

SUNWATER  
ANNUAL  
REPORT  
2011-2012



# TABLE OF CONTENTS

|  |    |
|--|----|
| CEO AND CHAIR'S REPORT .....             | 1  |
| PRINCIPAL ACTIVITIES .....               | 2  |
| REVIEW OF OPERATIONS .....               | 2  |
| KEY PERFORMANCE INDICATORS .....         | 7  |
| ORGANISATIONAL STRUCTURE .....           | 9  |
| SUNWATER BOARD .....                     | 10 |
| SUNWATER MANAGEMENT .....                | 11 |
| DIRECTOR'S REPORT .....                  | 12 |
| Auditor's Independence Declaration ..... | 14 |
| FINANCIAL REPORT .....                   | 15 |
| Notes to the Financial Statements .....  | 20 |
| Director's Declaration .....             | 48 |
| Independent Auditor's Report .....       | 49 |
| CORPORATE GOVERNANCE .....               | 51 |
| COMPLIANCE IN KEY AREAS .....            | 54 |
| Subsidiary Reporting .....               | 56 |
| Government Directives .....              | 56 |
| KEY STATISTICS: SCHEME SUMMARY .....     | 57 |
| SunWater Dams – Summary Statistics ..... | 60 |

# CEO AND CHAIR'S OUTLOOK

Over the next five years, SunWater will target an increased role in facilitating, developing and maintaining our State's key water infrastructure – business strengths well appreciated by our clients, stakeholders, our industry and our shareholders. In this regard, SunWater will develop new business models, new skills, and new relationships with the private sector and our clients. This has and will continue to be achieved with a strong focus on ensuring that the commercial models adopted are fully supported by appropriate governance and risk management measures.

In recent years, SunWater has implemented significant and sustainable savings and business efficiency improvements through its smarter, lighter faster initiative. SunWater has also moved to identify and implement further efficiency improvements from 2012-13 which will actively contribute to Government's commitment to delivering savings.

SunWater will work closely with shareholders and staff to ensure the organisation is right sized and aligned with the significant program of work targeted for delivery. New reporting and consultation arrangements between SunWater and shareholding Minister representatives are also being developed and agreed.

SunWater will continue to improve the utilisation and efficiency of existing water assets and will implement the 2012-17 irrigation water price path and the associated cost savings in full. SunWater is reviewing past work programs and is in the process of implementing changes to ensure its operations are run as efficiently as possible without adversely affecting the standard of service being delivered.

By delivering water infrastructure projects that service the resources and industrial sectors, SunWater will strengthen its position as Queensland's premier regional bulk water infrastructure provider and maximise the returns to its shareholders. Ensuring the safety of our workforce, contractors and the general public will also remain a key priority for us to deliver on our 'No Harm' commitment.

We will continue to work with our existing and new mining customers to provide innovative regional bulk water infrastructure solutions to meet their project water demands and timelines.

On the irrigation front SunWater is participating in a review into the future management of SunWater's eight distribution channel systems. This is a result of concerns expressed by the irrigation industry over the long-term sustainability of the irrigation industry, during the course of the QCA's Pricing Review of SunWater's Irrigation Water Prices 2012-2017. In response to those concerns, in July 2012 the Queensland Government announced an investigation to be undertaken by an independent chair and a working group with representatives from SunWater, local and peak irrigation bodies, and local irrigator representatives.

We are confident of our capabilities to meet any challenges in the year ahead and that we are well placed to deliver significant and strategic outcomes for our staff, customers, communities, stakeholders and shareholders.

As the Chair and the CEO we thank all SunWater staff and suppliers for their efforts in delivering the company's objectives and goals. We particularly thank the previous Chair and Deputy Chair in Mr Scott Spencer and Ms Jane Bertelsen for their significant contributions and their strong stewardship of the company during their time as directors.

## PRINCIPAL ACTIVITIES

*SunWater owns and manages water infrastructure assets and provides bulk water supply services to commercial operators primarily located in Queensland. We also provide a full range of facility and water management services to other water supply asset owners.*

SunWater's core business includes, but is not limited to:

- bulk water storage and distribution
- water treatment, reticulation and drainage
- water infrastructure development
- water facilities management
- customer water account management and billing
- flood hydrology, hydraulics and flood management
- specialist consultancy services including design and design review services.

## KEY BUSINESS

The main operating companies within SunWater and their activities include:

- **SunWater Limited** owns, operates, directly develops and facilitates the development of bulk water supply infrastructure. Assets include 18 major dams, 63 weirs, 80 major pumping stations, 2,500 kilometres (km) of pipelines and open channels and 730 km of drains.
- **Eungella Water Pipeline P/L (EWP)** owns and operates a 123 km-long pipeline and associated pumping equipment that transports water from Eungella Dam near Mackay to Moranbah principally for use by the mining industry. EWP also owns and operates 116 km of Eastern and Southern Spur pipelines that take water from the Eungella Water Pipeline and the new Burdekin-Moranbah Pipeline to coal mines and related users in the northern Bowen Basin.
- **North West Queensland Water Pipeline P/L (NWQWP)** owns and operates a 113 km-long pipeline and associated pumping equipment that transports water from Lake Julius near Mt Isa to the Ernest Henry Mine and a number of rural users. NWQWP also owns and operates the Cloncurry Pipeline, a 38 km extension pipeline from the NWQWP to the township of Cloncurry for domestic and industrial supply.
- **Burnett Water P/L (BW)** owns and operates Paradise Dam and Kirar Weir in the Burnett River catchment and some 150,880 megalitres (ML) of water allocations which are being offered for sale/lease.

## REVIEW OF OPERATIONS

SunWater's key objectives are structured around being both commercially successful in the conduct of its activities and efficient in delivering its community service obligations.

## KEY RESULT AREAS

SunWater targets improvements across the six key result areas (KRAs) of:

1. Revenue growth – growing SunWater's payments received from customers in exchange for products and services delivered.
2. Operating margin – reducing the costs of providing goods and services.
3. Capital efficiency – maintaining appropriate value of capital used in running the business relative to the company's level of revenues.
4. Corporate responsibility – meeting or exceeding the organisation's responsibilities and contributions to the community, environment and employees.
5. Organisational effectiveness – improving the effectiveness of management, governance and delivery of business operations.
6. External stakeholder relations – improving the confidence of external stakeholders in SunWater's ability to deliver on business operations.

SunWater achieved corporate and operational performance outcomes, including:

## KRA 1: Revenue Growth

**Consider the implications of Queensland Competition Authority (QCA) process cost allocation outcomes for the business, including non-irrigation customer arrangements, and negotiate future prices accordingly.**

SunWater continues to re-negotiate revenues from commercial pipelines and urban water contracts within contract terms as review periods fall due, and ensures returns reflect QCA cost allocation outcomes.

**Progress business case development for, and approval and construction of, water infrastructure development projects in line with schedules.**

SunWater maintains a significant program of water infrastructure development works on its books. Major projects progressed during the year included:

### KENYA TO CHINCHILLA WEIR PIPELINE PROJECT

**PROJECT PURPOSE:** QGC contracted SunWater to build, own, operate and maintain a pipeline to transport treated coal seam gas (CSG) water from QGC's Treatment Plant to the Chinchilla Weir. The pipeline provides treated CSG water for the agricultural community along the pipeline and Condamine River, within the boundaries of the Chinchilla Weir Water Supply Scheme. The project will supplement the town of Chinchilla's current water supply from the Chinchilla Weir.

**PIPELINE LENGTH:** 20km

**PIPELINE CAPACITY:** Transport capacity approximately 36,500ML/annum.

#### **TIMING:**

- Pipeline construction completed in December 2011.
- Pipeline to receive initial supply from QGC for customers along the pipeline route by late 2012.
- Pipeline expected to be receiving treated water from QGC by April 2013.

**COST:** \$55m

**BENEFITS:** The pipeline is the first of its kind in Queensland to deliver a beneficial use of treated CSG water for agricultural purposes and to provide additional water for the township of Chinchilla.

**PROGRESS:** Pipeline construction is complete with only wet commissioning works remaining. This will be performed in two stages culminating in pipeline commissioning around April 2013, following commissioning of QGC's Kenya water treatment plant.

### LOWER FITZROY RIVER INFRASTRUCTURE PROJECT

**PROJECT PURPOSE:** To identify future water supply needs of the Rockhampton and Gladstone regions. SunWater intends to investigate and develop water storage infrastructure options which include raising the existing Eden Bann Weir and developing the Rookwood Weir.

**CAPACITY:** Additional storage is expected to be approximately 172,000ML.

**YIELD:** The project is expected to deliver 76,000ML/annum of high priority water.

**TIMING:** Further investigation is required to determine when the demand trigger will be met and to identify staging requirements for the project.

**COST:** \$434 million

**BENEFITS:** Additional water supply will be available for Rockhampton, Gladstone and surrounding regions.

**PROJECT PROGRESS:** Preliminary design work is nearing completion. Final Terms of Reference were released on 27 April 2012, and EIS preparation is underway.

A final decision to proceed will depend on a commercial business case supported by customer demand.

### NATHAN DAM AND PIPELINES PROJECT

**PROJECT PURPOSE:** This project aims to provide a reliable water supply in the Dawson-Callide sub-region of Central Queensland for mining, power, urban and existing agricultural customers. Nathan Dam will be located just upstream from the Nathan Gorge, approximately 75km downstream of Taroom and 315km upstream of where the Dawson and Fitzroy rivers meet. The pipeline will extend from the dam through the Surat Coal Basin, potentially to Dalby.

**DAM CAPACITY:** 888,000ML

**DAM YIELD:** Expected to supply up to 66,100ML/annum of high priority water.

**PIPELINE LENGTH:** 260km

#### **TIMING:**

- Detailed design complete 2015
- Construction commences 2017
- Construction completed and first water flow 2019

**COST:** \$1.4 billion

**BENEFITS:** The dam will provide long term reliable water supply for the Dawson-Callide sub-region of Central Queensland and also provide recreational facilities for the surrounding communities.

**PROJECT PROGRESS:** EIS is complete; Supplementary EIS process is being prepared as a submission to Government.

A final decision to proceed will depend on a commercial business case supported by customer demand.

### BURDEKIN TO MORANBAH PIPELINE AUGMENTATION PROJECT

**PROJECT PURPOSE:** This project will augment an existing dam pipeline to provide 6,000ML of water per year to the Bowen Basin. The majority of the construction works have progressed in accordance with the schedule. However, delays have been experienced with some civil construction activities. The project completion date is expected towards late November 2012.

## WOLEEBEE CREEK TO GLEBE WEIR PIPELINE

**PROJECT PURPOSE:** This project will deliver an additional water supply solution based on beneficial use of treated coal seam gas (CSG) water to the Dawson region of Central Queensland. Operational commencement is scheduled for 30 November 2013, subject to finalisation of commercial negotiations between SunWater and QGC.

Initial procurement activities for project construction are in progress as is the securing of necessary permits, approvals and land tenure. Detailed design works have commenced.

## GORGE WEIR TO BYERWEN PIPELINE

**PROJECT PURPOSE:** This project will supply 8,200ML/annum of water to currently identified new coal mines in the northern Bowen Basin. Stage 1 design and investigation phase has commenced and environmental assessments continue. Proposals have been received for prequalification responses to construct the main pipeline. Request for Tender documents are being developed for the remaining contract packages, including pipe supply and pump supply.

The project scope is currently being reviewed to accommodate other potential customers in the Bowen Basin as a result of the discontinuation of the Connors River Dam and Pipelines project.

## CONNORS RIVER DAM AND PIPELINES PROJECT

**PROJECT PROGRESS:** The development project achieved significant milestones during the year including finalising an advanced design and gaining EIS approval. Due to insufficient customer support at this time, the project has been discontinued. SunWater will continue to explore other ways of meeting supply needs through the development of alternative solutions.

## MORANBAH TO ALPHA PIPELINE PROJECT

**PROJECT PROGRESS:** Due to insufficient customer support at this time, the project has been discontinued. SunWater will continue to explore other ways of meeting supply needs through the development of alternative solutions.

*The information regarding the above outlined projects is current at 29 August 2012. For updated projects status, please visit [sunwater.com.au](http://sunwater.com.au).*

**Review and renegotiate existing facility management contracts as they fall due and negotiate all new facility management contracts to recover commercial returns on labour and on materials (excluding electricity) where commercially competitive.**

All facility management contracts have operated as per contract conditions during the financial year.

## KRA 2: Operating Margin

**Implement business improvement actions to further reduce overhead or indirect costs.**

- **Productivity Project** – SunWater’s Workforce Capability framework and its associated competency based modelling was implemented in May. This framework will achieve greater clarity regarding the skills, knowledge and abilities required to perform each role. This information will optimise the organisation’s resourcing requirements.
- **SWIMS (SunWater Water Information Management System) Replacement Project** – Contract negotiations have begun to create a portal which will improve the customer interface and expedite customers’ online payments, purchase orders and access to SunWater services.
- **HRIS Project** – The HRIS Project aims to deliver a fit for purpose Human Resource Systems solution for the business. Implementation of SunWater’s new HR and Payroll system is well advanced with an expected “go live” date of October 2012.

**Increase SunWater’s pumping energy efficiency via its portfolio energy management program.**

SunWater’s infrastructure is operating within expectations, and several energy savings opportunities have been identified and are undergoing implementation. SunWater conducts significant reporting to meet National Greenhouse Efficiency Reporting and Energy Efficiency Opportunities obligations.

### Productivity Improvements

SunWater’s productivity improvements as targeted through the SunWater Enterprise Agreement 2009-2012 (EA) have been delivered in full and are summarised in the table below.

| <i>Productivity Initiatives</i>             | Budgeted total gains/savings over the life of the agreement (\$) | 2011-12 Budgeted savings/gains (\$) | 2011-12 Actual savings/gains (\$) | Actual gains/savings achieved over the life of the agreement 2009-12 (\$) |
|---|--|-------------------------------------|-----------------------------------|---|
| Discretionary Costs                         | 501,000  | 260,000                             | 268,704                           | 558,272   |
| Consolidation of ICT Services               | 330,000  | 140,000                             | 143,351                           | 338,566   |
| Centralise Customer Service and Call Centre | 690,000  | 246,000                             | 269,916                           | 740,314   |
| Review Business Services Function           | 398,000  | 160,000                             | 167,590                           | 417,414   |
| Centralise Asset Management Function        | 1,050,000  | 280,000                             | 289,739                           | 1,110,176   |
| <b>Total</b>                                | <b>2,969,000</b>   | <b>1,086,000</b>                    | <b>1,139,300</b>                  | <b>3,164,742</b>  |

### KRA 3: Capital Efficiency

#### **Optimise SunWater's capital structure to maintain a credit rating of at least BBB+.**

SunWater's current credit rating meets or exceeds its stated target.

#### **Establish a review of future options for enhancing performance, governance and risk profile of different asset classes.**

SunWater is committed to supporting government's 2012-13 review of irrigation area management options.

#### **Implement capital management strategy in partnership with Queensland Treasury Corporation (QTC), Department of Energy and Water Supply and the Office of Government Owned Corporations (OGOC).**

SunWater continues to work with government and customers in an effort to meet government's preference for user funding or other private sector investor arrangements to be utilised for a number of SunWater's water infrastructure development projects.

### KRA 4: Corporate Responsibility

#### **Develop dividend reinvestment projects that contribute to organisational goals and community outcomes.**

**Burdekin Groundwater Management** – SunWater is undertaking a study of the issues associated with rising groundwater in the Burdekin River Water Supply Scheme (BHWSS) and the Burdekin Delta Area which are considered to pose a threat to the environmental and economic sustainability of the region.

The study involves a moderate capital works program of \$3M, which has been provided by the State Government through a re-investment of SunWater's 2008-09 dividend payment. The bulk of the project is scheduled to be delivered in the 2012-13 and 2013-14 financial years.

**Tartus Weir Turtleway** – The State Government has funded, again via the dividend reinvestment scheme, a project to better understand the effectiveness of turtle transfer systems for watercourse barriers, such as barrages and weirs. The \$4M project includes research, design, construction and monitoring of a turtleway prototype on Tartus Weir on the Mackenzie River. Designed to ease turtle access to the waterway and reduce injury to vulnerable turtle species, the project design has been approved and the field survey submitted by the Department of Environment and Heritage Protection (DEHP). Construction is scheduled for April 2013 with anticipated completion Spring 2013. Procurement for the construction work continues.

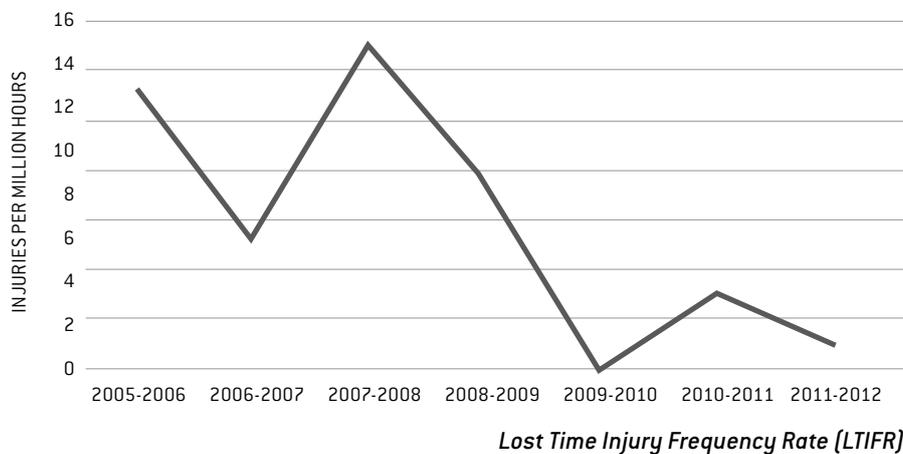
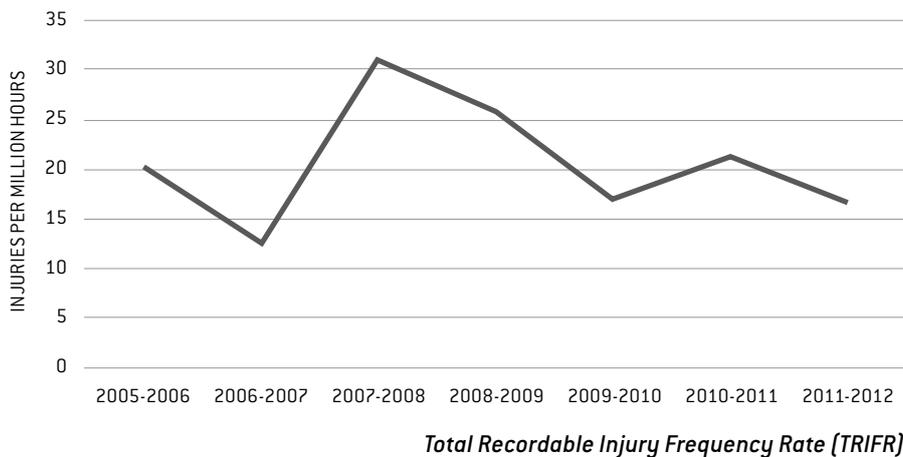
**Improved Management of Recreational Facilities** – The State Government also funded, via the 2008-09 dividend reinvestment scheme, a project to consider alternative management options for five of its recreation areas. The \$625,000 reinvestment project is nearing completion, with SunWater currently working with its external consultants to consider the recommendations and findings of the report and the implications for the tourism industry, community expectations including the growing markets of retirees and caravanners and the further potential for job creation in regional locations.

#### **Ensure compliance with Government's policies and other requirements for GOCs.**

SunWater complied with the appropriate government policies applying to Queensland GOCs, as published on the Office of Government Owned Corporations (OGOC) website.

#### **Implement and refine initiatives that ensure no harm, support the further development of SunWater's safety culture and enhance the benchmarking of SunWater's safety performance.**

- **Harmonisation Legislation** – SunWater has updated its Workplace Health and Safety Management System to comply with the new legislation, and is conducting a training program with all 500+ employees Statewide.
- **Comprehensive Safety** – During the very early stages of a project, SunWater safety staff conduct a (safety) Health Check. This process identifies gaps in the risk control process early to reduce harm and impact on the project.
- **Queensland Floods Commission of Inquiry (QFCOI) – Implementation and Recommendation** – SunWater issued a new Emergency Action Plan (EAP) for each of its 16 dams to address both the interim QFCOI recommendations and the draft emergency planning guideline subsequently issued by the Queensland Dam Safety Regulator. Several other recommendations, identified as having some minor impact on SunWater's operations, will be addressed as they are implemented by the Queensland Government.
- **Integrated Mobile Telephone and Intranet Hazard Reporting System** – SunWater's new hazard reporting system was implemented October 2011. This technology enables staff to take a photo of an emerging or existing hazard and report it to SunWater or recommend corrective action. As workplace hazards were increasingly and more immediately reported, SunWater's recorded injury rate decreased as an "equal and opposite" effect.



SunWater has dedicated internal audit, legal and governance resources to oversee management of risk identification, planning, mitigation and review processes and also source external advice as required.

**Implement general policy that covers SunWater's return on capital requirements for each of its activities and projects.**

SunWater establishes weighted average cost of capital and hurdle rates in accordance with Government's Cost of Capital Principles and gains Queensland Treasury Corporation oversight on proposed annual rates.

**Adopt commercial business practices which support SunWater's growth while appropriately mitigating counterparty risks.**

SunWater undertakes significant counterparty credit reviews (involving customers, bankers and insurers) at 6 monthly intervals and undertakes due diligence on all contracting parties.

**Continue to meet regulatory reporting requirements including Strategic Asset Management Plan (SAMP), Energy Efficiency Opportunities (EEO) and National Greenhouse Emissions Reporting (National Greenhouse and Energy Reporting).**

SunWater meets all regulatory reporting requirements and releases a number of these documents through its website [www.sunwater.com.au](http://www.sunwater.com.au).

## KRA 5: Organisational Effectiveness

**Maintain Quality, Safety and Environmental Management Systems certification and Project Management Organisation (PMO) accreditation.**

SunWater's key business certifications were successfully renewed during the year.

**Further develop SunWater's risk management framework to support the ongoing identification, escalation and mitigation of business risks, including safety.**

SunWater monitors its business risks and implements effective strategies to manage and mitigate identified risks. SunWater's risk management methodology and processes are based on AS/NZS ISO31000:2009. Higher level risks are aligned with established business priorities and assessed against a comprehensive risk intelligence framework developed by SunWater.

## KRA 6: External Stakeholder Relations

### Increase SunWater's standing in the community through cost effective sponsorships and other positive initiatives.

SunWater sponsors important community activities to demonstrate its commitment to the regions in which we operate.

### Further develop stakeholder networks within Government and industry.

Community and stakeholder management strategies were established for all major infrastructure development projects and community liaison groups were established for projects with an EIS requirement.

### Develop and implement a "Customer Care" initiative for commercial and irrigation customers.

SunWater's strategic initiative to improve its interactions with its customers resulted in the development of a draft Customer Care Strategy. The customer care strategy implementation plan and budget documentation is complete and work has commenced on progressing the activities planned for the next 18 month period.

## Key Performance Indicators

SunWater's key achievements can be further demonstrated by its performance against the KPIs agreed by government for 2011-12.

| <i>Marketing activity</i><br>(activities/events over \$5000 listed)  | Budget<br>2011-12 | Expenditure to<br>30 June 2012 |
|--|-------------------|--------------------------------|
| <b>Sponsorship</b>   |                   |                                |
| Southern Cross Soloists  | 10,000            | 10,000                         |
| ANCOLD Conference  | 5,000             | 5,000                          |
| SunWater Burdekin Water Festival (Ayr)   | 7,500             | 7,500                          |
| Indigenous Sponsorship Event   | 7,500             | 6,500                          |
| Community & Business Alignment Sponsorships <sup>1</sup>   | 15,000            | 4,500                          |
| Other (includes all sponsorships below \$5,000) <sup>2</sup>   | 57,500            | 56,000                         |
| <b>Total sponsorship</b>   | <b>102,500</b>    | <b>89,500</b>                  |
| <b>Advertising</b>   |                   |                                |
| Water safety advertising campaign  | 220,000           | 221,000                        |
| School safety program  | 30,000            | 28,000                         |
| Other  | -                 | -                              |
| <b>Total advertising</b>   | <b>250,000</b>    | <b>249,000</b>                 |
| <b>Corporate entertainment</b>   |                   |                                |
| Staff awards ceremony <sup>3</sup>   | 12,000            | 25,500                         |
| Brisbane Office Christmas Party  | 15,000            | 14,846                         |
| Other (includes expenditure below \$5,000 per event)   | 30,000            | 41,459                         |
| <b>Total corporate entertainment</b>   | <b>57,000</b>     | <b>81,805</b>                  |
| <b>Donations</b>   |                   |                                |
|  | -                 | -                              |
| <b>Other related activities</b>  |                   |                                |
| Total other related activities budget<br>(Children's promotional products that support the public safety campaign) | 30,000            | 21,000                         |
| <b>Total all activities</b>  | <b>439,500</b>    | <b>441,305</b>                 |

1. In 2011-12, SunWater had planned to increase its sponsorship of community based events in its areas of operations and those regional areas impacted by the significant program of water infrastructure development projects. The majority of this spending did not occur and this extended program has not been carried forward to 2012-13.

2. This comprises sponsorship of almost 60 grass roots opportunities.

3. SunWater's 2011 staff awards ceremony was held in July 2011. The 2012 awards night was brought forward from July 2012 to June 2012 to coincide with Queensland Week celebrations.

| <i>Financial KPIs</i>                               | 2011-12  |         |
|---|----------|---------|
|   | Budget   | Actual  |
| Operating revenue \$M                               | 218.098  | 211.009 |
| Total assets \$M <sup>1</sup>                       | 1391.652 | 979.941 |
| EBITDA \$M  | 115.058  | 112.964 |
| EBIT \$M <sup>2</sup>                               | 124.945  | -5.901  |
| NPAT \$M <sup>2</sup>                               | 81.914   | -17.071 |
| Economic profit (loss) \$M <sup>2</sup>             | 6.789    | -70.133 |
| Return on operating assets % <sup>2</sup>           | 10.78    | -5.29   |
| Return on average contributed equity % <sup>2</sup> | 17.52    | -4.49   |
| Current ratio <sup>3</sup>                          | 1.08     | 3.66    |
| Market gearing (debt to debt + equity ratio) %      | 29.35    | 26.88   |
| EBITDA interest coverage (Multiple) <sup>3</sup>    | 4.60     | 6.24    |
| EBIT interest coverage (Multiple) <sup>2</sup>      | 5.00     | -0.33   |
| FFO interest coverage (Multiple) <sup>3</sup>       | 3.66     | 5.04    |

1. Affected by delay and cancellation of development projects and by impairment value – further detail provided in Financial Report.

2. Affected by impairment value – further detail provided in Financial Report.

3. Affected by delay and cancellation of development projects.

## Key Performance Indicators

|  | Budget<br>2011-12 | Actual<br>2011-12 |
|--|-------------------|-------------------|
| <b>Operational</b>   |                   |                   |
| Water Entitlements (Million ML)  | 2.600             | 2.629             |
| Water Entitlements Sales (\$M)   | 0.867             | 1.110             |
| Water Entitlements to non-price path customers (%)   | 24.30             | 20.01             |
| Seasonal Water Assignments (ML) <sup>1</sup>   | 28,000            | 4,299             |
| Water Allocated (Announced) as a % of Water Entitlements                                     | 100               | 100               |
| Water Allocated as a % of Other Priority Water Entitlements                                  | 92.0              | 98.3              |
| Water Delivered (Million ML)   | 1.080             | 1.123             |
| Water Delivered as a % of Water Allocated (Announced) <sup>2</sup>                           | 70                | 43                |
| Distribution System Efficiency %   | 75                | 76                |
| Unplanned Network supply service interruptions - Average hours per interruption <sup>3</sup> | 0                 | 50                |
| <b>Reputation</b>  |                   |                   |
| Customer Service Levels - Exceptions <sup>A</sup>  | 0                 | 16                |
| ROL/ROP - No of Show Cause Notices   | 0                 | 0                 |
| Compliance with stat. reporting timeframes (%)   | 100               | 100               |
| Compliance with Environmental obligations (%)  | 100               | 100               |
| Environmental compliance breaches (No.)  | 0                 | 0                 |
| Total CO <sub>2</sub> emissions (tonnes)   | 129,725           | 105,725           |
| Greenhouse Gas Intensity (CO <sub>2</sub> /ML pumped)  | 0.091             | 0.072             |
| Total Recordable Injury Frequency Rate (TRIFR) <sup>B</sup>                                  | 0                 | 16.66             |
| Lost Time Injury Frequency Rate (LTIFR)  | 0                 | 1.19              |
| Lost Time Injury Duration Rate (LTIDR)   | 0                 | 90.8              |
| Staff Turnover %   | 18.0              | 17.5              |
| FTE Staff Numbers  | 547               | 491               |
| <b>Project Delivery</b>  |                   |                   |
| Planned maintenance undertaken (%) <sup>4</sup>  | 100.0             | 90.0              |
| Capital Expenditure (\$M) - for Shareholder approved capital projects <sup>4</sup>           | 360.60            | 57.32             |
| BMP Augmentation: Cost Performance Index   | 1.00              | 0.97              |
| BMP Augmentation: Schedule Performance Index   | 1.00              | 0.80              |
| Kenya to Chinchilla Pipeline Business Case Phase: Cost Performance Index                     | 1.00              | 0.99              |
| Kenya to Chinchilla Pipeline Business Case Phase: Schedule Performance Index                 | 1.00              | 0.96              |
| Connors River Dam and Pipelines Pre-construction Phase: Cost Performance Index               | 1.00              | 0.95              |
| Connors River Dam and Pipelines Pre-construction Phase: Schedule Performance Index           | 1.00              | 0.90              |
| Moranbah to Alpha Pipeline Pre-construction Phase: Cost Performance Index                    | 1.00              | 1.00              |
| Moranbah to Alpha Pipeline Pre-construction Phase: Schedule Performance Index                | 1.00              | 0.99              |

- Seasonal water assignments remained low due to the high availability of water and seasonal conditions.
- This measure and target is under review as performance is highly sensitive to factors outside of SunWater's ability to control our influence, including seasonal weather conditions.
- While SunWater targets zero interruptions to its services, the average hours per interruption during 2011-12 (at approximately 2 days) is consistent with previous years.
- SunWater's planned maintenance undertaken, excluding dividend reinvestment projects and dam safety upgrades equated to 90% of budget. This reduced to 71.4% with these projects and upgrades included. Planned work on dividend reinvestments and dam safety upgrades was impacted by flood repair work and rain delays.
- SunWater's planned capital spend on significant projects was impacted by the ongoing resolution of project funding issues.

- Customer service level exceptions occur when scheme service targets are not achieved. Service targets include matters such as timing and duration of planned and unplanned shutdowns, time to repair, response times to customer complaints, number of interruptions to supply. For the 2011-12 year, there were 7 instances where customer notification period targets were exceeded, 6 planned shutdown event failures and 3 unplanned event failures. Notification period exceptions, while unlikely to cause significant issues for customers, are being targeted for reduction by improved work planning approaches.
- Financial year safety statistics were a TRIFR of 16.66 (compared to a TRIFR for 2010-11 of 21.3) and an LTIFR of 1.19 (compared to an LTIFR for 2010-11 of 3.55). Although an improvement over 2010-11, the TRIFR is still higher than its 'no-harm' target.

# ORGANISATIONAL STRUCTURE

## Board Committees

To increase its effectiveness, the Board has 3 committees. Charters approved by the Board set out the roles and terms of reference for these committees. SunWater's Board and committee charters are available at [www.sunwater.com.au](http://www.sunwater.com.au)

### INDUSTRY, REGULATION, SAFETY AND ENVIRONMENT COMMITTEE

#### Key functions:

- Assists Board to carry out health, safety, environment, community, water and industry responsibilities
- Independently reviews regulatory information presented by management to shareholders, regulators, other key stakeholders and the community
- Reviews scheduled and regular reporting
- Ensures strategic and operational risks of significance are subject to oversight, independent of management
- Recommends to the Board policy, risk management and compliance improvements.

### AUDIT AND CORPORATE GOVERNANCE COMMITTEE

#### Key functions:

- Oversees financial management and external reporting
- Ensures integrity of financial reports
- Advises Board on efficacy of internal and external audit functions
- Advises on adequacy of accounting procedures and system controls including delegations
- Advises on budget and financial forecasts
- Carries out independent oversight of strategic and operational risks of financial reporting
- Recommends policy, risk management and compliance improvements.

### REMUNERATION COMMITTEE

#### Key functions:

- Assists Board in discharging its duties in regard to executive appointments, employment conditions and remuneration issues
- Recommends to the Board the remuneration of the CEO and Senior Executives
- Direct involvement in Senior Executive performance planning and review processes
- Assesses appropriateness of SunWater's remuneration strategy utilising community and industry standards and other external information.

## SHAREHOLDING MINISTERS

SunWater Limited is a Government Owned Corporation (GOC), and its shares are held by its shareholding Ministers on behalf of the State of Queensland.

## BOARD OF SUNWATER

The Board of SunWater Limited is responsible for providing effective leadership, governance and management oversight.

#### The Board's functions include:

- Responsibility for SunWater's commercial policy and management
- Ensuring that, as far as possible, SunWater acts in accordance with its SCI and achieves its stated objectives
- Accounting to SunWater's shareholding Ministers
- Ensuring that SunWater otherwise performs its functions in a proper, effective and efficient way.

## INTERNAL AUDIT

## CHIEF EXECUTIVE

The Chief Executive is responsible for overall management and performance of SunWater and directly manages the internal audit function.

## PEOPLE, PERFORMANCE AND SAFETY

#### Core services:

- Provides organisational leadership and support in respect to the identification, control management and monitoring of strategic and operational risks and opportunities
- Leads the organisation to achieve SunWater's 'No Harm' safety objective
- Provides advice relating to water, safety, environment and quality
- Facilitates business continuity planning and crisis management
- Facilitates corporate communications and media liaison.
- Supports the organisation in the area of people, capability and workforce planning.

## CORPORATE

#### Core services:

- Supports the organisation in the areas of finance, legal, economic planning, procurement, information and communication technology, corporate governance and a range of other administrative and support functions.

## INFRASTRUCTURE DEVELOPMENT

#### Core services:

- Investigates and delivers new commercial assets for SunWater
- Negotiates new facility management contracts
- Seeks out new business opportunities with new and existing customers, including acquisition of assets, through the Business Development Group.

## INFRASTRUCTURE MANAGEMENT

#### Core services:

- Manages SunWater's water infrastructure assets
- Provides facility management services to other asset owners
- Provides a broad spectrum of customer services ranging from asset management to water delivery, customer water accounting and billing while ensuring compliance with relevant legislation.

# SUNWATER BOARD

## William Siganto

BE (Civil), MBA, MIE Aust.

### Chair

*Initial Appointment 31.05.2012*

*Current Term 31.05.2012 – 30.09.2015*

### Skills, experience and expertise

Will brings more than 25 years engineering and strategic expertise to his Chairmanship at SunWater. Will's engineering career has seen him work as a civil and consultant engineer with International consulting firm Arups, where he worked on major infrastructure projects, including the M5 motorway project in Sydney, NSW.

Will is Executive Chair of Queensland's largest family owned air conditioning business with national interests, Siganto and Stacey P/L, having previously held the position of Managing Director for 16 years. Prior to that he worked at Pacific Dunlop, one of Australia's leading development industrial companies where he undertook national sales and marketing roles in Melbourne.

During the last decade Will has held Chair and Executive Chair roles at Airmech in Dubai and SigTech Construction in Singapore. In 2012 he took on the Executive Chair role at Siganto and Stacey P/L.

Will holds Civil Engineering qualifications from the University of Queensland along with postgraduate business qualifications from London Business School and Harvard Business School.

## Tom Connor AO

BE (Civil), MEngSc, PhD, Hon Fellow IEAust, MASCE, FTSE, CPEng (Civil), RPEQ

### Director

*Initial Appointment 01.08.2003*

*Current Term 01.10.2010 – 30.09.2013*

### SunWater Board Committee

**Membership** Industry Regulation Safety & Environment (Chair)

## Meetings attended during 2011-12

|                             | Board of SunWater | Audit and Corporate Governance | Industry, Regulation, Safety and Environment | Remuneration |
|-----------------------------|-------------------|--------------------------------|--|--------------|
| Scott Spencer*              | 10                | 4                              |  |              |
| Margaret (Jane) Bertelsen** | 11                |                                | 3  |              |
| Tom Connor                  | 10                |                                | 4  |              |
| Kirstin Ferguson            | 10                | 5                              | 4  | 4            |
| John Gibson                 | 11                | 6                              |  | 5            |
| Alan Millhouse              | 10                | 1                              |  |              |
| Tony Mooney***              | 8                 |                                | 2  |              |
| Greg Moynihan               | 10                | 6                              |  | 5            |
| Will Siganto****            | 1                 |                                |  |              |

\* Scott Spencer resigned 29 May 2012

\*\* Margaret (Jane) Bertelsen resigned 21 June 2012

\*\*\* Tony Mooney appointed 01 October 2011

\*\*\*\* Will Siganto appointed 31 May 2012

### Skills, experience and expertise

Director of Engineering Technology and Sustainability of the Government and Infrastructure Division of the Asia Pacific operations of the global engineering and construction firm, Kellogg Brown and Root Pty Ltd. Tom has more than 30 years' experience in engineering and project management in the water sector in Australia and internationally.

## Kirstin Ferguson

BA (Hon), LLB (Hon), FAIM, MAICD  
Director

*Initial Appointment 01.10.2008*

*Current Term 01.10.2011 – 30.09.2014*

### SunWater Board Committee

**Membership** Audit & Corporate Governance, Industry Regulation Safety & Environment, Remuneration

### Skills, experience and expertise

Formerly Chief Executive Officer of Sentis, a global safety consultancy providing the Zero Incident Process (ZIP) cognitive-based safety training to the utilities, mining and resources industries. Admitted as a solicitor in Queensland and NSW. Previously the COO & Director of Corporate Services at the national law firm Deacons. Administration Manager in London with the law firm Ashurst Morris Crisp.

## John Gibson

BCom, MBA (Melb), FCPA, FAIM, FAICD  
Director

*Initial Appointment 01.08.2003*

*Current Term 01.07.2007 – 30.09.2012*

### SunWater Board Committee

**Membership** Audit & Corporate Governance (Chair), Remuneration

### Skills, experience and expertise

Extensive experience at Senior Executive, Managing Director and Board level in a wide range of primary industries and agribusiness. Positions held include: Chairman, Queensland Market Corporation, Deputy Chairman, Australian Horticultural Corporation; Chairman, Queensland Horticulture Institute; and Member, Queensland Horticulture Industry Development Council. Other previous positions include Managing Director, Australian Dairy Corporation; Managing Director, Ausdairy Ltd; Member, Biosecurity Council of Queensland, Director, Thai Dairy Industry Co Ltd; and Deputy Secretary, Commonwealth Department of Primary Industries.

## Greg Moynihan

BCom, GradDipSIA, CPA,  
Fellow FINSIA, MAICD

### Director

*Initial Appointment 09.08.2007*

*Current Term 09.08.2010 – 30.09.2013*

### SunWater Board Committee

**Membership** Audit & Corporate  
Governance, Remuneration (Chair)

### Skills, experience and expertise

Majority of career spent within the broad  
finance sector with general management  
roles in a wide range of disciplines.

Responsibilities included financial  
and capital management, investment  
management, corporate strategy  
and marketing, and having primary  
accountability for business operations  
covering general insurance, business  
banking, retail banking and wealth  
management. Former Chief Executive  
Officer of Metway Bank Limited and  
has held senior executive positions in  
Citibank Australia, Metway Bank and  
Suncorp Metway Limited.

## Alan Millhouse

BCom, LLB(Qld), LLM(Lond)(Hons),  
LLD(Qld), MAICD

### Director

*Initial Appointment 01.10.2010*

*Current Term 01.10.2010 – 30.09.2013*

### Skills, experience and expertise

Senior finance, commercial and  
infrastructure lawyer and partner of  
Allens Arthur Robinson for 30 years  
until retirement on 30 June 2009. Now  
consulting to Allens. Expertise in the  
water industry, having advised the  
Queensland Government and private  
sector corporations extensively in respect  
to the development of many major water  
projects in Queensland in recent years,  
including Wyaralong, Paradise and  
Nathan dam projects and the Western  
Corridor Recycled Water Project.  
Considerable experience in the financing  
and development of major infrastructure  
projects, both within Australia and in Asia.

## Tony Mooney

AM FAICD BEd-BA (Hons)

### Director

*Initial appointment 01.10.2011*

*Current term 01.10.2011 – 30.09.2014*

### SunWater Board Committee

**membership** Industry Regulation, Safety  
& Environment

### Skills, experience and expertise

Tony was the Mayor of Townsville 1989 to  
2008. He served as Deputy Chairman of  
NQ Water for almost 20 years until 2008  
and was a Director of Ergon Energy until  
2011. He has served on the Boards of  
numerous Government and community  
entities in the energy sector and acted  
as a specialist adviser in the indigenous  
recruitment sector. In November 2011 he  
was appointed to the Board of the Great  
Barrier Reef Marine Park Authority. Tony  
is currently General Manager Stakeholder  
Relations for Guildford Coal Limited.

# SUNWATER MANAGEMENT

## Peter Boettcher

BE(Agric), MBA

### Chief Executive

*Appointment April 2008*

### Skills, experience & expertise

As CEO, Peter is charged with providing  
leadership and overall business  
management to SunWater. Peter is a  
water industry professional with over  
23 years experience in the development,  
management and commercial operations  
of bulk water infrastructure. Prior to  
his appointment as CEO in 2008, Peter  
held the positions of Chief Operating  
Officer and General Manager Water  
Supply Services.

## Mark Browne

BBus (BusMgt), DipEng (Elec),  
MBA(UQ), Dip PM, MAICD, CPPD

### General Manager, Infrastructure Development

*Appointment September 2007*

### Skills, experience and expertise

Mark is responsible for delivering  
SunWater's project portfolio. He has  
more than 25 years' experience in project  
management, business development  
and business management in the  
infrastructure construction and defence  
industries. Mark is a Certified Practising  
Project Director (CPPD).

## Geoff White

BCom, FCA

### General Manager Corporate and Company Secretary

*Appointment June 2004*

### Skills, experience & expertise

Geoff has substantial commercial  
experience in all aspects of business and  
financial management, as well as audit  
and corporate governance. Geoff has  
previously worked with a wide range of  
organisations including public and private  
companies, joint ventures and Non Profit  
Organisations. He was a partner in a  
leading accounting firm for 14 years.

## Barry Jeppesen

Assoc Diploma Eng (Civil), MBA, MAICD  
**General Manager Infrastructure Management**

*Appointment November 2009 – August 2012*

### Skills, experience & expertise

Barry brought to SunWater a wealth of expert knowledge and experience in organisation management in the utility sector. He has been directly involved with developing the Queensland Water Industry Training & Development Centre of Excellence, and contributing to sustainable water practices in the form of asset maintenance and planning, and contracts management.

## Tom Vanderbyl

BE(Civil) Hons, MIEAust, MAICD  
**General Manager People, Performance and Safety**

*Appointment March 2011*

### Skills, experience and expertise

Tom has over 25 years experience as a water industry professional in Queensland. He has been instrumental in the development and implementation of water management, planning and institutional policies, processes and practises his expertise both within Queensland and nationally.

## Renee Butterfield

BA/LLB, ACIS  
**Alternate Company Secretary**  
*Appointment December 2008*

### Skills, experience and expertise

Renee is an experienced corporate lawyer and accredited Company Secretary.

Renee assists in co-ordinating SunWater's corporate governance processes to maintain best industry practice.

Prior to joining SunWater, Renee worked as in-house counsel for ASX listed companies and in private law firms in Queensland.

# DIRECTOR'S REPORT

## For the year ended 30 June 2012

Your directors present their report together with the financial report of SunWater Limited and its subsidiaries ("SunWater") for the financial year ended 30 June 2012 and the auditor's report thereon.

## Directors

The following persons were directors of SunWater Limited during the whole of the financial year and up to the date of this report:

- Mr T Connor
- Ms K Ferguson
- Mr J Gibson
- Mr A Millhouse
- Mr G Moynihan

In addition the following retirements and appointments occurred during the year:

- Mr S Spencer retired as Chair on 30 May 2012.
- Ms M Bertelsen retired as Deputy Chair on 21 June 2012.
- Mr A Mooney was appointed as a Director on 1 October 2011.
- Mr W Siganto was appointed as Chair on 31 May 2012.

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

## Principal activities

SunWater owns and operates bulk water supply and distribution infrastructure located throughout regional Queensland and provides water-related engineering and facilities management services. Water is supplied to mining companies, industrial companies, power stations, manufacturing companies, irrigators, water boards and local governments. SunWater's principal activities are further detailed under the "Principal Activities" section of the Annual Report.

## Financial performance

The consolidated after tax loss for the financial year amounted to \$17.070M (2011: \$46.371M profit). Further details of SunWater's financial performance are provided in the "Financial Report" section of the Annual Report.

## Dividends

SunWater's Dividend Policy, as stated in the 2011-2012 SCI, takes into account the return its shareholders expect on their investment.

No dividend was declared for the year ended 30 June 2012.

During the 2011 year, the following dividends were declared:

- a dividend of \$8.953M was declared to the holders of fully paid ordinary shares; and
- a dividend of \$25.052M was declared to the holders of fully paid ordinary shares.

## Review of operations

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

## Significant changes in the state of affairs

Contributed equity increased by \$0.222M as a result of further Queensland Government investment in the company to complete the construction of the required dam safety upgrade to the Tinaroo Falls Dam.

The Queensland Competition Authority (QCA), appointed to conduct an independent review and make recommendations to government on future irrigation water pricing, handed down its final report *SunWater Irrigation Price Review: 2012-17* in May 2012.

In June 2012, SunWater's shareholding Ministers directed SunWater to charge its irrigation customers the final recommended prices as set out in the report for the period commencing 1 July 2012 and ending 30 June 2017. The cash flow projections used in SunWater's financial model to calculate impairment of water infrastructure assets are based on these approved irrigation water pricing arrangements. In total, \$67.151M has been charged as impairment of water infrastructure assets in the financial report.

In late June 2012, it was confirmed that there was insufficient customer commitment to enable the Connors River Dam and Pipeline projects to continue. As a result, on 25 July 2012, SunWater's Board resolved to cease all project activities associated with the projects and approved the impairment of pre-construction costs net of any recoveries available to SunWater from customers under existing contractual obligations. Total pre-construction costs amounted to \$45.100M (exc GST) of which \$16.356M (exc GST) is recoverable from customers. As a result \$28.744M has been charged as impairment for the pre-construction costs in the financial report.

Full details are set out in the Financial Report section of the Annual Report.

## Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

- (a) SunWater's operations in future financial years;
- (b) the results of those operations in future financial years; or
- (c) SunWater's state of affairs in future financial years;

except as set out elsewhere in this report and note 30 in the financial report.

## Likely developments

An outline of the likely developments in SunWater's operations is included in the "Review of Operations" section of the Annual Report.

## Impact of natural disasters

Remedial work progressed throughout the 2011-12 year, associated with the 2011 Queensland floods, focussing effort on repairing SunWater's infrastructure to ensure both the safety of that infrastructure and its ability to provide reliable future water deliveries to our customers. A provision, based on reliable estimates has been taken up in the financial statements at 30 June 2012 for damage incurred but not yet rectified.

Additional damage attributable to the 2011 flood was identified during the year to the Boondooma Dam spillway. Further details are set out in note 28 of the Financial Report.

## Environmental regulation

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

The SunWater Environmental Management System covers the following:

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

## Safety

SunWater's water infrastructure assets are located throughout Queensland, with an increasing age profile. During the year SunWater's safety program continued to focus attention on the safety of SunWater's employees, contractors, customers and the public and included:

- finalising the construction of the Tinaroo Falls Dam safety upgrade;
- the ongoing construction of the Kinchant Dam safety upgrade;
- the continuation of a wide-ranging upgrade program for the safe operation of the assets;
- the continuation of a media campaign to encourage positive safety behaviours on and around SunWater's infrastructure by members of the public; and
- the continuation of internal programs to eliminate or minimise risks to health and safety, and processes to receive and respond to information about incidents, hazards and risks.

## Insurance of officers

During the financial year, SunWater paid a premium of \$81,773 (exclusive of GST) (2011: \$80,179 exclusive of GST) to insure the directors and secretaries of SunWater Limited and its wholly owned subsidiary companies, and the executive officers of SunWater.

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

## Auditor's independence declaration

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

## Inclusion of parent entity financial statements

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

## Rounding of amounts

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

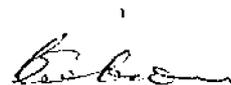
## Auditor

The Auditor-General of Queensland continues in office in accordance with section 30 of the *Auditor-General Act 2009*. No non-audit services are provided to SunWater by the Auditor-General. Further information is set out in note 24 to the financial statements.

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



**W Siganto**  
Chair



**J L Gibson**  
Director

Brisbane, Qld  
29 August 2012

# AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of SunWater Limited

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

## Independence Declaration

As lead auditor for the audit of SunWater Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been –

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.



**Luke Malone**  
Delegate of the  
Auditor-General of Queensland

Brisbane  
29 August 2012

# FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

|  |    |
|--|----|
| GENERAL INFORMATION .....                | 15 |
| FINANCIAL STATEMENTS .....               | 16 |
| Statements of Comprehensive Income ..... | 16 |
| Balance Sheets .....                     | 17 |
| Statements of Changes in Equity .....    | 18 |
| Statements of Cash Flows .....           | 19 |
| Notes to the Financial Statements .....  | 20 |
| DIRECTORS' DECLARATION .....             | 48 |
| INDEPENDENT AUDITOR'S REPORT .....       | 49 |

## GENERAL INFORMATION

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

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

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

Level 10, 179 Turbot Street  
BRISBANE QLD 4000

# STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

|  | NOTES  | CONSOLIDATED    |                | PARENT          |                |
|--|--------|-----------------|----------------|-----------------|----------------|
|  |        | 2012<br>\$'000  | 2011<br>\$'000 | 2012<br>\$'000  | 2011<br>\$'000 |
| Revenue from continuing operations                 | 4      | 220,771         | 202,561        | 200,096         | 192,232        |
| Other income                                       | 5      | 4,464           | 1,808          | 3,672           | 1,808          |
| Expenses from continuing operations:               |        |                 |                |                 |                |
| Employee benefits expense                          |        | (40,039)        | (36,852)       | (40,039)        | (36,897)       |
| Depreciation and amortisation expense              | 13, 14 | (22,972)        | (22,594)       | (18,326)        | (18,037)       |
| Impairment expense                                 | 13     | (95,895)        | (383)          | (95,895)        | -              |
| Contracted services expense                        |        | (22,737)        | (17,052)       | (20,970)        | (16,962)       |
| Electricity expense                                |        | (17,747)        | (13,374)       | (16,457)        | (12,391)       |
| Materials expense                                  |        | (6,136)         | (3,947)        | (5,559)         | (4,160)        |
| Plant hire expense                                 |        | (4,183)         | (3,605)        | (3,920)         | (3,625)        |
| Motor vehicle operating leases expense             |        | (1,836)         | (2,356)        | (1,836)         | (2,356)        |
| IT charges   |        | (925)           | (785)          | (925)           | (785)          |
| Loss on disposal of assets                         |        | (468)           | (1,430)        | (468)           | (1,425)        |
| Travel expense                                     |        | (1,388)         | (1,063)        | (1,388)         | (1,065)        |
| Accommodation expense                              |        | (2,322)         | (2,215)        | (2,322)         | (2,215)        |
| Insurance expense                                  |        | (5,338)         | (4,508)        | (5,061)         | (4,232)        |
| Legal expense                                      |        | (2,281)         | (3,295)        | (2,267)         | (3,529)        |
| Rates and land tax expense                         |        | (1,688)         | (1,656)        | (1,522)         | (1,525)        |
| Telephone, facsimile and data lines expense        |        | (1,369)         | (1,279)        | (1,367)         | (1,275)        |
| Cost of water allocations sold                     |        | (427)           | (131)          | -               | -              |
| Other expenses                                     |        | (3,254)         | (2,836)        | (3,170)         | (2,813)        |
| Finance costs                                      | 6      | (18,236)        | (17,996)       | (18,070)        | (16,833)       |
| <b>Profit/(loss) before income tax equivalents</b> |        | <b>(24,006)</b> | <b>67,012</b>  | <b>(35,794)</b> | <b>63,915</b>  |
| Income tax equivalents expense/(credit)            | 7      | 6,936           | (20,641)       | 12,722          | (14,761)       |
| <b>Profit/(loss) for the year</b>                  |        | <b>(17,070)</b> | <b>46,371</b>  | <b>(23,072)</b> | <b>49,154</b>  |
| Other comprehensive income                         |        | -               | -              | -               | -              |
| <b>Total comprehensive income for the year</b>     |        | <b>(17,070)</b> | <b>46,371</b>  | <b>(23,072)</b> | <b>49,154</b>  |

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

# BALANCE SHEETS

## AS AT 30 JUNE 2012

|                                      | NOTES | CONSOLIDATED   |                  | PARENT         |                |
|--------------------------------------|-------|----------------|------------------|----------------|----------------|
|                                      |       | 2012<br>\$'000 | 2011<br>\$'000   | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>ASSETS</b>                        |       |                |                  |                |                |
| <b>Current assets</b>                |       |                |                  |                |                |
| Cash                                 | 8     | 187,785        | 253,364          | 176,159        | 236,146        |
| Receivables                          | 9     | 7,580          | 4,662            | 12,976         | 12,970         |
| Inventories                          | 10    | 2,223          | 2,356            | 2,223          | 2,356          |
| Other current assets                 | 11    | 21,351         | 20,718           | 17,810         | 13,533         |
| <b>Total current assets</b>          |       | <b>218,939</b> | <b>281,100</b>   | <b>209,168</b> | <b>265,005</b> |
| <b>Non-current assets</b>            |       |                |                  |                |                |
| Receivables                          | 9     | -              | -                | 18,021         | 24,576         |
| Other financial assets               | 12    | -              | -                | 81,296         | 81,296         |
| Property, plant and equipment        | 13    | 685,727        | 704,606          | 579,708        | 595,624        |
| Intangible assets                    | 14    | 59,725         | 54,855           | 11,335         | 6,039          |
| Deferred tax assets                  | 15    | 15,550         | 8,028            | 12,566         | 6,240          |
| <b>Total non-current assets</b>      |       | <b>761,002</b> | <b>767,489</b>   | <b>702,926</b> | <b>713,775</b> |
| <b>Total assets</b>                  |       | <b>979,941</b> | <b>1,048,589</b> | <b>912,094</b> | <b>978,780</b> |
| <b>LIABILITIES</b>                   |       |                |                  |                |                |
| <b>Current liabilities</b>           |       |                |                  |                |                |
| Payables                             | 16    | 25,627         | 24,307           | 24,395         | 22,926         |
| Provisions                           | 17    | 26,310         | 52,826           | 21,362         | 52,826         |
| Borrowings                           | 18    | 1,985          | 1,769            | 40,984         | 20,625         |
| Other                                | 19    | 5,962          | 5,846            | 5,962          | 5,846          |
| <b>Total current liabilities</b>     |       | <b>59,884</b>  | <b>84,748</b>    | <b>92,703</b>  | <b>102,223</b> |
| <b>Non-current liabilities</b>       |       |                |                  |                |                |
| Provisions                           | 17    | 1,199          | 1,186            | 1,199          | 1,186          |
| Borrowings                           | 18    | 240,247        | 245,504          | 217,522        | 231,418        |
| Other                                | 19    | 1,707          | 2,018            | 1,707          | 2,018          |
| Deferred tax liabilities             | 20    | 17,819         | 39,200           | 2,946          | 23,068         |
| <b>Total non-current liabilities</b> |       | <b>260,972</b> | <b>287,908</b>   | <b>223,374</b> | <b>257,690</b> |
| <b>Total liabilities</b>             |       | <b>320,856</b> | <b>372,656</b>   | <b>316,077</b> | <b>359,913</b> |
| <b>Net assets</b>                    |       | <b>659,085</b> | <b>675,933</b>   | <b>596,017</b> | <b>618,867</b> |
| <b>EQUITY</b>                        |       |                |                  |                |                |
| Contributed equity                   | 22    | 380,269        | 380,047          | 380,269        | 380,047        |
| Retained earnings                    |       | 278,816        | 295,886          | 215,748        | 238,820        |
| <b>Total equity</b>                  |       | <b>659,085</b> | <b>675,933</b>   | <b>596,017</b> | <b>618,867</b> |

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

## STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

|   | NOTES | CONTRIBUTED<br>EQUITY<br>\$'000 | RETAINED<br>EARNINGS<br>\$'000 | TOTAL<br>EQUITY<br>\$'000 |
|---|-------|---------------------------------|--------------------------------|---------------------------|
| <b>Consolidated</b>                     |       |                                 |                                |                           |
| Balance at 30 June 2010                 |       | 359,320                         | 283,520                        | 642,840                   |
| Total comprehensive income for the year |       | -                               | 46,371                         | 46,371                    |
| Transactions with owners as owners      |       |                                 |                                |                           |
| Contributions of equity                 | 22    | 20,727                          | -                              | 20,727                    |
| Dividends                               | 23    | -                               | (34,005)                       | (34,005)                  |
| Balance at 30 June 2011                 |       | 380,047                         | 295,886                        | 675,933                   |
| Total comprehensive income for the year |       | -                               | (17,070)                       | (17,070)                  |
| Transactions with owners as owners      |       |                                 |                                |                           |
| Contributions of equity                 | 22    | 222                             | -                              | 222                       |
| Dividends                               | 23    | -                               | -                              | -                         |
| <b>Balance at 30 June 2012</b>          |       | <b>380,269</b>                  | <b>278,816</b>                 | <b>659,085</b>            |
| <b>Parent</b>                           |       |                                 |                                |                           |
| Balance at 30 June 2010                 |       | 359,320                         | 223,671                        | 582,991                   |
| Total comprehensive income for the year |       | -                               | 49,154                         | 49,154                    |
| Transactions with owners as owners      |       |                                 |                                |                           |
| Contributions of equity                 | 22    | 20,727                          | -                              | 20,727                    |
| Dividends                               | 23    | -                               | (34,005)                       | (34,005)                  |
| Balance at 30 June 2011                 |       | 380,047                         | 238,820                        | 618,867                   |
| Total comprehensive income for the year |       | -                               | (23,072)                       | (23,072)                  |
| Transactions with owners as owners      |       |                                 |                                |                           |
| Contributions of equity                 | 22    | 222                             | -                              | 222                       |
| Dividends                               | 23    | -                               | -                              | -                         |
| <b>Balance at 30 June 2012</b>          |       | <b>380,269</b>                  | <b>215,748</b>                 | <b>596,017</b>            |

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

# STATEMENTS OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2012

|  | NOTES | CONSOLIDATED    |                 | PARENT          |                 |
|--|-------|-----------------|-----------------|-----------------|-----------------|
|  |       | 2012<br>\$'000  | 2011<br>\$'000  | 2012<br>\$'000  | 2011<br>\$'000  |
| <b><i>Cash flows from operating activities</i></b>             |       |                 |                 |                 |                 |
| Receipts from customers<br>(inclusive of GST and refunded GST) |       | 232,784         | 191,962         | 202,861         | 167,424         |
| Government grant received                                      |       | 3,107           | -               | 3,107           | -               |
| Community service obligations received                         |       | 9,434           | 7,737           | 4,217           | 3,241           |
| Interest received  |       | 202             | 146             | 154             | 131             |
| Intercompany taxes received                                    |       | -               | -               | 5,320           | 3,241           |
| Payments to suppliers and employees<br>(inclusive of GST)      |       | (147,853)       | (99,719)        | (139,080)       | (98,391)        |
| Intercompany taxes paid  |       | -               | -               | -               | (1,611)         |
| Income taxes paid  |       | (21,175)        | (7,167)         | (21,175)        | (7,167)         |
| <b>Net cash inflow (outflow) from operating activities</b>     | 25    | <b>76,499</b>   | <b>92,959</b>   | <b>55,404</b>   | <b>66,868</b>   |
| <b><i>Cash flows from investing activities</i></b>             |       |                 |                 |                 |                 |
| Proceeds from sale of property, plant and equipment            |       | 1,454           | 2,760           | 1,454           | 2,760           |
| Proceeds from term debtors                                     |       | 49              | 5               | 49              | 5               |
| Repayments of intercompany borrowings                          |       | -               | -               | 8,741           | 1,477           |
| Interest received  |       | 13,337          | 7,238           | 15,436          | 9,175           |
| Dividends received   |       | -               | -               | 7,500           | 16,500          |
| Payments for property, plant and equipment                     |       | (103,202)       | (58,244)        | (103,200)       | (57,050)        |
| <b>Net cash inflow (outflow) from investing activities</b>     |       | <b>(88,362)</b> | <b>(48,241)</b> | <b>(70,020)</b> | <b>(27,133)</b> |
| <b><i>Cash flows from financing activities</i></b>             |       |                 |                 |                 |                 |
| Government grant received                                      |       | 286             | 355             | -               | -               |
| Equity contributions   |       | 222             | 20,727          | 222             | 20,727          |
| Repayments of advances   |       | 1,000           | -               | -               | -               |
| Proceeds from intercompany borrowings                          |       | -               | -               | 6,000           | -               |
| Interest paid  |       | (18,213)        | (16,765)        | (17,567)        | (16,482)        |
| Repayments of borrowings                                       |       | (3,006)         | (1,548)         | (21)            | -               |
| Dividends paid   |       | (34,005)        | (10,640)        | (34,005)        | (10,640)        |
| <b>Net cash inflow (outflow) from financing activities</b>     |       | <b>(53,716)</b> | <b>(7,871)</b>  | <b>(45,371)</b> | <b>(6,395)</b>  |
| <b>Net increase (decrease) in cash held</b>                    |       | <b>(65,579)</b> | <b>36,847</b>   | <b>(59,987)</b> | <b>33,340</b>   |
| Cash at the beginning of the financial year                    |       | 253,364         | 216,517         | 236,146         | 202,806         |
| <b>Cash at the end of the financial year</b>                   |       | <b>187,785</b>  | <b>253,364</b>  | <b>176,159</b>  | <b>236,146</b>  |

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

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented unless otherwise stated. The financial report includes separate statements for SunWater Limited, being the parent entity, and the consolidated entity consisting of SunWater Limited and its subsidiaries.

#### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations, the *Corporations Act 2001* and the provisions of the *Government Owned Corporations Act 1993 (GOC Act)*.

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

#### Compliance with IFRS

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

#### Historic cost convention

The historic cost convention has been applied except where otherwise stated.

#### Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting assumptions. It also requires management to exercise its judgement in the process of applying SunWater's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in notes 3 and 13.

#### (b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the parent entity as at 30 June 2012 and the financial results of all subsidiaries for the year then ended. The parent entity and its subsidiaries together are referred to in this financial report as the consolidated entity. Subsidiaries are those entities over which the parent entity has the power to govern the financial and operating policies. SunWater wholly owns all of its subsidiaries (refer note 12).

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

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

#### (c) Segment reporting

Neither SunWater Limited nor any of its subsidiaries are included in the scope of Accounting Standard AASB 8 *Operating Segments*. Also, SunWater and its subsidiaries form a single business segment, providing a range of water-related services that are subject to similar risks and returns. SunWater operates predominantly in one geographic segment, being Queensland. Operations outside Queensland are not material. Consequently, no segment information is presented in these general purpose financial statements.

#### (d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, rebates, trade allowances and amounts collected on behalf of third parties. Revenue from water operations is recognised when water has been delivered to customers or, in cases where no water has been delivered, is accrued in accordance with contractual provisions. Recognition of all other service revenue is based on work completed at the reporting date. Revenue from electricity generation is recognised on the amount of electricity generated and measured at the reporting date. Water allocations sales revenue is recognised at the point of sale. Interest income is recognised as interest accrues. Lease income from operating leases is recognised in revenue on a straight-line basis over the lease term.

#### (e) Government grants

##### (i) Community service obligation (CSO) payments

The parent entity receives community service obligation (CSO) payments from the Queensland Government. The payments fund the Rural Water CSO in recognition of the current rural water pricing policies set by the government, urban water deliveries to a local council and certain other activities for which there are no other revenue sources. As these are subsidies from the Queensland Government, no conditions (apart from normal commercial considerations in maintaining water deliveries) are required to be met. These amounts are recorded as revenue. New rural water infrastructure assets or extensions to existing assets that are built by clear direction from government for other than commercial return may also incorporate a CSO component. These amounts are initially recorded as unearned revenue. Revenue is recognised on a systematic basis over the accounting periods in which the consumption of the asset is recognised.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (ii) Water allocations

Water allocations are saleable rights that may be granted by the Crown, free of charge, in a Resource Operations Plan under the *Water Act 2000*. Interim water allocations (replacing water licences granted under previous legislation) and water allocations are recognised at nominal cost or deemed cost (refer note 1(o)(i)). All other water allocations granted free of charge are recognised, when granted, at fair value which is nominal cost (\$1) (note 1 (o) (i)).

#### (f) Income tax

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

Income tax equivalents expense (or income) for the period is the tax payable on the current period's taxable income adjusted by deferred tax expenses (or income) representing changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to current tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

#### Tax consolidation legislation

SunWater and its wholly owned Australian-controlled subsidiaries have implemented the tax consolidation legislation as of 1 July 2003. Under that legislation, the head entity, SunWater, and the subsidiaries in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax-consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, SunWater also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from subsidiaries in the tax-consolidated group.

Assets or liabilities arising under tax funding agreements with the tax-consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which limits the joint and several liability of the wholly-owned subsidiaries in the case of a default by the head entity, SunWater. New subsidiaries will enter into a similar agreement as soon as practicable after acquisition.

SunWater and its subsidiaries have also entered into tax funding agreements under which the subsidiaries fully compensate SunWater for any current tax payable assumed and are compensated by SunWater for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to SunWater under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the subsidiaries' financial statements. The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from SunWater, which is issued as soon as practicable after the end of each financial year. SunWater may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables (refer notes 9 and 16).

#### (g) Leases

Leases of property, plant and equipment where SunWater or a subsidiary, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Neither SunWater nor any of its subsidiaries has entered into any finance leases.

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

#### (h) Business combinations

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

#### (i) Impairment of assets

Goodwill, and intangible assets that have an indefinite useful life such as water allocations, are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. All other assets are assessed on an annual basis for indicators of impairment.

Where an indicator of impairment exists, an estimate of the recoverable amount of the asset is undertaken. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. In the case of SunWater's water infrastructure assets, which are not traded in an active market, value-in-use is applied in estimating the recoverable amount. An impairment loss is recognised immediately in the statements of comprehensive income.

Non-financial assets (other than goodwill) that were impaired in a prior period are reviewed for possible reversal of the impairment at each reporting date. Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, which cannot exceed the original cost or deemed cost of that asset. A reversal of an impairment loss is recognised in the statements of comprehensive income.

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

#### (j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of twelve months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

#### (k) Receivables

##### (i) Trade receivables

All trade receivables are recognised at the amounts receivable as they are due for settlement no more than 30 days from the invoice date. Collectibility of receivables is assessed at balance date. All known bad debts are written off. An allowance for impairment of trade receivables is established when there is objective evidence that all amounts due according to the original terms of the receivables will not be able to be collected. The amount of the impairment loss is recognised in the statements of comprehensive income. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised in the statements of comprehensive income.

##### (ii) Term trade debtors

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

#### (l) Inventories

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

#### (m) Property, plant and equipment

Items of property, plant and equipment are carried at cost or deemed cost less accumulated depreciation and impairment losses. SunWater elected to exercise the option allowed under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to adopt the fair value of an item of property, plant and equipment as its deemed cost.

This means that all items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2005, the date of transition to AIFRS, were measured on the basis of deemed cost at that date. Subsequent acquisitions are carried at cost less accumulated depreciation and impairment losses.

The cost of self-constructed items includes the direct cost of construction plus costs incidental to the construction, including all other costs incurred in preparing the assets ready for use, such as engineering design fees, an appropriate proportion of overheads and borrowing costs (refer note 1(r)).

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost also includes the initial estimate of the costs of decommissioning the items and restoring the site on which they are located where such estimate is relevant and reliable in the context of the very long life of most of these assets. Costs attributable to pre-feasibility activities and alternative approach assessments are expensed as incurred.

All items of property, plant and equipment acquired at a cost, or other value, in excess of \$1,000 are capitalised in the year of acquisition. Assets under construction are recorded at cost and are not depreciated until they are completed and held ready for use.

No threshold is applied to items within the infrastructure class of assets as these types of assets form a network. Adjustments or additions to existing infrastructure assets that are not in the nature of enhancements or replacements do not satisfy asset recognition criteria and are expensed on completion.

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

#### (n) Depreciation and amortisation

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

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

| ASSET CLASS                     | DEPRECIATION RATES      |
|---------------------------------|-------------------------|
| Land                            | Land is not depreciated |
| Buildings and land improvements | 1.65% to 20%            |
| Plant and equipment             | 8% to 40%               |
| Infrastructure                  | 0.5% to 10%             |

#### (o) Non-current intangible assets

##### (i) Water allocations

Water allocations are intangible assets that are valued at cost or deemed cost. SunWater elected to exercise the option allowed under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to adopt the fair value of an intangible asset as its deemed cost. This means that all water allocations that had been revalued to fair value on or prior to 1 July 2005, the date of transition to AIFRS, were measured on the basis of deemed cost at that date. Subsequent acquisitions are recognised at cost which is a nominal amount (\$1) when water allocations are granted free of charge (note 1(e)).

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

##### (ii) Software

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

#### (p) Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

#### (q) Borrowings

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

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### (r) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

SunWater's borrowings are discrete to each project. Therefore the amount of interest capitalised is the actual interest cost incurred on each loan account.

#### (s) Provisions

Provisions are recognised when:

- SunWater has a present legal or constructive obligation as a result of past events; and
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

#### (t) Refurbishment annuity

A refurbishment annuity forms part of the approved irrigation price path for each water supply scheme, and is billed to irrigation customers as part of the normal water billing process. Under the irrigation price path, SunWater is obliged to set apart the annuity for the sole purpose of applying the funds to refurbishment activities on each particular water supply scheme. To give effect to this requirement, SunWater accounts for the annuity as unearned revenue until the funds have been applied to refurbishment activities at which point revenue is recognised. Expenditures applied to refurbishment activities are immediately matched by recognising available annuity (unearned revenue) as income for each water supply scheme. Any unspent annuity at year end (unearned revenue) is carried as a current liability on the balance sheet.

#### (u) Employee benefits

##### (i) Wages and salaries and annual leave

Liabilities for wages, salaries and annual leave due but unpaid at the reporting date are recognised in payables at the remuneration rates expected to apply at the time of settlement and include related on-costs such as payroll tax, workers compensation premiums, long service leave levies and employer superannuation contributions. As sick leave is non-vesting, no liability is recognised.

##### (ii) Long service leave

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

##### (iii) Superannuation

Employer superannuation contributions are paid to Queensland Government superannuation schemes at rates determined by the State Actuary. Contributions are expensed in the period in which they are paid or payable. SunWater's obligation is limited to its contribution to the superannuation schemes. Therefore, no liability is recognised for superannuation benefits in these financial statements as the liability is held on a whole-of-government basis.

#### (v) Dividends

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

#### (w) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of GST, unless GST is not recoverable from the Australian Taxation Office (ATO) in which case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows.

#### (x) Rounding of amounts

Amounts in the financial report and these accompanying notes have been rounded to the nearest thousand dollars or in certain cases to the nearest dollar.

#### (y) New accounting standards and interpretations

SunWater has adopted one amended accounting standard for the 30 June 2012 reporting period. In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*, effective for accounting periods beginning on or after 1 January 2011 and to be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. This has simplified the entity's related party disclosures (note 27).

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. SunWater's assessment of the impact of these new standards and interpretations is set out below.

#### (i) **AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)**

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

In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

#### (ii) **AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective from 1 January 2013)**

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

#### (iii) **AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)**

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

#### (iv) **Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013)**

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

### NOTE 2 FINANCIAL RISK MANAGEMENT

SunWater's activities may, at certain times, expose it to a variety of financial risks being market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The objectives of SunWater's financial risk management policies are to focus primarily on counterparty risks and the unpredictability of the financial markets and to seek to minimise potential adverse effects on the financial performance of the consolidated entity. SunWater uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and ageing analysis and counterparty risk analysis for credit risk. The Board has endorsed written principles for overall risk management, as well as policies covering specific areas, such as mitigating interest rate and credit risk, use of derivative financial instruments and investment of liquid assets.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 2 FINANCIAL RISK MANAGEMENT (continued)

#### (a) