31 |
| John Gibson | 35 | 3 | 38 |
| Greg Moynihan | 34 | 3 | 37 |
| Kirstin Ferguson | 34 | 3 | 37 |
| Alan Millhouse | 25 | 2 | 27 |
| Anthony Mooney (appointed 1 October 2011) | 21 | 2 | 23 |

Directors' remuneration excludes insurance premiums (exclusive of GST) of \$84,021 (2012 - \$81,773) paid by the parent entity in respect of directors' and officers' liability insurance contracts as the contracts do not specify premiums paid in respect of individual directors and officers.

Compensation – executives

| TITLE OF EXECUTIVE | SHORT-TERM EMPLOYEE BENEFITS \$'000 | POST- EMPLOYMENT BENEFITS \$'000 | AT-RISK PERFORMANCE REMUNERATION \$'000 | TOTAL \$'000 |
|--|--|---|--|-----------------|
| Parent 2013 | | | | |
| Chief Executive Officer | 455 | 19 | 56 | 530 |
| General Manager, Corporate | 271 | 35 | 31 | 337 |
| General Manager, Infrastructure Management (completed service 20 August 2012) | 28 | 3 | - | 31 |
| Acting General Manager, Infrastructure Management (appointed 20 August 2012) | 182 | 23 | - | 205 |
| General Manager, Infrastructure Development | 261 | 25 | 28 | 314 |
| General Manager, People, Performance and Safety | 212 | 27 | 23 | 262 |
| Parent 2012 | | | | |
| Chief Executive Officer | 444 | 15 | 54 | 513 |
| General Manager, Corporate | 262 | 33 | 34 | 329 |
| General Manager, Infrastructure Management | 230 | 22 | 26 | 278 |
| General Manager, Infrastructure Development | 249 | 23 | 25 | 297 |
| General Manager, People, Performance and Safety | 194 | 25 | - | 219 |

Transactions with director-related entities

SunWater and its controlled entities used the legal services of Allens Linklaters, a firm of which Mr Alan Millhouse is a consultant. During the period of Mr Millhouse's directorship, total value of those legal services (inclusive of GST) was \$671,853. The services were procured on a commercial basis in accordance with board-approved processes and the State Purchasing Policy.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 27 RELATED PARTIES DISCLOSURES (continued)

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.

During the year ended 30 June 2013, the following significant transactions occurred between the parent entity and its subsidiaries:

| | 2013 \$'000 | 2012 \$'000 |
|--|----------------|----------------|
| Sales of water to subsidiaries | 4,755 | 4,630 |
| Sales of services to subsidiaries | 16,111 | 7,647 |
| Interest received from subsidiaries | 943 | 1,736 |
| Interest paid to subsidiaries | 1,739 | 1,822 |
| Current tax payable assumed from tax consolidated subsidiaries | 4,860 | 7,866 |
| Dividends received from subsidiaries | - | 7,500 |
| Loan received from subsidiary | 5,000 | 6,000 |

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.

During the year ended 30 June 2013, the following significant transactions occurred between SunWater Limited and other State of Queensland controlled entities.

| | 2013 \$'000 | 2012 \$'000 |
|--|----------------|----------------|
| Equity contributions from shareholders | - | 222 |
| Dividends declared | 12,870 | - |
| Interest received from QTC | 528 | 911 |
| Water sales, CSO, grants | 26,737 | 21,844 |
| Consultancies | 10,359 | 11,672 |
| Interest paid to QTC | 17,206 | 17,849 |

NOTE 28 CONTINGENCIES

SunWater had contingent liabilities at 30 June 2013 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 \$0.250 M has been made in the financial statements for legal costs associated with these proceedings.
- (b) Since the finalisation of the Commission of Inquiry into the 2010/11 flood event and the release of the final report, it has been reported that landowners whose properties were inundated during the floods will seek compensation through one or more class actions against the dam operator. SunWater provided assistance to the dam operator under a contract to provide flood operations support. At the date of this report, SunWater is not aware of any claims against it in this matter.
- (c) SunWater was directed by the Treasurer of Queensland under section 68 of the *South East Queensland Water (Restructuring) Act 2007* (Qld) 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 28 CONTINGENCIES (continued)

- (d) During the 2010/11 Queensland floods, Boondooma dam located near Proston in southern Queensland suffered damage to the spillway channel from the large volumes of water being discharged through the spillway.

The dam is safe, however SunWater's engineers believe that there is a potential risk of further damage to the spillway in the event of a similar or larger flood in the future. A number of complex studies are continuing to determine an appropriate long term solution to the issue, and in the meantime, SunWater remains in discussions with its insurers regarding the coverage provided by SunWater's industrial and special risks insurance policy over the associated costs. The policy has a number of exclusions and it is expected that these together with the event deductible, will be relevant to the policy response once the final long term solution has been determined.

At this stage, the solution and the costs are not known and may not be known with any certainty for some time. In the event that SunWater's insurance policy does respond, but is scaled back due to exclusions and deductibles, it is likely that there will be an under-recovery against the final costs.

If an under-recovery does occur, SunWater will seek to protect its interests by pursuing other commercial remedies available to it. At this stage, any ultimate under-recovery cannot be reliably estimated.

- (e) During the flood event in the Burnett River System in early 2013, Paradise Dam located near Childers in South East Queensland suffered significant damage to the spillway dissipator and the river bed downstream of the dissipator.

The dam is safe, however, there was a potential risk to the dam if it was subjected to a further major flood event. To mitigate this risk, Phase 1 Emergency Works have been carried out to enable the dam to withstand a late season flood, and further Phase 2 interim works are currently underway to mitigate any potential failure path. These works are expected to be completed in October 2013, prior to the next wet season.

