FINANCIAL REPORT

for the year ended 30 June 2017

General Information			42
Financial Statements			43
Consolidated Statement of Comprehensive Income			43
Consolidated Statement of Financial Position			44
Consolidated Statement of Changes in Equity			45
Consolidated Statement of Cash Flows			46
Notes to the Consolidated Financial Statements			47
OPERATIONS	1	Revenue	49
	2	Other income	50
	3	Expenses A Operating Expenditure B Finance Costs	50
	4	Income tax	51
	5	Cash and cash equivalents	53
	6	Receivables	54
	7	Inventories	55
	8	Other current assets	55
	9	Property, plant and equipment	55
	10	Intangible assets	60
	11	Trade and other payables	62
	12	Provisions	62
	13	Other liabilities	64
CAPITAL	14	Capital management	65
	15	Contributed equity	66
	16	Borrowings	66
RISK	17	Financial risk management	67
GROUP STRUCTURE	18	Investment in subsidiaries	69
UNRECOGNISED ITEMS	19	Commitments	69
	20	Dam safety improvement program	70
	21	Contingencies	71
	22	Subsequent events	71
OTHER	23	Remuneration of auditors	71
	24	Related party transactions	72
	25	Parent entity Financial Information	77
	26	Summary of other accounting policies	78
Directors' Declaration			79
Independent Auditor's Report			80

GENERAL INFORMATION

These Financial Statements are consolidated Financial Statements for the Group consisting of SunWater Limited and its subsidiaries. A list of major subsidiaries is included in note 18.

The Financial Statements are presented in the Australian currency.

SunWater Limited (ACN 131 034 985) is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principle place of business is:

Level 10
179 Turbot Street
Brisbane 4000
Queensland

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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
Revenue from operations	1	280,834	274,587
Other income	2	7,093	21,718
		287,927	**296,305**
Expenses:			
Operating expenditure	3(A)	(116,991)	(111,248)
Employee benefits		(40,372)	(41,505)
Depreciation and amortisation	9,10	(37,954)	(38,534)
Impairment of assets	9,10	(25,763)	(43,713)
Loss on disposal of assets		(600)	(87)
Operating profit		**66,247**	**61,218**
Finance costs	3(B)	(15,194)	(20,536)
Profit before income tax		**51,053**	**40,682**
Income tax expense	4	(15,005)	(11,673)
Profit for the year		**36,048**	**29,009**
Other comprehensive income		-	-
Total comprehensive income for the year		**36,048**	**29,009**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	54,855	265,768
Receivables	6	7,793	9,127
Inventories	7	2,404	2,166
Other current assets	8	21,106	17,704
Total current assets		**86,158**	**294,765**
Non-current assets			
Property, plant and equipment	9	882,339	897,568
Intangible assets	10	16,940	20,166
Deferred tax assets	4	11,114	12,303
Total non-current assets		**910,393**	**930,037**
Total assets		**996,551**	**1,224,802**
LIABILITIES			
Current liabilities			
Trade and other payables	11	22,350	21,643
Provisions	12	52,463	356,734
Borrowings	16	1,015	2,381
Other liabilities	13	28,339	20,015
Total current liabilities		**104,167**	**400,773**
Non-current liabilities			
Provisions	12	1,246	1,237
Borrowings	16	283,147	243,329
Other liabilities	13	152,979	160,499
Total non-current liabilities		**437,372**	**405,065**
Total liabilities		**541,539**	**805,838**
Net assets		**455,012**	**418,964**
EQUITY			
Contributed equity	15	250,269	250,269
Retained earnings		204,743	168,695
Total equity		**455,012**	**418,964**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2017

	Notes	Contributed equity $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2015		380,269	298,695	678,964
Total comprehensive income for the year		-	29,009	29,009
Transactions with owners as owners				
Dividends provided for or paid	14 (a)	-	(159,009)	(159,009)
Return of contributed equity	14	(130,000)	-	(130,000)
Balance at 30 June 2016		250,269	168,695	418,964
Total comprehensive income for the year		-	36,048	36,048
Transactions with owners as owners				
Dividends provided for or paid	14 (b)	-	-	-
Return of contributed equity		-	-	-
Balance at 30 June 2017		**250,269**	**204,743**	**455,012**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers		298,225	318,666
Community service obligations received		9,586	10,145
Interest received		129	282
Payments to suppliers and employees		(181,330)	(177,634)
Income taxes paid		(31,918)	(8,360)
Net cash inflow from operating activities	5	**94,692**	**143,099**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		258	99
Interest received		4,772	6,346
Payments for property, plant and equipment		(45,572)	(15,450)
Net cash (outflow) from investing activities		**(40,542)**	**(9,005)**
Cash flows from financing activities			
Proceeds from borrowings		40,000	-
Interest paid		(14,506)	(20,129)
Repayments of borrowings		(1,548)	(21,751)
Return of shareholders equity		(130,000)	-
Dividends paid		(159,009)	(5,258)
Net cash (outflow) from financing activities		**(265,063)**	**(47,138)**
Net (decrease) increase in cash and cash equivalents		**(210,913)**	**86,956**
Cash and cash equivalents at the beginning of the financial year		265,768	178,812
Cash and cash equivalents at the end of the financial year	5	**54,855**	**265,768**

The above Consolidated Statement of Cash Flow should be read in conjunction with the accompanying notes.

The financial report covers SunWater Limited and its' subsidiaries as the consolidated entity and together are referred to as the Group or the consolidated entity in this financial report.

(A) BASIS OF PREPARATION

The financial report is a general purpose financial report which:

- Has been prepared in accordance with the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations, the *Corporations Act 2001* and the provisions of the *Government Owned Corporations Act 1993* (Qld).
- Complies with IFRS as issued by the International Accounting Standards Board (IASB) for the purposes of preparing the Consolidated Financial Statements, the Company is a for profit public sector entity.
- Adopts policies which are consistent with those of the previous financial year and prepared under the historical cost convention.
- Does not adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective (such as AASB 15 *Revenue from Contracts and Customers* and AASB 9 *Financial Instruments* (December 2010) as amended by 2013-9). Refer to note 26 for more information on this and other accounting policies.
- Is for a Company which is of a kind referred to in *Corporations Instrument 2016/191,* issued by the Australian Securities and Investment 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 instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.
- Presents comparative information that has been reclassified where appropriate to enhance comparability.

GOING CONCERN

The financial statements are prepared on a going concern basis. Last year, SunWater's financial position was significantly impacted by the recognition of a special dividend and capital repayment in total of $289.009m to be paid to shareholding Ministers by 30 November 2016 (refer notes 14, 15 and 16). During 2016–17 SunWater utilised $40.0m from an approved borrowing and surplus operating cash flows ensured that all debts (including the special dividend and repayment of capital) were met as they fell due.

(B) BASIS OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of SunWater Limited (company or parent entity) as at 30 June 2017 and the results of all subsidiaries for the year then ended.

Subsidiaries are all these entities over which the Group has control. The Group controls an entity when the Group is expected to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting Policies of subsidiaries have been changed where necessary to ensure consistency with the policies by the Group.

(C) OTHER 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 Consolidated Financial Statements in accordance with the structure of the financial statements. These policies have been consistently applied to the years presented unless otherwise stated.

(D) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group'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 Group and that are believed to be reasonable under the circumstances. Judgements and estimates that are material to the Financial Statements are provided throughout the notes to the Financial Statements.

(E) 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

Accounting Policy

Revenue is measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group. Amounts disclosed as revenue are net of returns, rebates, trade allowances and amounts collected on behalf of third parties.

Recognition occurs when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specified criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

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 rental 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.

	2017 $'000	2016 $'000
Revenue from operations		
Industrial water	171,270	168,576
Irrigation water	63,269	59,342
Urban water	12,756	11,789
Drainage	1,631	1,566
Water allocations revenue	15,438	16,544
Consulting and facilities services revenue	6,883	6,601
Electricity generation	1	25
Community service obligation – irrigation	3,716	4,738
Community service obligation – urban	5,870	5,406
Total revenue from operations	**280,834**	**274,587**

By Business Activity	Commercial		Regulated		Total	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Revenue from operations						
Industrial water	161,231	159,474	10,039	9,102	171,270	168,576
Irrigation water	1,505	1,478	61,764	57,864	63,269	59,342
Urban water	2,809	3,092	9,947	8,697	12,756	11,789
Drainage	-	-	1,631	1,566	1,631	1,566
Water allocations revenue	15,435	16,537	3	7	15,438	16,544
Consulting and facilities services	6,584	6,325	299	276	6,883	6,601
Electricity generation	1	25	-	-	1	25
Community service obligation – irrigation	-	-	3,716	4,738	3,716	4,738
Community service obligation – urban	5,870	5,406	-	-	5,870	5,406
Total revenue from operations	**193,435**	**192,337**	**87,399**	**82,250**	**280,834**	**274,587**

NOTE 2 OTHER INCOME

Accounting Policy

Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the Consolidated Statement of Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate.

	2017 $'000	2016 $'000
Gain on disposal of non-current assets	68	71
Fees	30	100
Interest income	3,977	6,856
Rent received	422	394
Government grants	902	-
Other income	694	1,085
Proceeds of insurance claims	1,000	13,212
Total other income	**7,093**	**21,718**

Government grants include 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 deferred income and are credited to the statement of comprehensive income on a straight line basis over the useful lives of the related asset.

Interest income is recognised as it accrues using the effective interest method.

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

NOTE 3 EXPENSES

	2017 $'000	2016 $'000
A. Operating Expenditure		
Contracted services	53,435	45,421
Electricity	31,922	31,697
Insurance	8,741	7,984
Materials and plant hire	6,422	6,364
Fleet costs	2,256	2,138
Travel and accommodation	1,580	1,603
Rates and land tax	1,972	2,042
Corporate and administrative expenses	10,663	13,999
Total operating expenditure	**116,991**	**111,248**
B. Finance Costs		
Interest and finance charges paid/payable	15,194	20,536
Finance costs expensed	**15,194**	**20,536**

Interest and Finance Charges

Finance 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.

During the year, SunWater signed a new loan mandate with QTC which lengthened the loan portfolio duration resulting in a reduced borrowing rate. In addition, the Woleebee Client Specific Pool was merged into a single SunWater portfolio linked loan. The merge of the two loans did not give rise to a market realisation charge as the terms and product of the loan did not substantially change and give rise to a debt extinguishment event (refer note 16).

NOTE 4 INCOME TAX

Accounting Policy

(a) Current tax – income tax equivalents

The Group is exempt from income tax under section 24AM of the *Income Tax Assessment Act 1997* (Cth). However, pursuant to the *Government Corporations Act 1993* and the National Tax Equivalents Regime, the Group is required to make payments to the Queensland Government, equivalent to the amount of any Commonwealth income tax for which an exemption is received.

The income tax equivalent expense (referred to as income tax expense) for the period is the tax payable on the current period's taxable income based on the Australian corporate income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

AASB 112 *Income Taxes* uses a 'Balance Sheet approach' for calculating income tax balances. This approach recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. The differences are recognised at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted at the balance sheet date.

Current tax is expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting date, and any adjustment to tax payable in respect of previous years.

(b) Offsetting deferred tax balances

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is accounted for in respect of temporary differences arising from differences between the carrying amount of assets and liabilities and the corresponding tax base.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and tax offsets, to the extent that it is probable that sufficient future taxable profits will be available to utilise them.

However, deferred tax assets and liabilities are not recognised for taxable temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates and tax laws that have been enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

(c) 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.

(d) Tax consolidation legislation

SunWater and its wholly owned Australian-controlled subsidiaries have implemented the tax consolidation legislation.

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 entities in the case of a default by the parent entity, SunWater Limited.

The Group has also entered into a tax funding agreement under which the wholly-owned entities fully compensate SunWater Limited for any current tax payable assumed and are compensated by SunWater Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to SunWater Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon payment by the parent entity of those liabilities, and are subject to the parent entity providing to the wholly-owned entities satisfactory evidence of that payment, the wholly owned entities shall promptly pay to the parent entity that contribution amount and the parent entity shall promptly pay to the relevant wholly-owned entities, amounts receivable by them under the funding arrangement.

Key estimates and judgements

Recovery of deferred tax assets

Deferred tax assets are only recognised for deductible temporary differences to the extent that it is probable that sufficient future taxable profits will be available to utilise them. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profit.

	2017 $'000	2016 $'000
(i) Income tax expense		
Income tax equivalents expense		
Current tax equivalents expense	14,318	24,207
Deferred tax equivalents expense/(credit)	1,189	(12,042)
Research and development tax credit	(502)	(485)
Prior year (over)/under provision	-	(7)
	15,005	**11,673**
Income tax equivalents expense is attributable to:		
Profit from continuing operations	**15,005**	**11,673**
(ii) Reconciliation of income tax expense		
Profit before income tax	51,053	40,682
Tax expense at the Australian rate of 30% (2016: 30%)	15,316	12,205
Non-deductible entertainment	16	17
Sundry items	175	(57)
Research and development tax credit	(502)	(485)
Prior year (over)/under provision	-	(7)
Income tax expense	**15,005**	**11,673**
Current tax	13,816	23,715
Deferred tax	1,189	(12,042)
	15,005	**11,673**

(iii) Movement in deferred tax balances

2017	Net balance at 1 July $'000	Charged to Income Statement $'000	Net balance at 30 June $'000	Deferred Tax Asset (DTA) $'000	Deferred Tax Liability (DTL) $'000
Employee benefits	1,118	(30)	1,088	1,088	-
Property, plant and equipment	(6,276)	(1,964)	(8,240)	-	(8,240)
Unearned renewal annuity	3,451	657	4,108	4,108	-
Provisions	15,402	208	15,610	15,610	-
Other	(1,392)	(60)	(1,452)	-	(1,452)
Tax assets/(liabilities) before set off	**12,303**	**(1,189)**	**11,114**	**20,806**	**(9,692)**
Set off DTL against DTA	-	-	-	(9,692)	9,692
Net Tax Assets	**12,303**	**(1,189)**	**11,114**	**11,114**	**-**

2016	Net balance at 1 July $'000	Charged to Income Statement $'000	Net balance at 30 June $'000	Deferred Tax Asset (DTA) $'000	Deferred Tax Liability $'000
Employee benefits	1,095	23	1,118	1,118	-
Property, plant and equipment	(14,024)	7,748	(6,276)	-	(6,276)
Unearned renewal annuity	2,631	820	3,451	3,451	-
Provisions	11,879	3,523	15,402	15,402	-
Other	(1,320)	(72)	(1,392)	-	(1,392)
Tax assets/(liabilities) before set off	**261**	**12,042**	**12,303**	**19,971**	**(7,668)**
Set off DTL against DTA	-	-	-	(7,668)	7,668
Net Tax Assets	**261**	**12,042**	**12,303**	**12,303**	**-**

NOTE 5 CASH AND CASH EQUIVALENTS

Accounting Policy

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 three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Risk exposure

Information about the Group's exposure to credit risk is detailed in note 17.

	2017 $'000	2016 $'000
Cash at bank and on hand	4,789	1,716
Cash held as security	4,635	-
Deposits on call	45,431	148,031
Term deposits	-	116,021
Cash at bank and on deposit	**54,855**	**265,768**

Cash held as term deposits include deposits for which there is a short term identified use in the operating cash flows of the Group and attracts interest at rates between 2.80% and 2.90% (2016: 2.69% to 3.10%). During 2017 all term deposits were called in to allow for the special dividend and return of equity payment to Queensland Treasury.

During the year, SunWater received cash as security against commercial customer contracts. The deposits are held in separate bank accounts and are subject to repayment on call by the customer subject to meeting the obligations under their respective agreements (refer note 13).

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

	2017 $'000	2016 $'000
Profit for the year	36,048	29,009
Depreciation and amortisation	37,954	38,534
Impairment	25,763	43,713
Bad and doubtful debts	4	302
Net (gain)/loss on sale or disposal of non-current assets	532	16
Interest received	(4,772)	(6,346)
Interest paid	14,506	20,129
Change in assets and liabilities:		
(Increase)/decrease in inventories and intangibles	(239)	314
Decrease/(increase)in deferred tax assets	1,685	(3,906)
Decrease in receivables	1,330	2,832
(Increase)/decrease in other assets	(3,402)	19,722
Increase/(decrease) in creditors	9,457	(1,982)
(Decrease) in deferred revenue	(5,576)	(3,925)
(Decrease)/increase in income taxes payable	(18,101)	12,823
(Decrease) in deferred tax liabilities	(497)	(8,136)
Net cash inflow from operating activities	**94,692**	**143,099**

NOTE 6 RECEIVABLES

Accounting Policy

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

	2017 $'000	2016 $'000
Current		
Trade receivables	9,743	11,077
	9,743	11,077
Allowance for impairment of receivables	(1,950)	(1,950)
	7,793	**9,127**

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are generally due for settlement within 30 days and therefore are all classified as current.

Impaired trade receivables

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 Statement 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 credited against other expenses.

The ageing of trade receivables is as follows:

	Gross Receivable 2017 $'000	Gross Receivable 2016 $'000
Not past due	5,640	5,419
Past due 0 – 30 days	646	1,949
Past due 31 – 60 days	220	429
More than 60 days	3,237	3,280
	9,743	**11,077**

The movement in the balance of more than 60 days included an amount subject to litigation which SunWater settled in 2017. Remaining balances over 60 days are largely considered recoverable either through insurance or future contract pricing. Balances over 180 days have been provided in the allowance for improvement.

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

	2017 $'000	2016 $'000
At 1 July	1,950	1,650
Allowances added/(written back)	-	300
Carrying amount at 30 June	**1,950**	**1,950**

Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is detailed in note 17.

Fair value and credit risk

Due to the short-term nature of current 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 the Group's risk management policies, refer to note 17.

NOTE 7 INVENTORIES

Accounting Policy

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.

	2017 $'000	2016 $'000
Materials and stores	**2,404**	**2,166**

Inventories used and recognised as an expense during the year ended 30 June 2017 amounted to $2.124m (2016: $2.698m).

NOTE 8 OTHER CURRENT ASSETS

	2017 $'000	2016 $'000
GST receivable	3,225	1,323
Prepayments	1,097	917
Prepaid income tax	2,254	-
Accrued revenue	14,530	15,464
	21,106	**17,704**

Accrued revenue includes water delivered to 30 June but not invoiced and costs recoverable from customers in respect of projects which did not proceed to construction.

Prepaid income tax represents a net income tax receivable position after accounting for monthly PAYG (Pay As You Go) instalments and the provision for income tax for 2016–17.

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

Accounting Policy

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 finance 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 assets' residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period.

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 the Group'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% [5 – 60 years]
Plant and equipment	8% to 33.33% [3 – 12.5 years]
Infrastructure	0.5% to 10% [10 – 200 years]

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 of disposal 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.

Sensitivity analysis is undertaken regarding the impact of possible changes in the significant factors and key assumptions, including weighted average cost of capital (WACC) (refer key estimates and judgements below).

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

	2017 $'000	2016 $'000
At cost or deemed cost		
Land	**7,770**	**7,848**
Buildings and land improvements	19,157	19,167
Accumulated depreciation	(5,700)	(5,436)
Total buildings and land improvements	**13,457**	**13,731**
Plant and equipment	19,870	19,807
Accumulated depreciation	(14,524)	(13,727)
Accumulated impairment	(522)	(522)
Total plant and equipment	**4,824**	**5,558**
Water infrastructure	1,324,224	1,314,419
Accumulated depreciation	(264,544)	(231,669)
Accumulated impairment	(260,823)	(264,071)
Total water infrastructure	**798,857**	**818,679**
Assets under construction	89,395	55,492
Accumulated impairment	(31,964)	(3,740)
Total Assets under construction	**57,431**	**51,752**
Total property, plant and equipment	**882,339**	**897,568**

NOTE 9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Key estimates and judgements

Under the Government's regulated irrigation price path which governs the Group's irrigation water supply revenue, the Group 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 estimates and assumptions concerning the future are made.

The sources for the key estimates and assumptions include:

- Water charges applied to irrigators are regulated by the Queensland Government which subsidises water prices by way of community service obligation payments for the forecast shortfall between revenue raised in accordance with the regulated charges and the estimated efficient costs of storage and distribution of water for irrigation purposes. As the regulated price does not provide for a commercial return on capital, the reduced cash flows substantially impact on the values assigned to the water infrastructure assets.
- The Queensland Competition Authority (QCA), appointed to conduct an independent review and make recommendations to Government on future irrigation water pricing, handed down its final report *SunWater Irrigation Price Review: 2012–17* in May 2012. In June 2012, SunWater's shareholding Ministers directed the Group 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. In June 2016 the Shareholder Minister's provided another direction extending the price path until 30 June 2019. Tariffs increased by CPI only, except for those schemes, or part of schemes, where a CSO was required to fund SunWater's cost. In these instances prices increased by CPI plus $2 (real).
- The cash flow projections used in the Group's model are based on these approved irrigation pricing arrangements and likely future pricing trends.
- The discount rate used to discount the estimated future cash flows included in the value in use calculation is based on the Group's estimated weighted average cost of capital (WACC), provided by QTC. This is considered to include 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. The future cash flows have been discounted using a pre-tax discount rate of 8.1% (2016: 8.4%)
- The net present value of the discounted cash flows is reasonably sensitive to likely changes of the WACC rate applied.
- There is no open market for the sale of water infrastructure assets owned by the Group.
- 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.
- The regulated price path, which reduces the Group's ability for cost recovery, results in larger impairment. A significant increase or decrease in a CSO adjustment would result in a higher or lower value in use and a resulting impairment loss or reversal.

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	Work in progress $'000	Total PP&E $'000
At 1 July 2015						
Cost	7,851	18,543	19,301	1,301,980	51,861	1,399,536
Accumulated depreciation	-	(4,883)	(13,207)	(197,975)	-	(216,065)
Accumulated impairment	-	-	(522)	(224,098)	-	(224,620)
Net book amount	**7,851**	**13,660**	**5,572**	**879,907**	**51,861**	**958,851**
Year ended 30 June 2016						
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)
At 30 June 2016						
Cost	7,848	19,167	19,807	1,314,419	55,492	1,416,733
Accumulated depreciation	-	(5,436)	(13,727)	(231,669)	-	(250,832)
Accumulated impairment	-	-	(522)	(264,071)	(3,740)	(268,333)
Net book amount	**7,848**	**13,731**	**5,558**	**818,679**	**51,752**	**897,568**
Year ended 30 June 2017						
Additions	3	248	1,093	10,682	46,004	58,030
Disposals	(81)	(101)	(61)	(458)	-	(701)
Transfer between classes	-	-	-	-	(12,101)	(12,101)
Depreciation expense	-	(421)	(1,766)	(33,280)	-	(35,467)
Impairment (loss)/write back	-	-	-	3,234	(28,224)	(24,990)
At 30 June 2017						
Cost	7,770	19,157	19,870	1,324,238	89,395	1,460,430
Accumulated depreciation	-	(5,700)	(14,524)	(264,544)	-	(284,768)
Accumulated impairment	-	-	(522)	(260,837)	(31,964)	(293,323)
Net book amount	**7,770**	**13,457**	**4,824**	**798,857**	**57,431**	**882,339**

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:

	2017 Loss/(Reversed) $'000	2017 Recoverable amount $'000
Tinaroo Hydro This CGU comprises all of the water infrastructure assets in the Tinaroo Hydro Electric Power. The impairment loss mainly arises because of an increase in future operating costs. The discount rate used was 8.1% (2016: 8.4%).	2,792	-
Nogoa Mackenzie Water Supply Scheme This CGU comprises all of the water infrastructure assets in the Nogoa Mackenzie Water Supply Scheme. The impairment reversal mainly arises 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 8.1% (2016: 8.4%).	(6,505)	7,899
Other cash generating units – individually were not significant. Recoverable amount is determined as value in use. The discount rate used was 8.1% (2016: 8.4%).	479	15,889
Total	**(3,234)**	**23,788**

	2016 Loss/(Reversed) $'000	2016 Recoverable amount $'000
Nogoa Mackenzie Water Supply Scheme 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%).	41,446	-
Mareeba Dimbulah Water Supply Scheme 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 operations and maintenance program. The discount rate used was 8.4% (2015: 8.9%).	(8,660)	8,770
Other cash generating units – individually were not significant. Recoverable amount is determined as value in use. The discount rate used was 8.4% (2015: 8.9%).	7,187	73,679
Total	**39,973**	**82,449**

The Group's cash generating units are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The SunWater Group contains 33 cash generating units based on the cash flows from water supply systems and pipelines that are independent of each other.

Work in progress

Work in progress against which significant impairment losses were recognised (or reversed) during the financial year are:

	Loss/(Reversed) $'000	Recoverable amount $'000
At 30 June 2017		
Paradise Dam safety improvements	24,264	-
Burdekin Dam safety improvements	3,960	-
Total	**28,224**	**-**
At 30 June 2016		
Paradise Dam safety improvements	3,740	-

In accordance with the Dam Safety Improvement Program (DSIP), SunWater is in the process of upgrading Paradise Dam and the foundation drainage system at Burdekin Falls Dam. The above costs for Paradise Dam represent the expenditure incurred to 30 June 2017 by Burnett Water Pty Ltd, a wholly owned subsidiary. As the dam safety upgrade will not generate any additional revenue, the DSIP costs are considered to be impaired at the time incurred. Other work in progress projects are not assessed for impairment until project completion or more certainty of cost recoverability is known. This is assessed on a project by project basis.

NOTE 10 INTANGIBLE ASSETS

Accounting Policy

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% to 33%.

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.

	2017 $'000	2016 $'000
At cost or deemed cost		
Software	30,344	30,411
Accumulated amortisation	(22,262)	(19,876)
Accumulated impairment	(359)	(359)
Total software	**7,723**	**10,176**
Trade names	**8**	**8**
Water allocations	58,147	58,147
Accumulated impairment	(48,938)	(48,165)
Total water allocations	**9,209**	**9,982**
Total intangible assets	**16,940**	**20,166**

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 impairment is recognised in the Statement of Comprehensive Income.

Key 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.

At 1 July 2015				
Cost	33,030	8	58,147	91,185
Accumulated amortisation	(20,391)	-	-	(20,391)
Accumulated impairment	(359)	-	(48,165)	(48,524)
Net book amount	**12,280**	**8**	**9,982**	**22,270**
Year ended 30 June 2016				
Additions – at cost	504	-	-	504
Disposals/retirements	(7)	-	-	(7)
Amortisation expense	(2,601)	-	-	(2,601)
At 30 June 2016				
Cost	30,411	8	58,147	88,566
Accumulated amortisation	(19,876)	-	-	(19,876)
Accumulated impairment	(359)	-	(48,165)	(48,524)
Net book amount	**10,176**	**8**	**9,982**	**20,166**
Year ended 30 June 2017				
Additions – at cost	139	-	-	139
Disposals/retirements	(106)	-	-	(106)
Amortisation expense	(2,486)	-	-	(2,486)
Impairment loss	-	-	(773)	(773)
At 30 June 2017				
Cost	30,344	8	58,147	88,499
Accumulated amortisation	(22,262)	-	-	(22,262)
Accumulated impairment	(359)	-	(48,938)	(49,297)
Net book amount	**7,723**	**8**	**9,209**	**16,940**

NOTE 11 TRADE AND OTHER PAYABLES

Accounting Policy

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting date.

	2017 $'000	2016 $'000
Trade creditors	6,749	5,127
Other creditors and accruals	15,601	16,516
	22,350	**21,643**

NOTE 12 PROVISIONS

Accounting Policy

Provisions for certain types of repairs, legal costs and restructuring are recognised when:

- the Group 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 can be reliably estimated.

Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. 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. Provisions for dam safety improvements are measured following Board Approval and the scope of works have progressed to contractual arrangements from which a reliable measure can be derived. Where there is still uncertainty around the timing or amount, it will be disclosed as a contingent liability.

	Notes	2017 $'000	2016 $'000
Current			
Employee benefits		3,628	3,729
Natural disaster repairs		-	14,507
Legal costs		-	1,550
Infrastructure investigations and repairs		-	136
Dam safety improvements		47,078	29,533
Restructuring costs		1,757	2,423
Income tax		-	15,847
Return of contributed equity		-	130,000
Dividends	14	-	159,009
		52,463	**356,734**
Non-current			
Land commitment		1,246	1,237
		1,246	**1,237**

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 provision is presented as current as the Group does not have an unconditional right to defer settlement for at least 12 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 or an employee's choice 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. The Group'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.

Legal costs

The provision represents management's best 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 best 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 best estimate of the present constructive obligation for the costs to carry out dam safety improvement works.

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.

Key estimates and judgements

Natural disaster repairs

The Group's water infrastructure suffered damage in late 2010, early 2011, early 2013 and March 2017 due to the impact of widespread flooding and cyclones. If management are able to reliably estimate the damage, the provision represents the present constructive obligation to repair damage incurred but not rectified as at 30 June 2017. Remedial works are expected to be carried out within the next financial year.

Restructuring

The provision represents management's best estimate of the present constructive obligation for costs associated with local management arrangements for the Group'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 with the establishment of special purpose vehicle companies. The final due diligence is being carried out and transition is subject to reaching final agreement on the terms and conditions of that transfer with the Government by 31 October 2017.

Interim Boards have been established for the Bundaberg, Burdekin-Haughton, Lower Mary and Mareeba-Dimbulah schemes to determine the suitability of transitioning to LMA and prepare revised business proposals by 31 October 2017 for Government consideration on whether the schemes are ready to commence transition to LMA.

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 safety improvements $'000	Restructuring $'000	Income tax $'000	Land commmitment $'000
Carrying amount at 1 July 2016	14,507	1,550	136	29,533	2,423	15,847	1,237
Provisions added/(written back)	(10,534)	(1,550)	(136)	65,274	144	16,071	-
Payments made during the year	(3,973)	-	-	(47,729)	(810)	(31,918)	9
Carrying amount at 30 June 2017	**-**	**-**	**-**	**47,078**	**1,757**	**-**	**1,246**

NOTE 13 OTHER LIABILITIES

	2017 $'000	2016 $'000
Current		
Deposits payable	5,740	979
Unearned annuity	13,693	11,504
Deferred income	8,582	7,210
Rent incentive	310	310
Other	14	12
	28,339	**20,015**
Non-current		
Deferred income	152,823	160,033
Rent incentive	156	466
	152,979	**160,499**

Deposits Payable

Deposits payable consist of customer securities for supply contracts entered into with SunWater and are refundable at the completion of the contract.

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, the Group 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, the Group 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.

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, The Group utilises an annuity approach for the irrigation sector.

Deferred Income

A customer paid in advance $180.25m in accordance with the contract for water transportation. This amount is included in deferred income split between current and non current and is being amortised over the life of the contract.

NOTE 14 CAPITAL MANAGEMENT

Risk management

The Group'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, subject to Government's policy and directive.

The Group 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.

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

	2017 $'000	2016 $'000
Total borrowings	284,162	245,710
Total equity	455,012	418,964
Total capital	**739,174**	**664,674**
Market gearing ratio	38%	37%

Market gearing ratio

The Group's current ratio at 30 June 2017 is 0.83 (2016: 0.74). The prior year was significantly impacted by the recognition of the special dividend and repayment of capital in total of $289.009m due to shareholding Ministers by 30 November 2016 (refer notes 15 and 16).

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.
- During 2017, SunWater requested S&P to review its credit rating position. This reflects a standalone credit profile of BBB+. S&P equalised the SunWater credit rating to the State of Queensland AA+/Stable/A-1+.
- 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% 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 2017, the EBITDA Interest Coverage was 8.55 times (2016: 6.92 times).

DIVIDENDS

Accounting Policy

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.

	2017 $'000	2016 $'000
Ordinary shares		
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**

(a) Dividends Paid

In the prior year, 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% of 2015–16 adjusted audited consolidated operating profit after tax.

Shareholding Ministers confirmed that this is appropriate. Payment was made on 28 November 2016.

(b) Dividends Declared

In June 2017, the shareholding Ministers directed SunWater not pay a dividend for the 2016–17 financial year.

NOTE 15 CONTRIBUTED EQUITY

Accounting Policy

Ordinary shares are classified as equity. The amounts of any capital returns or injections are applied against contributed equity.

	2017 $'000	2016 $'000
Share capital		
Issued and paid up capital:		
2 ordinary shares of $125.1345m each	**250,269**	**250,269**

	Number of shares $'000	Contribution per share $'000	Total $'000
Movements in ordinary share capital			
Closing balance 30 June 2016	2	125,134	250,269
Closing balance 30 June 2017	**2**	**125,134**	**250,269**

In June 2017 the Queensland State Government announced a commitment to invest $100m as an equity injection for capital improvement works at the Burdekin Falls Dam for the Saddle Dams and Monolith project. The investment is expected to be made after the preparation of a business case in accordance with the *Investment Guidelines for Government Owned Corporations* and will be accounted as equity when it is received.

NOTE 16 BORROWINGS

Accounting Policy

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 drawdown 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.

	2017 $'000	2016 $'000
Unsecured		
QTC loan	284,162	245,710
	284,162	**245,710**
Represented by:		
Current	1,015	2,381
Non-current	283,147	243,329
	284,162	**245,710**

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 previously been sourced from the SunWater and Woleebee Client Specific Pools. An approved borrowing program of $100m was in place for 2016–17 (nil 2015–16) of which SunWater made a drawdown of $40m.

During the year, SunWater signed a new loan mandate with QTC which lengthened the loan portfolio duration resulting in a reduced borrowing rate. In addition, the Woleebee Client Specific Pool was merged into a single SunWater portfolio linked loan. The merge of the two loans did not give rise to a market realisation charge as the terms and product of the loan did not substantially change and give rise to a debt extinguishment event.

NOTE 16 BORROWINGS (CONTINUED)

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 eight year term.

The Group has maintained the financial covenants as required under its borrowing facilities during the 2017 and 2016 reporting period (refer note 14).

The Group has a rolling $50.0m 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 2017 (2016: undrawn).

Fair Value

	2017		2016	
	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	284,162	304,758	245,710	272,984

The difference between carrying amount and fair value represents the market realisation adjustment on borrowings from QTC. Generally, the 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 Statement of Comprehensive Income

NOTE 17 FINANCIAL RISK MANAGEMENT

The Group'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 the Group'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. The Group 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, a counterparty credit rating analysis for credit risk and a contracts aging analysis for liquidity risk. The Board has endorsed written principles for overall risk management, as well as policies covering specific areas, such as mitigating interest rate and credit risk, use of derivative financial instruments and investment of liquid assets.

(a) Market risk

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 the Group does not operate internationally, on occasion, the Group may source plant and equipment or components of water infrastructure assets internationally and become exposed to foreign exchange risk. The Board has approved policies to manage foreign exchange risk. The Group 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 2016–17, the Group 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 2016–17, the Group had no significant exposure to price risk.

Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, whereas borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group manages its interest rate risk in consultation with QTC in accordance with policies approved by the 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. The Group 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.

		2017 INTEREST RATE RISK			
		–1%		+1%	
Financial Instruments	Carrying amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Cash	50,220	(1,496)	(1,496)	1,496	1,496
QTC borrowings	284,162	3,222	3,222	(3,222)	(3,222)
Overall effect on profit and equity		**1,726**	**1,726**	**(1,726)**	**(1,726)**

		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)**

(b) Credit risk

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

During 2016–17, the Group 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	2017 $'000	2016 $'000
Cash at bank and at call invested in Australian institutions rated AA- or higher *	5	54,851	149,743
Held-to-maturity investments in Australian institutions rated A- to A+ *	5	-	50,476
Held-to-maturity investments in Australian institutions rated AA- or higher *	5	-	65,545
Other cash and cash equivalents	5	4	4
Receivables – current	6	7,793	9,127
		62,648	**274,895**

** Inclusive of accrued interest.*

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

Deferred tax assets and liabilities have been offset and presented net in the Consolidated Statement of Financial Position. Refer to note 4 for the individual balances.

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 17 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Liquidity risk management within the Group ensures sufficient cash is available to meet short-term and long-term financial commitments. The Group has policies in place to manage liquidity risk. The Group 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 the Group's commitments as they arise.

The Group had an approved borrowing program of $100m during 2016–17. The Group 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, and is repayable on demand. The Group also has potential to drawdown further on its Portfolio Linked Loan that is in place.

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

2017	Carrying amount $'000	Less than 1 year $'000	1 – 5 years $'000	Over 5 years $'000	Total cash flows (contractual) $'000
Payables	22,350	22,350	-	-	22,350
Borrowings – QTC *	284,162	12,416	49,597	283,147	345,160
Deposits payable	5,740	5,708	32	-	5,740
	312,252	**40,474**	**49,629**	**283,147**	**373,250**

2016	Carrying amount $'000	Less than 1 year $'000	1 – 5 years $'000	Over 5 years $'000	Total cash flows (contractual) $'000
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**

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

NOTE 18 INVESTMENT IN SUBSIDIARIES

The Group's principal subsidiaries are set out below:

Name of entity	Country of incorporation	Class of shares	EQUITY HOLDING 2017 %	EQUITY HOLDING 2016 %
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 19 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities are as follows:

	2017 $'000	2016 $'000
ICT projects	378	332
Water infrastructure projects	23,209	14,401
	23,587	**14,733**
Payable:		
Within one year	**23,587**	**14,733**

(b) Non-cancellable operating leases

	2017 $'000	2016 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	3,812	3,669
Later than one year but not later than five years	6,955	10,542
	10,767	14,211

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

The Group leases property under non-cancellable operating leases expiring from one to ten years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated.

Future projects and acquisitions

The Group has made in-principle commitments to investigate certain capital projects. In 2017 the Group applied for capital funding under the National Water Infrastructure Development Program – Capital Works Program for two channel efficiency projects located in Emerald ($17m) and Mareeba ($28m). Both projects would implement channel upgrades in the form of lining, regulator gates, offstream storages and other works to prevent distribution losses and subsequent conversion of loss allocations into saleable entitlements. Funding award will be decided by the Commonwealth Government in July 2017.

Details of SunWater's Dam Safety Improvement Program are disclosed in note 20.

NOTE 20 DAM SAFETY IMPROVEMENT PROGRAM

The Group 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, which is undergoing a full portfolio risk assessment in August 2017 which may change the timing and quantum of the DSIP.

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), Kinchant and Eungella dams (2015) and Fairbairn Dam spillway 2:1 slope safety improvement (2016). DSIP projects currently under construction include Paradise Dam strengthening of monolith (due for completion October 2017), Boondooma Dam (due October 2017), Burdekin Dam drain and spillway improvement (due December 2017) and Fairbairn Dam spillway improvement (due October 2018). A further 16 projects comprise the DSIP.

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. The improvements are estimated to be completed by December 2027 which includes an estimate of cost for each improvement. At this stage, the total of these cost estimates is $902m, with schedule and cost accuracy likely to improve as projects progress into detailed design. If required, the State Government has confirmed its funding support for these projects.

NOTE 21 CONTINGENCIES

SunWater had contingent assets and liabilities at 30 June 2017 in respect of:

Contingent Liabilities

(a) In March 2017, Cyclone Debbie made landfall between Bowen and Airlie Beach and tracked southward. The identified damage is approximately $3.7m but requires further assessment to quantify the full extent.

(b) Fred Haigh Dam suffered flood damage during 2013. Since the damage, SunWater has carried out engineering assessments to ascertain the damage and the scale of works required to rectify it. Insurers have conducted site visits and their assessment concluded that it will not be insured until the asset is repaired. As at 30 June there was no present obligation to finalise the works.

(c) 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. 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.

(d) 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.

(e) 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.

(f) SunWater has issued bank guarantees of $0.4m as security against operations and maintenance service agreements. At the date of this report, there are no known claims or circumstances which would give rise to a claim under the guarantee.

(g) 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.

(h) At 30 June 2017, 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.

Contingent Assets

a) 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 $1m from insurance proceeds has been taken up in the Statements of Comprehensive Income for the year ended 30 June 2017 (2016: $13m, 2015: $3m). The remainder of the claim is under negotiation.

b) SunWater holds a number of bank guarantees in the event of non-payment of services.

NOTE 22 SUBSEQUENT EVENTS

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 23 REMUNERATION OF AUDITORS

During the year, fees of $170,000 (2016: $164,000) 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 24 RELATED PARTY TRANSACTIONS

(a) Parent entities

The parent entity within the Group is SunWater Limited. The ultimate Australian controlling entity is the State of Queensland which at 30 June 2017 owned 100% (2016: 100%) of the issued ordinary shares of SunWater Limited.

(b) Transactions with related parties

All State of Queensland controlled entities meet the definition of a related party in AASB 124 *Related Party Disclosures.* In its normal commercial business activities, the Group 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 2017, the following significant transactions occurred between the Group and other State of Queensland controlled entities.

	2017 $'000	2016 $'000
Dividends declared	-	159,009
Return of capital	-	130,000
Interest received from QTC	2,693	2,983
Water sales, CSO, grants received	38,245	35,225
Consultancies paid	2,454	2,146
Interest/market realisation fee paid to QTC	15,005	20,025

(c) Transactions with subsidiaries

Interests in subsidiaries are set out in note 18. All transactions with subsidiaries are carried out under normal commercial terms and conditions or at cost. No transactions occurred between subsidiaries, other than with the parent.

During the year ended 30 June 2017, the following significant transactions occurred between the parent entity and its subsidiaries:

	2017 $'000	2016 $'000
Sales of water to subsidiaries	4,405	4,630
Sales of services to subsidiaries	34,865	15,925
Interest received from subsidiaries	708	337
Interest paid to subsidiaries	203	226
Current tax (payable)/receivable from tax consolidated subsidiaries	(3,846)	2,694
Dividends received from subsidiaries	12,000	10,000
Loan (advance)/received to/from subsidiaries	7,000	(17,733)

NOTE 24 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management personnel

i. Directors

The following persons were Directors of SunWater Limited during the financial year:

Chairman

Ms Leith Boully

Non-executive Directors

Mr Neville Ide

Ms Patrice Sherrie

Ms Moya Steele

Mr David Stewart

Ms Vanessa Sullivan (appointed 15 December 2016)

ii. Directors contracts

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

Terms of appointment are as follows:

Directors as at 30 June 2017	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
Vanessa Sullivan	2 years 6 months	30 September 2019

iii. Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling activities of the Group, directly or indirectly, during the financial year:

Name of Executives	Position
Nicole Hollows	Chief Executive Officer
John Hooper (1)	Executive General Manager, Customers and Corporate Services
Colin Bendall (2)	Executive General Manager, Operations and Services
Alex Fisher	Executive General Manager, Asset Strategy and Delivery
Geoff White (3)	General Manager, Corporate
Tom Vanderbyl (4)	General Manager, Bulk Water and Irrigation Systems
John Stubbs (5)	Interim Chief Financial Officer

(1) Mr Hooper was appointed as General Manager, Customers and Corporate Services on 18 July 2016 and resigned on 05 May 2017.

(2) Mr Bendall was appointed as Executive General Manager, Operations and Services on 03 January 2017.

(3) Mr White resigned as General Manager, Corporate on 01 July 2016.

(4) Mr Vanderbyl resigned as General Manager, Bulk Water and Irrigation Services on 26 August 2016.

(5) Mr Stubbs was appointed as Interim Chief Financial Officer on 29 May 2017.

iv. Shareholding Ministers

The GOC's shareholding Ministers are identified as part of the GOC's key management personnel and these Ministers are the Honourable Mark Bailey Minister for Main Roads, Road Safety and Ports and Minister for Energy, Biofuels and Water Supply; and The Honourable Curtis Pitt Treasurer and Minister for Trade and Investment. On 11 August 2017, it was published in the Government Gazette that the Honourable Dr Anthony Lynham MP, Minister for State Development and Minister for Natural Resources and Mines was nominated to be portfolio Minister for SunWater.

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.

v. Key management personnel compensation disclosures by category

Category	2017 $'000	2016 $'000
Short-term employee benefits – cash salary	1,884	1,812
Short-term employee benefits – cash bonus	89	183
Post-employment benefits – superannuation	108	139
Termination benefits	123	389
Total	**2,204**	**2,523**

Detailed remuneration disclosures can be found in sections (vi) and (vii).

vi. Compensation – Directors

	Short-term employee benefits		Post-employment benefits	
Name of Director	Cash salary $'000	Cash bonus $'000	Superannuation $'000	Total $'000
2017				
Leith Boully, Chair (1)	113	-	12	125
Neville Ide	44	-	4	48
Patrice Sherrie	48	-	4	52
Moya Steele	38	-	4	42
David Stewart	40	-	4	44
Vanessa Sullivan (appointed 15 December 2016)	20	-	2	22
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

(1) Cash salary included fees paid for taking on the role of Executive Chairman for the period November 2016 to February 2017.

Directors' remuneration excludes insurance premiums (exclusive of GST) of $163, 275 (2016 – $145,056) 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 24 RELATED PARTY TRANSACTIONS (CONTINUED)

vii. Compensation – Executives

	Short-term employee benefits		Post-employment benefits	Termination	
Name and Title of Executive	Cash salary $'000	Cash bonus[1] $'000	Superannuation $'000	Benefits $'000	Total $'000
2017					
Nicole Hollows, Chief Executive	558	-	20	-	578
John Hooper[2], Executive General Manager, Customers and Corporate Services	282	-	21	123	426
Colin Bendall[3], Executive General Manager, Operations and Services	120	-	10	-	130
Alex Fisher, Executive General Manager, Asset Strategy and Delivery	307	21	19	-	347
John Stubbs[6], Interim Chief Financial Officer	21	-	2	-	23
Geoff White[4], General Manager, Corporate	169	38	1	-	208
Tom Vanderbyl(5), General Manager, Bulk Water and Irrigation Systems	124	30	5	-	159

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

(2) Mr Hooper was appointed as General Manager, Customers and Corporate Services on 18 July 2016 and resigned on 05 May 2017. Cash salary includes leave entitlement payout.

(3) Mr Bendall was appointed as Executive General Manager, Operations and Services on 03 January 2017.

(4) Mr White resigned as General Manager, Corporate on 01 July 2016. Cash salary includes leave entitlements payout.

(5) Mr Vanderbyl resigned as General Manager, Bulk Water and Irrigation Services on 26 August 2016. Cash salary includes leave entitlements payout.

(6) Mr John Stubbs was appointed as Interim Chief Financial Officer on 29 May 2017.

	Short-term employee benefits		Post-employment benefits	Termination	
Name and Title of Executive	Cash salary $'000	Cash bonus[1] $'000	Superannuation $'000	Benefits $'000	Total $'000
2016					
Peter Boettcher[2], Chief Executive	561	74	15	352	1,002
Nicole Hollows[3], Chief Executive	95	-	4	-	99
Geoff White, General Manager, Corporate	294	36	37	-	367
Tom Vanderbyl, General Manager, Bulk Water and Irrigation Systems	271	30	33	-	334
Alex Fisher[4], General Manager, Asset Delivery	148	-	12	-	160
Tim Donaghy[5], General Manager, Industrial Pipelines	214	43	17	37	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. Cash salary includes leave entitlements payout.

(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. Cash salary includes leave entitlements payout.

viii. Executive employment contracts

The Board Remuneration Committee reviews Senior Executive performance six 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).

Remuneration and other terms of employment are formalised in each executive's Senior Executive Employment Agreement. SunWater executives receive a Total Fixed Remuneration (TFR) inclusive of all rewards including base salary and superannuation for 2017 financial year. 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. There was no entitlement for a bonus in 2016–17. The descision to provide a bonus entitlement is at the Board's discretion.

ix. Compensation – shareholder Ministers

Ministerial remuneration entitlements are outlined in the Legislative Assembly of Queensland's Members' Remuneration Handbook. The GOC does not bear any cost of remuneration of Ministers. The majority of Ministerial entitlements are paid by the Legislative Assembly, with the remaining entitlements being provided by Ministerial Services Branch within the Department of the Premier and Cabinet. As all Ministers are reported as KMP (Key Management Personnel) of the Queensland Government, aggregate remuneration expenses for all Ministers is disclosed in the Queensland General Government and Whole of Government Consolidated Financial Statements as from 2016–17, which are published as part of Queensland Treasury's Report on State Finances.

(e) Other transactions with key management personnel

A Director of the Group was also a Director of another organisation which had transactions with the Group. All transactions in the year ended 30 June 2017 between the Group the organisation were on normal commercial terms and conditions.

NOTE 25 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The following aggregate amounts are disclosed in respect of the Parent entity, SunWater Limited:

	2017 $'000	2016 $'000
FINANCIAL PERFORMANCE		
Revenue from continuing operations	281,000	255,833
Other income	7,072	21,114
Dividends received from subsidiaries	12,000	10,000
Expenses from continuing operations	(222,341)	(244,180)
Operating profit	**77,731**	**42,767**
Finance costs	(15,346)	(16,134)
Profit before tax	**62,385**	**26,633**
Income tax equivalents expense	(14,805)	(4,458)
Profit for the year	**47,580**	**22,175**
Other comprehensive income	-	-
Total comprehensive income for the year	**47,580**	**22,175**
FINANCIAL POSITION		
Current Assets	85,101	266,575
Non-Current Assets	865,252	885,100
Total Assets	**950,353**	**1,151,675**
Current liabilities	117,680	398,849
Non-current liabilities	449,392	417,125
Total Liabilities	**567,072**	**815,974**
Net Assets	**383,281**	**335,701**
EQUITY		
Issued Capital	250,269	250,269
Retained Earnings	133,012	85,432
Total Equity	**383,281**	**335,701**

(b) Investment in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial report of SunWater Limited.

	2017 $	2016 $
North West Queensland Water Pipeline Pty Ltd	2	2
Eungella Water Pipeline Pty Ltd	2	2
Burnett Water Pty Ltd	2	2
	6	6

(c) Guarantees entered into by the Parent entity

At 30 June 2017, SunWater had issued bank guarantees of $0.4m as security against operations and maintenance service agreements. At the date of this report, there are no known claims or circumstances which would give rise to a claim under the guarantee.

(d) Contingent liabilities of the Parent entity

All contingent liabilities referred to in note 21 relate to Parent entity, SunWater Limited.

NOTE 26 SUMMARY OF OTHER ACCOUNTING POLICIES

(a) 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 2017 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 *Financial Instruments (AASB 2009–11 and AASB 2010-7)*

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.

The Group has decided not to early adopt this standard and when the standard is adopted, the restatement of prior year comparatives is not required. 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 2018)

The core principle of *AASB 15 Revenue from Contracts with Customers* is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to the customer. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services.

While the Group 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 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.

The Group has non-cancellable operating leases (refer note 19) which, upon adoption of AASB 16, are expected to be included on the statement of financial position. The Group 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.

There are no other standards that are not yet effective and that would be expected to have material impact on the entity in the current or future reporting periods and or foreseeable future transactions.

(b) 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 statement of financial position.

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.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 42 to 78 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date, and

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

The financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

L BOULLY
Chairman

P SHERRIE
Director

Brisbane, Qld
23 August 2017

INDEPENDENT AUDITOR'S REPORT

To the Members of SunWater Limited

Report on the Financial Report

Opinion

I have audited the accompanying financial report of SunWater Limited and its controlled entities (the group).

In my opinion, the financial report:

a) gives a true and fair view of the group's financial position as at 30 June 2017, and its financial performance and cash flows for the year then ended

b) complies with the *Corporations Act 2001*, the *Corporations Regulations 2001* and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the directors' declaration.

Basis for opinion

I conducted my audit in accordance with the Auditor-General of Queensland Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*. I am also independent of the group in accordance with the auditor independence requirements of the *Corporations Act 2001*, and confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. I addressed these matters in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Carrying value of property, plant and equipment (water infrastructure assets)

Refer to note 9 of the financial statements

Key audit matter	How my audit addressed the key audit matter
Significant judgment is required by management in the determination of the carrying value of property, plant and equipment (water infrastructure assets), which due to prior impairments, is highly sensitive to changes in inputs. The key assumptions used in the financial model include: – Allocating assets to cash generating units that are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. – Irrigation pricing arrangements including likely future pricing trends. – Estimating future capital expenditure and operating costs. – The discount rate applied to forecast cash flows.	My procedures in relation to management's assessment of the carrying value of property, plant and equipment (water infrastructure assets) included, but were not limited to: – Obtaining an understanding of the discounted cash flow model, and assessing its design, integrity and appropriateness with reference to common industry practices. – Evaluating whether the cash generating units used by management are consistent with the entity's internal reporting and our understanding of the business. – Checking, on a sample basis, the accuracy and relevance of the input data used, including reconciling input data to supporting evidence such as approved budgets. – Assessing the reasonableness of cash flow forecasts by corroborating the key market related assumptions to relevant internal and external data. The reasonableness of board approved budgets was assessed with reference to their historical accuracy and the budget preparation process. – Evaluating whether the discount rate applied was within a reasonable range, with reference to market data and industry research. – Challenging the reasonableness of key assumptions based on our knowledge of the entity and industry. – Performing a sensitivity analysis to assist in considering the potential impact of reasonably possible changes (downside/upside) in these key assumptions. – Verifying the mathematical accuracy of the net present value calculations.

Useful lives estimated for depreciation expense for property, plant and equipment (water infrastructure assets))

Refer to note 9 of the financial statements

Key audit matter	How my audit addressed the key audit matter
The straight-line depreciation method used by SunWater required significant judgements for: – Identifying the significant parts of infrastructure that have different useful lives. – Forecasting the remaining useful lives of those significant parts.	My procedures included, but were not limited to: – Evaluating management's approach for identifying the parts of water infrastructure that have different useful lives, having regard to recent replacement projects and long-term asset management plans. – Evaluating remaining useful life estimates for reasonableness with reference to management's documented assessments, historical disposal rates, condition assessments for older assets, and long-term asset management plans and budgets.

Other information

Other information comprises the information included in the company's annual report for the year ended 30 June 2017, but does not include the financial report and my auditor's report thereon.

The company's directors are responsible for the other information.

At the date of this auditor's report, the other information that the company's directors had approved was the directors' report.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information approved by the company's directors and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the company for the financial report

The company's directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with the Corporations Act 2001, the Corporations Regulations 2001 and Australian Accounting Standards, and for such internal control as the company's directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The company's directors are also responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the group.
- Conclude on the appropriateness of the group's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor’s report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the audit of the group. I remain solely responsible for my audit opinion.

I communicate with the company's directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the company's directors I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters

R Vagg

QUEENSLAND
29 AUG 2017
AUDIT OFFICE

R VAGG
as delegate of the Auditor-General

Queensland Audit Office
Brisbane