FINANCIAL REPORT

for the year ended 30 June 2016

GENERAL INFORMATION

The financial statements include 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 4000
Queensland

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2016

		CONSOLIDATED		PARENT	
		2016	2015	2016	2015
	Notes	$'000	$'000	$'000	$'000
Revenue from continuing operations	1	283,022	277,510	273,664	277,914
Other income	2	13,283	13,263	13,283	8,261
Expenses from continuing operations:					
Employee benefits expense		(41,505)	(32,442)	(41,503)	(32,439)
Depreciation and amortisation expense	9,10	(38,534)	(36,500)	(34,283)	(31,672)
Impairment expense/credit – property, plant and equipment/intangible assets	9,10	(43,713)	(80,279)	(39,973)	1,690
Impairment expense – investment in subsidiaries	19	-	-	-	(112,296)
Contracted services expense		(45,421)	(52,402)	(64,516)	(31,704)
Electricity expense		(31,697)	(29,230)	(30,656)	(28,174)
Insurance expense		(7,984)	(8,806)	(7,311)	(7,987)
Materials expense		(4,472)	(4,514)	(4,472)	(4,512)
Plant hire expense		(1,892)	(2,481)	(1,876)	(2,481)
Motor vehicle operating leases expense		(2,138)	(2,073)	(2,138)	(2,073)
IT expense		(1,675)	(1,409)	(1,675)	(1,409)
Travel expense		(1,603)	(1,438)	(1,601)	(1,438)
Accommodation expense		(3,463)	(3,223)	(3,463)	(3,223)
Legal expense		(3,128)	(1,990)	(3,093)	(1,864)
Rates and land tax expense		(2,042)	(1,999)	(1,865)	(1,825)
Telephone, facsimile and data lines expense		(1,606)	(1,444)	(1,603)	(1,441)
Loss on disposal of assets		(87)	(35)	(87)	(35)
Other expenses		(4,127)	(5,656)	(4,065)	(5,589)
Finance costs	3	(20,536)	(17,849)	(16,134)	(16,328)
Profit before income tax equivalents		**40,682**	**7,003**	**26,633**	**1,375**
Income tax equivalents expense	4	(11,673)	(430)	(4,458)	(27,031)
Profit for the year		**29,009**	**6,573**	**22,175**	**(25,656)**
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**29,009**	**6,573**	**22,175**	**(25,656)**

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

BALANCE SHEETS
as at 30 June 2016

		CONSOLIDATED		PARENT	
	Notes	2016 $'000	2015 $'000	2016 $'000	2015 $'000
ASSETS					
Current assets					
Cash	5	265,768	178,812	232,832	156,445
Receivables	6	9,127	11,961	13,137	14,354
Inventories	7	2,166	2,480	2,166	2,480
Other current assets	8	17,704	23,268	18,440	23,309
Total current assets		**294,765**	**216,521**	**266,575**	**196,588**
Non-current assets					
Receivables	6	-	-	17,758	4,388
Property, plant and equipment	9	897,568	958,851	829,996	887,237
Intangible assets	10	20,166	22,270	20,042	22,146
Deferred tax assets	4	25,135	21,229	17,304	8,431
Investment in subsidiaries	19	-	-	*	*
Total non-current assets		**942,869**	**1,002,350**	**885,100**	**922,202**
Total assets		**1,237,634**	**1,218,871**	**1,151,675**	**1,118,790**
LIABILITIES					
Current liabilities					
Payables	11	21,643	17,475	22,640	32,797
Provisions	12	356,734	48,661	346,245	22,580
Borrowings (including bridging loans)	17	2,381	4,548	9,949	10,008
Other	13	20,015	17,294	20,015	17,294
Total current liabilities		**400,773**	**87,978**	**398,849**	**82,679**
Non-current liabilities					
Provisions	12	1,237	1,229	1,237	1,229
Borrowings	17	243,329	262,912	243,329	245,779
Deferred tax liabilities	4	12,832	20,969	12,060	19,749
Other	13	160,499	166,819	160,499	166,819
Total non-current liabilities		**417,897**	**451,929**	**417,125**	**433,576**
Total liabilities		**818,670**	**539,907**	**815,974**	**516,255**
Net assets		**418,964**	**678,964**	**335,701**	**602,535**
EQUITY					
Contributed equity	16	250,269	380,269	250,269	380,269
Retained earnings		168,695	298,695	85,432	222,266
Total equity		**418,964**	**678,964**	**335,701**	**602,535**

** Amounts less than $500.*

The above Balance Sheets should be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2016

	Notes	Contributed equity $'000	Retained earnings $'000	Total equity $'000
Consolidated				
Balance at 1 July 2014		380,269	297,380	677,649
Total comprehensive income for the year		-	6,573	6,573
Transactions with owners as owners				
Dividends	15	-	(5,258)	(5,258)
Balance at 30 June 2015		380,269	298,695	678,964
Total comprehensive income for the year		-	29,009	29,009
Transactions with owners as owners				
Dividends	15	-	(159,009)	(159,009)
Return of contributed equity	15	(130,000)	-	(130,000)
Balance at 30 June 2016		**250,269**	**168,695**	**418,964**
Parent				
Balance at 1 July 2014		380,269	253,180	633,449
Total comprehensive income for the year		-	(25,656)	(25,656)
Transactions with owners as owners				
Dividends	15	-	(5,258)	(5,258)
Balance at 30 June 2015		380,269	222,266	602,535
Total comprehensive income for the year		-	22,175	22,175
Transactions with owners as owners				
Dividends	15	-	(159,009)	(159,009)
Return of contributed equity	15	(130,000)	-	(130,000)
Balance at 30 June 2016		**250,269**	**85,432**	**335,701**

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 2016

	Notes	CONSOLIDATED 2016 $'000	CONSOLIDATED 2015 $'000	PARENT 2016 $'000	PARENT 2015 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of GST and refunded GST)	13	318,666	487,350	294,896	465,838
Government grant received		-	2,024	-	2,024
Community service obligations received		10,145	11,292	4,738	5,989
Interest received		282	431	277	426
Intercompany taxes received/(paid)		-	-	(5,414)	(2,256)
Payments to suppliers and employees (inclusive of GST)		(177,634)	(164,982)	(172,870)	(152,511)
Income taxes paid		(8,360)	(10,552)	(8,360)	(10,552)
Net cash inflow/(outflow) from operating activities	5	**143,099**	**325,563**	**113,267**	**308,958**
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		99	923	99	923
Repayments of intercompany borrowings		-	-	1,468	1,353
Interest received		6,346	5,108	5,471	5,027
Dividends received		-	-	10,000	18,000
Payments for property, plant and equipment		(15,450)	(29,928)	(13,410)	(29,917)
Net cash inflow/(outflow) from investing activities		**(9,005)**	**(23,897)**	**3,628**	**(4,614)**
Cash flows from financing activities					
Proceeds from intercompany borrowings		-	-	-	8,300
Interest paid		(20,129)	(17,522)	(15,728)	(16,046)
Repayments of borrowings	13	(21,751)	(212,459)	(2,508)	(222,581)
Loan to subsidiary		-	-	(17,014)	-
Intercompany equity injection		-	-	-	(15,000)
Dividends paid		(5,258)	(42,100)	(5,258)	(42,100)
Net cash inflow/(outflow) from financing activities		**(47,138)**	**(272,081)**	**(40,508)**	**(287,427)**
Net increase (decrease) in cash and cash equivalents		**86,956**	**29,585**	**76,387**	**16,917**
Cash and cash equivalents at the beginning of the financial year		178,812	149,227	156,445	139,528
Cash and cash equivalents at the end of the financial year	5	265,768	178,812	232,832	156,445

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

The financial report includes separate financial statements for SunWater Limited, being the parent entity, and the consolidated entity consisting of SunWater Limited and its subsidiaries (the Group). The Group has elected to adopt Class Order 10/654 allowing the disclosure of parent entity financial statements and notes thereto. The Class Order provides relief from the requirement preventing disclosure of single entity financial statements and disclosures of specific parent entity financial information under regulation 2M.3.01 of the *Corporations Regulations 2001* (Cth).

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.

Rounding of amounts

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

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 GST receivable or payable. The net 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.

Going concern

The financial statements are prepared on a going concern basis. SunWater's financial position has been significantly impacted by the recognition of a special payment of $289.009M due to shareholding Ministers by 30 November 2016 (refer Notes 14, 15 and 16). SunWater's cash flow forecast, which includes approved borrowing of up to $100.000M in 2016–17, indicates that all debts (including this payment) can be met as they fall due. Further, in a letter dated 9 June 2016, the shareholding Ministers stated:

The Government recognises the systematic importance of the services SunWater provides for regional Queensland. The Government is equally committed to dam safety and an effective dam safety management program. To that end, subject to appropriate due diligence, we confirm that resources will be made available to SunWater to undertake essential capital works and we will continue to support the Board in achieving its objectives and maintaining a viable and sustainable business.

We acknowledge that the Board may require support to protect SunWater's financial position and to meet its solvency obligations as required by law.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the parent entity as at 30 June 2016 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 19).

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.

Investments in subsidiaries are accounted for at cost less impairment in the financial statements of the parent entity. The consolidated entity has no investments in associates or joint ventures.

Where separate financial statements of a subsidiary company have been prepared, they are prepared for the same accounting period as the parent entity, using consistent accounting policies. Accounting policies of all subsidiaries are consistent with the accounting policies of the parent entity.

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ACCOUNTING POLICIES

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial operations and performance are provided throughout the notes to the financial statements (refer below) in accordance with the structure of the financial statements set out below. These policies have been consistently applied to the years presented unless otherwise stated.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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. 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 areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

Impairment of assets	Note 9	Property, plant and equipment
	Note 10	Intangible assets
	Note 19	Investment in subsidiaries
Useful lives of plant and equipment	Note 9	Property, plant and equipment
Water allocations	Note 10	Intangible assets
Expenditure required to settle present obligations	Note 12	Provisions

THE NOTES TO THE FINANCIAL STATEMENTS

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the group.

The notes are organised into the following sections:

Operations: provides a breakdown of individual line items in the financial statements that the directors consider most relevant and summarises the accounting policies, judgements and estimates relevant to understanding these line items;

Capital: provides information about the capital management practices of the group and shareholder returns for the year;

Risk: discusses the group's exposure to various financial risks, and explains how these could affect the group's financial position and performance;

Group structure: explains how the group structure impacts on the financial position and performance of the group as a whole;

Unrecognised items: provides information about items that are not recognised in the financial statements as they do not (yet) satisfy the recognition criteria, but could potentially have a significant impact on the group's financial position and performance; and

Other: includes other information that must be disclosed to comply with Australian Accounting Standards and other regulatory pronouncements, but which is not immediately related to individual items in the financial statements and is not considered critical in understanding the financial position and performance of the group.

NOTE 1 REVENUE

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Revenue from continuing operations				
Industrial water	168,576	166,365	141,399	139,181
Irrigation water	59,342	54,601	58,330	53,606
Urban water	11,789	12,023	11,281	11,750
Drainage	1,566	1,529	1,566	1,529
Water allocations revenue	16,544	15,057	15,997	14,700
Consulting and facilities services revenue	6,601	9,215	22,521	25,816
Electricity generation	25	290	1	290
Community service obligation – irrigation	4,738	5,989	4,738	5,989
Community service obligation – urban	5,406	5,304	-	-
Fees	100	16	40	16
Interest	6,856	5,407	6,312	5,321
Dividends received	-	-	10,000	18,000
Rent received	394	361	394	361
Other	1,085	1,353	1,085	1,355
Total revenue from continuing operations	**283,022**	**277,510**	**273,664**	**277,914**

Recognition and measurement

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 is recognised if it meets the criteria outlined below.

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.

Water allocations sales revenue is recognised at the point of sale. 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 less impairment or deemed cost (refer note 10). All other water allocations granted free of charge are recognised, when granted, at fair value which is nominal cost ($1).

Lease income from operating leases (including leased water allocations) is recognised in revenue on a straight-line basis over the lease term.

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.

Community service obligation (CSO) payments are received by the consolidated entity 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.

Interest income is recognised as interest accrues to the related financial asset. Interest is determined using the effective interest rate method, which for floating rate financial assets is the rate inherent in the instrument.

NOTE 2 OTHER INCOME

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Gain on disposal of non-current assets	71	567	71	567
Government grants	-	2,030	-	2,030
Proceeds of insurance claims	13,212	10,666	13,212	5,664
Total other income	**13,283**	**13,263**	**13,283**	**8,261**

Recognition and measurement

Government grants – 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 grant 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. (In the case of assets which generate no revenue, revenue is recognised when the asset is commissioned and impaired.)

Proceeds of insurance claims are recognised upon receipt or upon reaching a formal settlement agreement with insurers.

NOTE 3 FINANCE COSTS

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Interest and finance charges paid/payable	20,536	17,873	16,134	16,352
Amount capitalised	-	(24)	-	(24)
Finance costs expensed	**20,536**	**17,849**	**16,134**	**16,328**

Recognition and measurement

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.

NOTE 4 INCOME TAX AND INCOME TAX EQUIVALENTS

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Income tax equivalents expense				
Current tax equivalents expense	24,208	13,575	21,512	18,989
Deferred tax equivalents expense/(credit)	(12,043)	(11,652)	(16,562)	9,535
Research and development tax credit	(485)	(1,482)	(485)	(1,482)
Prior year (over)/under provision	(7)	(11)	(7)	(11)
	11,673	**430**	**4,458**	**27,031**
Income tax equivalents expense is attributable to:				
Profit from continuing operations	**11,673**	**430**	**4,458**	**27,031**

NOTE 4 INCOME TAX AND INCOME TAX EQUIVALENTS (CONTINUED)

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Numerical reconciliation of income tax equivalents expense/(credit) to prima facie tax equivalents payable				
Profit from continuing operations before income tax equivalents expense	40,682	7,003	26,633	1,375
Tax at 30%	12,205	2,100	7,990	413
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Entertainment expenses	17	15	17	15
Non taxable dividends	-	-	(3,000)	(5,400)
Sundry items	(57)	(192)	(57)	(192)
Impairment – non deductible	-	-	-	33,688
Research and development tax credit	(485)	(1,482)	(485)	(1,482)
Prior year (over)/under provision	(7)	(11)	(7)	(11)
Income tax equivalents expense	**11,673**	**430**	**4,458**	**27,031**
Deferred income tax in the balance sheets relates to the following:				
Allowance for impairment of receivables	585	495	585	495
Property, plant and equipment	4,676	4,966	-	-
Accrued payables	28	29	20	21
Accrued employee benefits	1,118	1,095	1,118	1,095
Revenue received in advance	227	303	227	303
Provision for Rocklea land commitment	371	369	371	369
Unearned renewal annuity	3,451	2,631	3,451	2,631
Rent incentive	233	326	233	326
Provision for natural disaster repairs	4,353	2,928	4,345	2,812
Provision for legal fees	465	148	420	103
Provision for infrastructure investigations and repairs	41	327	-	164
Provision for restructuring	727	112	727	112
Provision for dam improvements	8,860	7,500	5,807	-
Deferred tax assets	25,135	21,229	17,304	8,431
Inventories	526	624	526	624
Water allocations	1,354	1,354	1,354	1,354
Property, plant and equipment	10,952	18,991	10,180	17,771
Deferred tax liabilities	12,832	20,969	12,060	19,749
Net deferred tax assets	**12,303**	**260**	**5,244**	**(11,318)**

NOTE 4 INCOME TAX AND INCOME TAX EQUIVALENTS (CONTINUED)

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Movements:				
Deferred tax assets				
Opening balance at 1 July	21,229	11,957	8,431	9,067
Credited/(charged) to the income statement	3,906	9,272	8,873	(636)
Closing balance at 30 June	**25,135**	**21,229**	**17,304**	**8,431**
Deferred tax assets to be recovered after 12 months	11,070	12,840	4,867	4,124
Deferred tax assets to be recovered within 12 months	14,065	8,389	12,437	4,307
Closing balance at 30 June	**25,135**	**21,229**	**17,304**	**8,431**
Deferred tax liabilities				
Opening balance at 1 July	20,969	23,350	19,749	10,851
Charged/(credited) to the income statement	(8,137)	(2,381)	(7,689)	8,898
Closing balance at 30 June	**12,832**	**20,969**	**12,060**	**19,749**
Deferred tax liabilities to be settled after more than 12 months	12,306	20,344	11,534	19,125
Deferred tax liabilities to be settled within 12 months	526	625	526	624
Closing balance at 30 June	**12,832**	**20,969**	**12,060**	**19,749**

Recognition and measurement

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 current tax rates. 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 6 and 11).

NOTE 4 INCOME TAX AND INCOME TAX EQUIVALENTS (CONTINUED)

Investment allowances and similar tax incentives

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 current tax expense.

NOTE 5 CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Cash on hand	4	5	4	5
Cash at bank	1,712	868	849	596
Deposits on call	148,031	72,212	115,958	50,117
Term deposits	116,021	105,727	116,021	105,727
	265,768	**178,812**	**232,832**	**156,445**

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

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Profit/(loss) for the year	29,009	6,573	22,175	(25,656)
Depreciation and amortisation	38,534	36,500	34,283	31,672
Impairment	43,713	80,279	39,973	110,606
Bad and doubtful debts	302	157	302	157
Net (gain)/loss on sale or disposal of non-current assets	16	(532)	16	(532)
Interest received	(6,346)	(5,108)	(5,808)	(5,027)
Interest paid	20,129	17,522	15,729	16,046
Dividends received	-	-	(10,000)	(18,000)
Change in assets and liabilities:				
(Increase)/decrease in inventories and intangibles	314	(59)	314	(61)
(Increase)/decrease in deferred tax assets	(3,906)	(9,271)	(8,873)	637
(Increase)/decrease in receivables	2,832	2,144	2,703	1,641
(Increase)/decrease in other assets	19,722	(9,991)	5,652	(1,705)
(Decrease)/increase in creditors	(1,982)	21,850	15,606	2,406
(Decrease)/increase in deferred revenue	(3,925)	175,533	(3,939)	175,529
(Decrease)/increase in income taxes payable	12,823	12,347	12,823	12,347
(Decrease)/increase in deferred tax liabilities	(8,136)	(2,381)	(7,689)	8,898
Net cash inflow from operating activities	**143,099**	**325,563**	**113,267**	**308,958**

Recognition and measurement

Cash at bank and on deposit

Cash and cash equivalents in the balance sheet include 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.

Risk exposure

SunWater's risk exposure is set out in note 18.

NOTE 6 RECEIVABLES

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Current				
Trade debtors	11,077	13,549	7,043	9,386
Term trade debtors	-	62	-	62
Intercompany receivables	-	-	2,512	-
Intercompany taxation receivables	-	-	5,532	6,556
	11,077	13,611	15,087	16,004
Allowance for impairment of receivables	(1,950)	(1,650)	(1,950)	(1,650)
	9,127	**11,961**	**13,137**	**14,354**
Non-current				
Intercompany receivables	-	-	17,758	4,388
	-	**-**	**17,758**	**4,388**

Impaired receivables

The ageing of trade receivables is as follows:

	Gross Receivable 2016 $'000	Gross Receivable 2015 $'000
Consolidated		
Not past due	5,419	10,411
Past due 0 – 30 days	1,949	1,285
Past due 31 – 60 days	429	19
More than 60 days	3,280	1,834
	11,077	**13,549**

The 2016 balance of more than 60 days includes an amount subject to litigation which SunWater believes is fully recoverable.

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

	2016 $'000	2015 $'000
At 1 July	1,650	1,500
Allowances added/(written back)	300	150
Carrying amount at 30 June	**1,950**	**1,650**

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 18.

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 18.

Recognition and measurement

All trade receivables are recognised at the amounts receivable as they are due for settlement no more than 30 days from the invoice date. Collectability 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.

NOTE 7 INVENTORIES

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Materials and stores	2,166	2,480	2,166	2,480

Inventory expense

Inventories recognised as expense during the year ended 30 June 2016 amounted to $2.698M (2015: $2.115M). Inventory to the value of $0.017M was written off during the year (2015: $0.052M).

Recognition and measurement

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.

NOTE 8 OTHER CURRENT ASSETS

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
GST receivable	1,323	1,369	1,128	1,234
Prepayments	917	771	917	771
Accrued revenue (1)	15,464	21,128	16,395	21,304
	17,704	23,268	18,440	23,309

(1) Includes water delivered to 30 June but not invoiced and costs recoverable from customers in respect of projects which did not proceed to construction.

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
At cost or deemed cost				
Land (1)	**7,848**	**7,851**	**7,848**	**7,851**
Buildings and land improvements	19,167	18,543	19,133	18,509
Accumulated depreciation	(5,436)	(4,883)	(5,422)	(4,870)
Total buildings and land improvements	**13,731**	**13,660**	**13,711**	**13,639**
Plant and equipment (1)	19,807	19,301	19,795	19,287
Accumulated depreciation	(13,727)	(13,207)	(13,722)	(13,202)
Accumulated impairment	(522)	(522)	(522)	(522)
Total plant and equipment	**5,558**	**5,572**	**5,551**	**5,563**
Water infrastructure (1)	1,314,419	1,301,980	1,145,107	1,132,694
Accumulated depreciation	(231,669)	(197,975)	(168,479)	(139,034)
Accumulated impairment	(264,071)	(224,098)	(223,908)	(183,935)
Total water infrastructure	**818,679**	**879,907**	**752,720**	**809,725**
Assets under construction (1)	55,492	51,861	50,166	50,459
Accumulated impairment	(3,740)	-	-	-
Total assets under construction	**51,752**	**51,861**	**50,166**	**50,459**
Total property, plant and equipment	897,568	958,851	829,996	887,237

(1) 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, any underwritten costs are recovered from the customer and any unrecoverable value is written off at that time.

NOTE 9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Recognition and measurement

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.

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 3). 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 design life of most of these assets.

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 (including repairs) 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.

Depreciation

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

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	1.67% to 20%
Plant and equipment	8% to 33.33%
Infrastructure	0.5% to 10%

Impairment of property, plant and equipment

Items of property, plant and equipment 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.

Items of property, plant and equipment that were impaired in a prior period are reviewed for possible reversal of the impairment at each reporting date. Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, which cannot exceed the original cost or deemed cost of that asset. A reversal of an impairment loss is recognised in the Statements of Comprehensive Income.

For the purposes of assessing impairment, assets are grouped in cash generating units (CGU) which are the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. Each of SunWater's water supply schemes is regarded as a cash-generating unit. Each hydro-electricity generating station is regarded as a cash-generating unit.

NOTE 9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Critical accounting estimates and judgements

Estimated impairment of assets

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

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

- Water charges applied to irrigators are regulated by the Queensland Government which subsidises water prices by way of community service obligation payments for the forecast shortfall between revenue raised in accordance with the regulated charges and the estimated efficient costs of storage and distribution of water for irrigation purposes. As the regulated price does not provide for a commercial return on capital, the reduced cash flows substantially impact on the values assigned to the water infrastructure assets.
- The Queensland Competition Authority (QCA), appointed to conduct an independent review and make recommendations to Government on future irrigation water pricing, handed down its (last) 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 20 day average of the 10 year Commonwealth Government bond security.
- There is no open market for the sale of water infrastructure assets 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.

NOTE 9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movements

Movements of the carrying amounts of each class of property, plant and equipment from the beginning to the end of each year 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 2016						
Carrying amount at 1 July 2015	7,851	13,660	5,572	879,907	51,861	958,851
Additions	-	651	1,669	12,519	18,975	33,814
Disposals	(3)	(8)	(58)	(38)	-	(107)
Transfer between classes	-	-	-	-	(15,344)	(15,344)
Depreciation expense	-	(572)	(1,625)	(33,736)	-	(35,933)
Impairment loss	-	-	-	(39,973)	(3,740)	(43,713)
Carrying amount at 30 June 2016	**7,848**	**13,731**	**5,558**	**818,679**	**51,752**	**897,568**
Year ended 30 June 2015						
Carrying amount at 1 July 2014	7,987	15,965	5,731	568,202	399,011	996,896
Additions	-	296	1,435	392,580	30,166	424,477
Disposals	(136)	(210)	(41)	(1)	-	(388)
Transfer between classes	-	(1,931)	-	-	(394,167)	(396,098)
Depreciation expense	-	(460)	(1,553)	(31,908)	-	(33,921)
Impairment loss	-	-	-	(48,966)	16,851	(32,115)
Carrying amount at 30 June 2015	**7,851**	**13,660**	**5,572**	**879,907**	**51,861**	**958,851**

	Land $'000	Buildings & land improvements $'000	Plant & equipment $'000	Water infrastructure $'000	Assets under construction $'000	Total $'000
Parent						
Year ended 30 June 2016						
Carrying amount at 1 July 2015	7,851	13,639	5,563	809,725	50,459	887,237
Additions	-	651	1,671	12,492	15,025	29,839
Disposals	(3)	(8)	(58)	(38)	-	(107)
Transfer between classes	-	-	-	-	(15,318)	(15,318)
Depreciation expense	-	(571)	(1,625)	(29,486)	-	(31,682)
Impairment loss	-	-	-	(39,973)	-	(39,973)
Carrying amount at 30 June 2016	**7,848**	**13,711**	**5,551**	**752,720**	**50,166**	**829,996**
Year ended 30 June 2015						
Carrying amount at 1 July 2014	7,987	15,942	5,722	471,748	385,101	886,500
Additions	-	296	1,435	380,220	30,315	412,266
Disposals	(136)	(209)	(41)	(1)	-	(387)
Transfer between classes	-	(1,931)	-	-	(381,808)	(383,739)
Depreciation expense	-	(459)	(1,553)	(27,081)	-	(29,093)
Impairment loss	-	-	-	(15,161)	16,851	1,690
Carrying amount at 30 June 2015	**7,851**	**13,639**	**5,563**	**809,725**	**50,459**	**887,237**

NOTE 9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment

Cash generating units

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

	CONSOLIDATED Loss/(Reversed) $'000	PARENT Loss/(Reversed) $'000	Recoverable amount $'000
Nogoa Mackenzie Water Supply Scheme	41,446	41,446	-
This CGU comprises all of the water infrastructure assets in the Nogoa Mackenzie Water Supply Scheme. The impairment losses mainly arise because of revised cash outflows required to carry out dam safety improvements on Fairbairn dam. Recoverable amount is determined as value in use. The discount rate used was 8.4% (2015: 8.9%).			
Mareeba Dimbulah Water Supply Scheme	(8,660)	(8,660)	8,770
This CGU comprises all of the water infrastructure assets in the Mareeba Dimbulah Water Supply Scheme. The impairment reversal mainly arises because of a strategic review of the R&E program. The discount rate used was 8.4% (2015: 8.9%).			
Other cash generating units – individually not significant. Recoverable amount is determined as value in use. The discount rate used was 8.4 % (2015: 8.9%).	7,187	7,187	73,679
Total	**39,973**	**39,973**	**82,449**

Assets under construction

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

30 June 2016	CONSOLIDATED Loss/(Reversed) $'000	PARENT Loss/(Reversed) $'000	Recoverable amount $'000
Paradise Dam safety improvements	3,740	-	-

In accordance with the Dam Safety Improvement Program, SunWater is in the process of upgrading Paradise Dam. The above costs represent the expenditure incurred to 30 June 2016 by Burnett Water Pty Ltd, which owns Paradise Dam. As the dam safety upgrade will not generate any additional revenue, it is considered to be impaired.

NOTE 10 INTANGIBLE ASSETS

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
At cost or deemed cost				
Software	30,411	33,030	30,411	33,030
Accumulated amortisation	(19,876)	(20,391)	(19,876)	(20,391)
Accumulated impairment	(359)	(359)	(359)	(359)
Total software	**10,176**	**12,280**	**10,176**	**12,280**
Trade names	**8**	**8**	**8**	**8**
Water allocations	58,147	58,147	9,858	9,858
Accumulated impairment	(48,165)	(48,165)	-	-
Total water allocations	**9,982**	**9,982**	**9,858**	**9,858**
Total intangible assets	**20,166**	**22,270**	**20,042**	**22,146**

Recognition and measurement

Software

Software has a finite life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method. Amortisation rates for software vary from 12.5 per cent to 33 per cent.

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.

After initial recognition, all water allocations are carried at cost less accumulated impairment. Water allocations have an indefinite life and are not amortised but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired, by comparing their carrying amounts with their recoverable amounts. No recognition threshold is applied.

Impairment

Intangible assets 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 Consolidated Statements of Comprehensive Income.

Critical accounting estimates and judgements

In determining that water allocations have an indefinite life, SunWater has assumed that the current Resource Operating Plan conditions will continue in perpetuity.

NOTE 10 INTANGIBLE ASSETS (CONTINUED)

Movements

Movements of the carrying amounts of intangible assets from the beginning to the end of each year are set out below.

	Software $'000	Trade names $'000	Water allocations $'000
Consolidated			
Year ended 30 June 2016			
Carrying amount at 1 July 2015	12,280	8	9,982
Additions – at cost	504	-	-
Disposals/retirements	(7)	-	-
Amortisation expense	(2,601)	-	-
Carrying amount at 30 June 2016	**10,176**	**8**	**9,982**
Year ended 30 June 2015			
Carrying amount at 1 July 2014	13,073	8	58,149
Additions – at cost	1,786	-	-
Disposals/retirements	-	-	(2)
Amortisation expense	(2,579)	-	-
Impairment loss	-	-	(48,165)
Carrying amount at 30 June 2015	**12,280**	**8**	**9,982**
Parent			
Year ended 30 June 2016			
Carrying amount at 1 July 2015	12,280	8	9,858
Additions – at cost	504	-	-
Disposals/retirements	(7)	-	-
Amortisation expense	(2,601)	-	-
Carrying amount at 30 June 2016	**10,176**	**8**	**9,858**
Year ended 30 June 2015			
Carrying amount at 1 July 2014	13,073	8	9,858
Additions – at cost	1,786	-	-
Amortisation expense	(2,579)	-	-
Carrying amount at 30 June 2015	**12,280**	**8**	**9,858**

NOTE 11 PAYABLES

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Trade creditors	5,127	4,863	5,068	4,861
Intercompany payables	-	-	2,837	16,972
Other creditors and accruals	16,516	12,612	14,735	10,964
	21,643	**17,475**	**22,640**	**32,797**

Recognition and measurement

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.

NOTE 12 PROVISIONS

	Notes	CONSOLIDATED		PARENT	
		2016 $'000	2015 $'000	2016 $'000	2015 $'000
Current					
Employee benefits		3,729	3,659	3,729	3,659
Natural disaster repairs		14,507	9,761	14,481	9,374
Legal costs		1,550	494	1,400	344
Infrastructure investigations and repairs		136	1,090	-	546
Dam safety improvements		29,533	25,000	19,356	-
Restructuring		2,423	375	2,423	375
Income tax		15,847	3,024	15,847	3,024
Return of contributed equity	16	130,000	-	130,000	
Dividends	15	159,009	5,258	159,009	5,258
		356,734	**48,661**	**346,245**	**22,580**
Non-current					
Land commitment		1,237	1,229	1,237	1,229
		1,237	**1,229**	**1,237**	**1,229**

Recognition and measurement

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.

Employee benefits

Annual leave, banked time and time off in lieu (TOIL)

Liabilities for annual leave, banked time and TOIL 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. The entire amount of the liability is presented as current as SunWater does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

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.

NOTE 12 PROVISIONS (CONTINUED)

Sick Leave

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

Superannuation

Employer superannuation contributions are paid to Queensland Government superannuation schemes at statutory rates or 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.

Natural disaster repairs

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 present constructive obligation to repair damage incurred but not rectified as at 30 June 2016. Remedial works are expected to be carried out within the next financial year.

Legal costs

The provision represents management's estimate of the present obligation for costs associated with certain legal proceedings. (Refer also to Note 21).

Infrastructure investigations and repairs

The provision represents management's estimate of the present constructive obligation for costs associated with remediation works to rectify accepted defects at Paradise Dam.

Dam safety improvements

The provision represents management's estimate of the present constructive obligation for costs of external contractors who will be engaged to carry out dam safety improvement works.

Restructuring

The provision represents management's estimate of present constructive obligation for costs associated with local management arrangements for SunWater's channel irrigation schemes, LMA stage 3.

Four of the channel irrigation schemes: St George, Eton, Emerald and Theodore are commencing the transition to local management, subject to reaching final agreement on the terms and conditions of that transfer with the Government.

Another four of the channel irrigation schemes will be invited to submit revised business proposals for local management. These schemes are: Burdekin–Haughton, Bundaberg, Lower Mary and Mareeba–Dimbulah. Once the Government has received these revised business cases, a decision will be made on whether or not the four schemes are also ready to transition to local management. That decision is likely to happen in early 2017.

Land commitment

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.

NOTE 12 PROVISIONS (CONTINUED)

Movements in provisions

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

	Natural Disaster repairs $'000	Legal costs $'000	infrastructure investigations & repairs $'000	dam improve-ments $'000	re-structuring $'000	Income Tax $'000	land commmitment $'000
Consolidated							
Carrying amount at 1 July 2015	9,761	494	1,090	25,000	375	3,024	1,229
Provisions added/(written back)	14,723	1,106	-	8,525	2,423	24,200	8
Payments made during the year	(9,977)	(50)	(954)	(3,992)	(375)	(11,377)	-
Carrying amount at 30 June 2016	**14,507**	**1,550**	**136**	**29,533**	**2,423**	**15,847**	**1,237**
Parent							
Carrying amount at 1 July 2015	9,374	344	546	-	375	3,024	1,229
Provisions added/(written back)	14,723	1,106	-	19,356	2,423	24,200	8
Payments made during the year	(9,615)	(50)	(546)	-	(375)	(11,377)	-
Carrying amount at 30 June 2016	**14,482**	**1,400**	**-**	**19,356**	**2,423**	**15,847**	**1,237**

NOTE 13 OTHER LIABILITIES

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Current				
Deposits payable	979	990	979	990
Unearned annuity (1)	11,504	8,769	11,504	8,769
Deferred income (2)	7,210	7,210	7,210	7,210
Rent incentive	310	310	310	310
Other	12	15	12	15
	20,015	**17,294**	**20,015**	**17,294**
Non-current				
Deferred income (2)	160,033	166,043	160,033	166,043
Rent incentive	466	776	466	776
	160,499	**166,819**	**160,499**	**166,819**

(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.*

(2) *During 2015, the interest-free bridging loan of $208.1M was repaid upon completion of the Woleebee Pipeline construction. Following this repayment, the customer advanced $180.25M in accordance with the contract for water transportation. This amount is recorded as deferred income and is amortised to revenue over the life of the contract. The impact of these transactions is reflected in the reduction (compared to the prior year) in Receipts from customers and Repayments of borrowings (refer Statements of Cash Flows) and in the Decrease in deferred revenue in the Reconciliation of profit after income tax equivalents to net cash inflow from operating activities (refer Note 5).*

Recognition and measurement – Unearned 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 annuity) as income for each water supply scheme. Any unspent annuity at year end (unearned annuity) is recognised as a current liability on the balance sheet.

NOTE 14 CAPITAL MANAGEMENT

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.

SunWater has maintained an investment grade credit rating based on the following market gearing ratios:

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Total borrowings	245,710	267,460	253,278	255,787
Total equity	418,964	678,964	335,701	602,535
Total capital	**664,674**	**946,424**	**588,979**	**858,322**
Market gearing ratio	37%	28%	43%	30%

SunWater's consolidated group Balance Sheet current ratio at 30 June 2016 of 0.74 (2015: 2.5) has been significantly impacted by the recognition of the special payment of $289.009M due to shareholding Ministers by 30 November (refer Notes 15 and 16). To fund the payment, SunWater has approval from Queensland Treasury to borrow up to $100.000M in the 2016–17 financial year, if required.

If this amount is borrowed in full, SunWater's market gearing ratio will increase from 37 per cent to approximately 46 per cent, which continues to meet loan covenant requirements and is within benchmarks for infrastructure entities.

Loan covenant

Under the terms of the major borrowing facilities, the group is required to comply with the following financial covenants:

- A minimum long term stand-alone credit rating of BBB as issued by Standard & Poor's or Fitch or the equivalent long term stand-alone credit rating issued by Moody's Investors Service
- An EBITDA Interest Coverage of greater than or equal to 2.0 times, except where the Total Debt to Total Capital is greater than 70 per cent in which case the EBITDA Interest Coverage must be equal to or greater than 2.35 times.

The group has complied with these covenants throughout the reporting period. As at 30 June 2016, the EBITDA Interest Coverage was 6.92 times (2015: 8.15 times).

NOTE 15 DIVIDENDS

	2016 $'000	2015 $'000
Ordinary shares		
2015 first and final dividend of $2.629M per share declared and provided for but not paid as at 30 June 2015	-	5,258
2016 first and final dividend of $79.504M per share declared and provided for but not paid as at 30 June 2016	159,009	-
	159,009	**5,258**

Recognition and measurement

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.

Based on a direction in accordance with section 131 (3)(b) of the *Government Owned Corporations Act 1993,* the SunWater Board recommended a 2015–16 dividend comprising:

- a special dividend of $130M; plus
- a dividend of $29.009M being 100 per cent of 2015–16 adjusted audited consolidated operating profit after tax.

Shareholding Ministers have confirmed that this is appropriate. Payment is due by 30 November 2016

NOTE 16 CONTRIBUTED EQUITY

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Share capital				
Issued and paid up capital:				
2 ordinary shares of $125.1345M each	**250,269**	**380,269**	**250,269**	**380,269**

	Number of shares $'000	Contribution per share $'000	Total $'000
Movements in ordinary share capital			
Closing balance 30 June 2015	2	190,134	380,269
Return of contributed equity	-	(65,000)	(130,000)
Closing balance 30 June 2016	**2**	**125,134**	**250,269**

In response to a request from shareholding Ministers, the SunWater Board recommended a return of contributed equity of $130M. Shareholding Ministers have confirmed that this is appropriate. Payment is due by 30 November 2016.

NOTE 17 BORROWINGS

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Unsecured (1)				
QTC loan	245,710	267,460	245,710	248,218
Intercompany loans	-	-	7,568	7,569
	245,710	**267,460**	**253,278**	**255,787**
Represented by:				
Current	2,381	4,548	9,949	10,008
Non-current	243,329	262,912	243,329	245,779
	245,710	**267,460**	**253,278**	**255,787**

(1) Prior year borrowings by subsidiary company were secured by parent entity guarantee..

Recognition and measurement

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

Borrowings are 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.

Financing arrangements

The loans from QTC are interest bearing. Parent entity non-current borrowings have no fixed repayment date. The terms of the facilities are reviewed by QTC annually. Borrowings are subject to the annual approval of the Queensland Treasurer and have been sourced from the SunWater and Woleebee Client Specific Pools. No approved borrowing program was in place for 2015–16 or 2014–15.

The QTC generic debt pools of Eungella Water Pipeline Ltd were repaid during 2015–16. SunWater funded the payout through an intercompany loan over an 8 year term.

SunWater has maintained the financial covenants as required under its borrowing facilities during the 2016 and 2015 reporting period (refer Note 14).

SunWater has a rolling $50.00M 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 2016 (2015: undrawn).

NOTE 17 BORROWINGS (CONTINUED)

Fair value

	CONSOLIDATED			
	2016		2015	
	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	245,710	272,984	267,460	296,014

	PARENT			
	2016		2015	
	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	245,710	272,984	248,218	273,041

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. Where a market realisation charge has been incurred, it has been included in finance costs in the Consolidated Statements of Comprehensive Income.

NOTE 18 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 risk 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.

Market risk

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 2015–16, SunWater had no significant exposure to foreign exchange risk and did not enter into any derivative contracts to hedge its foreign exchange risk exposure.

Price risk

During 2015–16, SunWater had no significant exposure to price risk.

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.

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

CONSOLIDATED		2016 INTEREST RATE RISK			
		−1%		+1%	
Financial Instruments	Carrying amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Cash	265,768	(2,253)	(2,253)	2,253	2,253
QTC borrowings	245,710	2,987	2,987	(2,987)	(2,987)
Overall effect on profit and equity		**734**	**734**	**(734)**	**(734)**

CONSOLIDATED		2015 INTEREST RATE RISK			
		−1%		+1%	
Financial Instruments	Carrying amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Cash	178,812	(1,490)	(1,490)	1,490	1,490
QTC borrowings	267,460	3,106	3,106	(3,106)	(3,106)
Overall effect on profit and equity		**1,616**	**1,616**	**(1,616)**	**(1,616)**

Credit risk

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

Cash is invested under the following approved policy conditions:

1. Deposits up to $25M may be invested with an Australian institution that has a current credit rating of A- to A+, up to an aggregate cap of $75M for all institutions in this rating category.
2. Deposits up to a cap of $50M may be invested with an Australian institution that has a current credit rating of AA- or higher.
3. Deposits up to $50M 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 2015–16, 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	2016 $'000	2015 $'000
Consolidated			
Cash at bank and at call invested in Australian institutions rated AA- or higher *	5	149,743	73,080
Held-to-maturity investments in Australian institutions rated A- to A+ *	5	50,476	50,305
Held-to-maturity investments in Australian institutions rated AA- or higher *	5	65,545	55,422
Other cash and cash equivalents	5	4	5
Receivables – current	6	9,127	11,961
		274,895	**190,773**
Parent			
Cash at bank and at call invested in Australian institutions rated AA- or higher *	5	116,807	50,713
Held-to-maturity investments in Australian institutions rated A- to A+ *	5	50,476	50,305
Held-to-maturity investments in Australian institutions rated AA- or higher *	5	65,545	55,422
Other cash and cash equivalents	5	4	5
Receivables – current	6	13,137	14,354
Receivables – non-current	6	17,758	4,388
		263,727	**175,187**

* *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.

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 no approved borrowing program during 2015–16. SunWater has a rolling $50M working capital facility with QTC. This facility (undrawn during 2015–16) operates as an overdraft arrangement which is used to cover temporary funding shortfalls. The facility is repayable on demand.

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

2016	Carrying amount $'000	Less than 1 year $'000	1 – 5 years $'000	Over 5 years $'000	Total cash flows (contractual) $'000
Consolidated					
Payables/dividends	310,652	310,652	-	-	310,652
Borrowings – QTC	245,710	17,555	70,249	238,830*	326,634
Deposits payable	979	39	32	908	979
	557,341	**328,246**	**70,281**	**239,738**	**638,265**
Parent					
Payables/dividends	311,648	311,648	-	-	311,648
Borrowings – QTC	245,710	17,555	70,249	238,830*	326,634
Intercompany loan	7,568	7,568	-	-	7,568
Deposits payable	979	39	32	908	979
	565,905	**336,810**	**70,281**	**239,738**	**646,829**

2015	Carrying amount $'000	Less than 1 year $'000	1 – 5 years $'000	Over 5 years $'000	Total cash flows (contractual) $'000
Consolidated					
Payables/dividends	22,733	22,733	-	-	22,733
Borrowings – QTC	267,460	21,729	86,825	265,590*	374,144
Deposits payable	990	39	32	919	990
	291,183	**44,501**	**86,857**	**266,509**	**397,867**
Parent					
Payables/dividends	38,055	38,055	-	-	38,055
Borrowings – QTC	248,218	18,267	72,976	257,432*	348,675
Intercompany loan	7,569	7,569	-	-	7,569
Deposits payable	990	39	32	919	990
	294,832	**63,930**	**73,008**	**258,351**	**395,289**

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

NOTE 19 INVESTMENT IN SUBSIDIARIES

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Shares in controlled entities – at cost	-	-	*	*

** Represents $6.*

In the prior year, SunWater's investment in Burnett Water Pty Ltd was written down by $112.296M to reflect the impairment of the company's assets.

Information relating to the controlled entities is set out below:

			EQUITY HOLDING	
Name of entity	**Country of incorporation**	**Class of shares**	**2016 %**	**2015 %**
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 20 COMMITMENTS FOR EXPENDITURE

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Capital expenditure commitments				
Capital expenditure commitments (including GST) contracted for but not brought to account are as follows:				
ICT projects	332	1,021	332	1,021
Water infrastructure projects	14,401	10,771	14,401	10,771
	14,733	**11,792**	**14,733**	**11,792**
Payable:				
Not later than one year	**14,733**	**11,792**	**14,733**	**11,792**
Non-cancellable operating lease expense commitments				
Future operating lease commitments (including GST) not brought to account and payable:				
Within one year	3,669	3,579	3,669	3,579
Later than one year but not later than five years	10,542	10,396	10,542	10,396
Later than five years	-	-	-	-
	14,211	**13,975**	**14,211**	**13,975**

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

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.

Future projects and acquisitions

SunWater has made in-principle commitments to investigate certain 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 Improvement Program are disclosed in note 22.

NOTE 21 CONTINGENCIES

SunWater had contingent assets and liabilities at 30 June 2016 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 was the subject of a Workplace Health and Safety Queensland prosecution and is now subject to an inquiry by the Coroner. As a precaution, all other inflatable dams owned by SunWater were operationally decommissioned immediately after the original failure.

In September 2009, the relatives of the deceased person instituted legal action for personal injuries. The matter remains in progress, and is being managed by SunWater's insurers.

NOTE 21 CONTINGENCIES (CONTINUED)

(b) Since the finalisation of the Commission of Inquiry into the 2010/11 flood event and the release of the final report, landowners whose properties were inundated during the floods are seeking compensation through a class action which has been commenced against another Government entity, SunWater and the State Government. SunWater, which provided assistance to the dam operator under a contract to provide flood operations support, is named as second defendant. SunWater is working closely with its insurers, and is defending the claim.

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

(d) SunWater remains in discussions with its insurers regarding the coverage provided by SunWater's industrial and special risks insurance policy over the costs associated with the following events:

- During the 2010/11 and 2013 Queensland floods, Boondooma Dam located near Proston in southern Queensland suffered damage to the spillway channel from large volumes of water being discharged through the spillway; and
- 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 policy has a number of exclusions and it is expected that these, together with the event deductibles, will be relevant to the policy responses.

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 under-recoveries against the final costs. If under-recoveries do occur, SunWater will seek to protect its interests by pursuing other commercial remedies available to it. At this stage, any ultimate under-recoveries cannot be reliably estimated.

(e) SunWater has made a claim under its insurance policies for losses attributable to the flood event in 2013 (in addition to Paradise Dam). Revenue of $13M from insurance proceeds has been taken up in the Statements of Comprehensive Income for the year ended 30 June 2016 (2015: $3M). The remainder of the claim is under negotiation.

(f) At 30 June 2016, SunWater was engaged in commercial and legal 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.

NOTE 22 DAM IMPROVEMENT PROGRAM

SunWater has in place a comprehensive Dam Safety Improvement Program (DSIP) 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 DSIP has previously identified the need to improve a number of dams. DSIP projects have been completed for Fred Haigh Dam (2006), Bjelke Petersen Dam (2008), Borumba Dam (2009),Tinaroo Falls Dam (2011), and Kinchant and Eungella dams (2015).

While the initial program of improvements was prioritised based on spillway adequacy, SunWater is continuously undertaking Comprehensive Risk Assessments (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 improvement requirements for each dam.

As each CRA is completed, the priority of improvements within the portfolio is assessed and, if necessary, revised. This prioritised schedule of improvements includes works out to 2027 and includes an estimate of cost for each improvement. While at this stage, the total of these estimates is in excess of $855M, it is not possible to quantify the complete scope of works or the likely cost or timing of the DSIP. The State Government has confirmed its funding support for these projects, if required.

NOTE 23 SUBSEQUENT EVENTS

In July 2016, the SunWater Board approved two major projects:

- Fairbairn Dam Spillway Improvement Project which included approval of a $60M increase in the project budget from $35M to $95M to progress to stage 2 construction.
- Boondooma Dam Project (Spillway Reinstatement and Spillway Repair to Sidewall) for $51.1M

Costs for these projects will be recognised as the expenditure is incurred.

To date, except as detailed elsewhere in the financial statements, no other events have occurred subsequent to balance date that materially impact on these financial statements.

NOTE 24 REMUNERATION OF AUDITORS

During the year, fees of $0.164M (2015: $0.165M) 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.

No other services were provided.

NOTE 25 RELATED PARTY 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	2016 $'000	2015 $'000
Consolidated		
Short-term employee benefits – cash salary	1,606	1,518
Short-term employee benefits – cash bonus	183	168
Post-employment benefits – superannuation	138	141
Termination benefits	595	-
Total	**2,522**	**1,827**
Parent		
Short-term employee benefits – cash salary	1,581	1,488
Short-term employee benefits – cash bonus	183	168
Post-employment benefits – superannuation	138	139
Termination benefits	595	-
Total	**2,497**	**1,795**

Compensation – directors

Consolidated

	Short-term employee benefits		Post-employment benefits	
Name of director	Cash salary $'000	Cash bonus $'000	Superannuation $'000	Total $'000
2016				
Leith Boully, Chair (appointed 1 October 2015)	56	-	5	61
Neville Ide (appointed 1 October 2015)	27	-	2	29
Patrice Sherrie (appointed 1 October 2015)	30	-	3	33
Moya Steele (appointed 3 December 2015)	17	-	2	19
David Stewart (appointed 3 December 2015)	17	-	1	18
Kristin Ferguson (resigned 7 August 2015)	4	-	-	4
Ross Dunning, Chair (resigned 30 September 2015)	20	-	2	22
Larry Anthony (resigned (30 September 2015)	9	-	1	10
Rachel Fennell (resigned 30 September 2015)	9	-	1	10
William Wild (resigned 30 September 2015)	10	-	1	11
Greg Moynihan (resigned 31 March 2016)	30	-	3	33
2015				
Ross Dunning, Chair	75	-	7	82
Greg Moynihan	39	-	4	43
Kirstin Ferguson	32	-	3	35
William Wild	35	-	3	38
Larry Anthony	35	-	3	38
Rachel Fennell	34	-	3	37

NOTE 25 RELATED PARTY DISCLOSURES (CONTINUED)

Parent	Short-term employee benefits		Post-employment benefits	
	Cash salary	Cash bonus	Superannuation	Total
Name of director	$'000	$'000	$'000	$'000
2016				
Leith Boully, Chair (appointed 1 October 2015)	48	-	5	53
Neville Ide (appointed 1 October 2015)	24	-	2	26
Patrice Sherrie (appointed 1 October 2015)	27	-	3	30
Moya Steele (appointed 3 December 2015)	17	-	2	19
David Stewart (appointed 3 December 2015)	16	-	1	17
Kristin Ferguson (resigned 7 August 2015)	4	-	-	4
Ross Dunning, Chair (resigned 30 September 2015)	17	-	2	19
Larry Anthony (resigned (30 September 2015)	8	-	1	9
Rachel Fennell (resigned 30 September 2015)	8	-	1	9
William Wild (resigned 30 September 2015)	8	-	1	9
Greg Moynihan (resigned 31 March 2016)	27	-	3	30
2015				
Ross Dunning, Chair	64	-	6	70
Greg Moynihan	35	-	3	38
Kirstin Ferguson	32	-	3	35
William Wild	29	-	3	32
Larry Anthony	31	-	3	34
Rachel Fennell	29	-	3	32

Directors' contracts

Directors do not receive any termination benefits or performance-related remuneration.

Terms of appointment are as follows:

Directors as at 30 June 2016	Term of appointment	Appointment expiry date
Leith Boully, Chair	3 years	30 September 2018
Neville Ide	3 years	30 September 2018
Patrice Sherrie	3 years	30 September 2018
Moya Steele	2 years 7 months	30 September 2018
David Stewart	2 years 7 months	30 September 2018

Directors' remuneration excludes insurance premiums (exclusive of GST) of $145,056 (2015 - $139,903) 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.

NOTE 25 RELATED PARTY DISCLOSURES (CONTINUED)

Compensation – executives

Parent

	Short-term employee benefits		Post-employment benefits	Termination	
	Cash salary	Cash bonus(1)	Superannuation	Benefits	Total
Name and title of executive	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
2016					
Chief Executive, Peter Boettcher (2)	436	74	15	477	1,002
Chief Executive, Nicole Hollows (3)	95	-	4	-	99
General Manager, Corporate, Geoff White	294	36	37	-	367
General Manager, Bulk Water and Irrigation Systems, Tom Vanderbyl	271	30	33	-	334
General Manager, Asset Delivery, Alex Fisher (4)	148	-	12	-	160
General Manager, Industrial Pipelines, Tim Donaghy (5)	134	43	17	117	311

(1) Cash bonuses paid are in respect of the previous year's assessed performance.

(2) Mr Boettcher resigned as Chief Executive Officer on 31 March 2016. Termination benefits include leave entitlements.

(3) Ms Hollows was appointed as Chief Executive Officer on 26 April 2016.

(4) Ms Fisher was appointed as General Manager, Asset Delivery on 09 November 2015.

(5) Mr Donaghy resigned as General Manager, Industrial Pipelines on 06 November 2015. Termination benefits include leave entitlements.

Parent

	Short-term employee benefits		Post-employment benefits	Termination	
	Cash salary	Cash bonus(1)	Superannuation	Benefits	Total
Name and title of executive	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
2015					
Chief Executive, Peter Boettcher	481	73	19	-	573
General Manager, Corporate, Geoff White	287	38	37	-	362
General Manager, Bulk Water and Irrigation Systems, Tom Vanderbyl	254	29	31	-	314
General Manager, Industrial Pipelines, Tim Donaghy	246	28	31	-	305

(1) Cash bonuses paid are in respect of the previous year's assessed performance.

Executive employment contracts

The Board Remuneration Committee reviews Senior Executive performance 6 monthly, and recommends remuneration levels to the SunWater Board annually, in accordance with the Queensland Government's Policy for Government Owned Corporation Chief and Senior Executive Employment Arrangements 2014.

All Senior Executives are engaged on tenured employment contracts that provide for three months' notice or equivalent payment upon termination. Where a redundancy applies, the payment is made in accordance with the Fair Work Act 2009 (Cth). The former Chief Executive, Mr P Boettcher's tenure during FY16 was engaged on a fixed term employment contract.

Remuneration and other terms of employment are formalised in each executive's employment contract. SunWater executives receive a Total Fixed Remuneration (TFR) inclusive of all rewards including base salary and superannuation. Input is sought annually from an independent remuneration expert on market and industry movements for each role. Based upon the market median, the performance of SunWater and the executive, a new TFR is determined annually for effect from 1 July.

Each executive, with the exception of the new Chief Executive, Ms N. Hollows, has the opportunity to receive an annual performance payment of up to 15 per cent of the TFR in the relevant year. Stretch targets aligned with the Statement of Corporate Intent (which is approved by the shareholding Ministers) are set. A scorecard, with weightings for each target, is agreed with the Board at the beginning of the year. At the end of the year a total score, based on the achievement against each target, is proposed which translates into the amount of the performance payment paid to the executive. For the 12 month period concluding on 31 December 2015, the former Chief Executive, Mr P Boettcher, was eligible to receive a performance payment of up to 20 per cent of the contract TFR.

The shareholding Ministers are advised in writing of the results of the annual review of TFR and the actual amount of the performance payment made within one month of the Board's approval.

NOTE 25 RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with subsidiaries

The parent entity of the group is SunWater Limited. Interests in subsidiaries are set out in note 19. 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 2016, the following significant transactions occurred between the parent entity and its subsidiaries:

	2016 $'000	2015 $'000
Sales of water to subsidiaries	4,630	4,602
Sales of services to subsidiaries	15,925	16,733
Interest received from subsidiaries	337	250
Interest paid to subsidiaries	226	219
Current tax payable assumed from tax consolidated subsidiaries	2,694	5,414
Dividends received from subsidiaries	10,000	18,000
Loan (advance)/received to/from subsidiaries	(17,733)	8,300
Loan repaid to subsidiaries	-	12,050
Equity contributed to subsidiaries	-	15,000

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 2016, the following significant transactions occurred between SunWater Limited and other State of Queensland controlled entities:

	2016 $'000	2015 $'000
Dividends declared	159,009	5,258
Return of capital	130,000	-
Interest received from QTC	2,983	1,393
Water sales, CSO, grants received	35,225	36,592
Consultancies paid	2,146	6,692
Interest/market realisation fee paid to QTC	20,025	17,405

NOTE 26 OTHER ACCOUNTING POLICIES

New and amended accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 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 and* AASB2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) and* AASB 2014-8 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)* (effective from first full reporting period after 1 January 2018).

AASB 9 *Financial Instruments* addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 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 15 *Revenue from Contracts with Customers* (effective from first full reporting period after 1 January 2017).

AASB 15 Revenue from Contracts with Customers is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

While SunWater has not yet decided to adopt AASB 15, revenue is already unbundled (in advance and arrears) and recognised in the appropriate month. Therefore, the standard is not expected to significantly affect the group's existing accounting for revenue.

(iii) AASB 2015-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation* (effective from first full reporting period after 1 January 2016).

The AASB has amended AASB 116 Property, Plant and Equipment to clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment.

The standard will not affect the group's accounting for depreciation.

(iv) AASB 16 Leases (effective from first full reporting period after 1 January 2019).

The key features of AASB 16 relating to lessee accounting are:

- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- A lessee measures right of use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
- AASB 16 contains disclosure requirements for lessees.

SunWater has non-cancellable operating leases (refer Note 20) which, upon adoption of AASB 16, are expected to be included on the Balance Sheet. SunWater is yet to assess the full impact and has not yet decided when to adopt AASB 16. However, based on the materiality of existing leases, the standard is not expected to impact significantly on the group's assets and liabilities.

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 2015–2016 as set out on pages 34 to 63 of the Financial Report comply with:

   (i) Accounting Standards; and

   (ii) International Financial Reporting Standards; and

   (iii) this statement has been included in the notes to the financial statements of SunWater Limited for 2015–2016.

(c) in their opinion, the financial statements and notes of SunWater Limited for 2015–2016 as set out on pages 29 to 63 of the Financial Report of SunWater Limited for 2015–2016 are in accordance with the *Corporations Act 2001* (Cth) including:

   (i) that the financial statements and notes of SunWater Limited for 2015–2016 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.

LEITH BOULLY
Chairman

PATRICE SHERRIE
Director

Brisbane, Qld
23 August 2016

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 2016, 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. I confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of SunWater Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In my opinion –

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

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2016 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 these financial statements 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 statements. If users of the financial statements 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 statements to confirm the accuracy of this electronically presented information.

NICK GEORGE CPA

as Delegate of the Auditor-General of Queensland

Queensland Audit Office

Brisbane, Qld
29 August 2016

QUEENSLAND
29 AUG 2016
AUDIT OFFICE