In the longer term, further works may be required to the dam. As a preliminary step, a full dam safety review will be undertaken over the next 18 months to provide a comprehensive understanding of the impacts of the flood damage, and inform the development of a long term solution.

At this stage, the solution and the costs are not known and may not be known with any certainty for some time. In the event that SunWater's insurance policy does respond, but is scaled back due to exclusions and deductibles, it is likely that there will be an under-recovery against the final costs.

If an under-recovery does occur, SunWater will seek to protect its interests by pursuing other commercial remedies available to it, and will if necessary approach the state government to provide funding on the basis of a required dam safety upgrade. At this stage, any ultimate under-recovery cannot be reliably estimated.

- (f) At 30 June 2013, SunWater was engaged in commercial disputes under various contracts.

At the date of this report, it is not possible to reliably estimate the eventual outcome of these disputes or the financial consequences thereof.

SunWater had contingent liabilities at 30 June 2013 in respect of:

- (a) SunWater has made a claim under its insurance policies for losses attributable to the flood events in 2010/11 and is preparing a claim for losses from further flooding in early 2013. No revenue from insurance proceeds has been taken up in the statements of comprehensive income for the year ended 30 June 2013.
- (b) SunWater has made a claim under its insurance policies for legal costs associated with the Bedford Weir incident. No revenue from insurance proceeds has been taken up in the statements of comprehensive income for the year ended 30 June 2013.
- (c) 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 and Marian Weir. No revenue from insurance proceeds has been taken up in the statements of comprehensive income for the year ended 30 June 2013.

NOTE 29 DAM SAFETY UPGRADE

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), Bjelke Petersen Dam (2008), Borumba Dam (2009) and Tinaroo Falls Dam (2011).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

NOTE 29 DAM SAFETY UPGRADE (continued)

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 |
|--------------------------------|--------------|-----------------|
| Kinchant Dam | 2011 | \$30.000M |
| Burdekin Falls Dam – stage 1a* | 2012 | \$4.600M |
| Burdekin Falls Dam – stage 1b | 2014 | \$7.400M |
| Eungella Dam | 2014 | \$5.400M |
| Wuruma Dam | 2014 | \$9.600M |
| Burdekin Falls Dam – stage 2 | 2017 | \$150.000M |
| Teemburra Dam | 2019 | \$5.800M |
| Coolmunda Dam | 2021 | \$4.400M |
| Fred Haigh Dam – stage 2 | 2023 | \$3.200M |
| Leslie Dam | 2024 | \$4.000M |
| Peter Faust Dam | 2034 | \$0.900M |

* *Design work only*

Recently, the Regulator has issued a revised Dam Safety Upgrade Criteria, which has the potential effect of delaying the commencement of SunWater's proposed program, and establishing a different order of priority of upgrade. SunWater is in discussions with the Regulator and the government over these revisions and the impacts of potential delays and reprioritisations.

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

NOTE 30 COMMISSION OF AUDIT RECOMMENDATIONS

The final report by the Commission of Audit, established by the Queensland Government in 2012 was released on 30 April 2013. It contained a number of recommendations specific to SunWater, all of which were accepted by Government. The recommendations are:

1. SunWater finalise the transfer of its irrigation channels to private irrigators and withdraw fully from this activity.
2. SunWater's dedicated water supply infrastructure servicing commercial and industrial clients be offered for private ownership and / or private operation, depending on which solution provides the best value for money outcome for the Government.
3. SunWater remain as a Government Owned Corporation with a residual function to retain ownership and management of existing bulk water assets in regional Queensland.
4. Any future bulk water storage facilities be developed by the private sector, unless there are compelling public good or market failure reasons not to do so.

SunWater, in consultation with Government, has commenced the process of restructuring the organisation to be able to implement these recommendations. At this stage, the timeframes for implementation of the respective recommendations has not been confirmed. However significant preliminary work has been done in preparation for the transfer of irrigation channels to private irrigators, and to the extent possible, a provision for restructuring costs has been established in the financial statements.

NOTE 31 SUBSEQUENT EVENTS

To date, except as detailed elsewhere in the financial statements, 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 of SunWater Limited declare that:

- (a) in their opinion, there are reasonable grounds to believe that SunWater Limited will be able to pay its debts as and when they become due and payable;
- (b) the notes to the financial statements of SunWater Limited for 2012-2013 as set out on pages 22 to 50 of the Financial Report comply with:
 - (i) Accounting Standards;
 - (ii) International Financial Reporting Standards, and this statement has been included in the notes to the financial statements of SunWater Limited for 2012-2013 as set out in note 1(a);
- (c) in their opinion, the financial statements and notes of SunWater Limited for 2012-2013 as set out on pages 17 to 50 of the Financial Report of SunWater Limited for 2012-2013 are in accordance with the *Corporations Act 2001* (Cth) including:
 - (i) that the financial statements and notes of SunWater Limited for 2012-2013 comply with Accounting Standards; and
 - (ii) give a true and fair view of:
 - a. the financial position and performance of SunWater Limited; and
 - b. the financial position and performance of the consolidated entity.

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



G Moynihan
Chair



A Millhouse
Director

Brisbane, Qld
29 August 2013

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 ("the Company"), which comprises the balance sheets as at 30 June 2013, 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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 company'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 company'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 be removed only 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.

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 2013 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Other Matters - Electronic Presentation of the Audited Financial Report

Those viewing an electronic presentation of the financial report should note that audit does not provide assurance on the integrity of the information presented electronically and does not provide an opinion on any information which may be hyperlinked to or from the financial report. If users of the financial report are concerned with the inherent risks arising from electronic presentation of information, they are advised to refer to the printed copy of the audited financial report to confirm the accuracy of this electronically presented information.



N George CPA
as Delegate of the Auditor-General of Queensland



Brisbane, Qld
30 August 2013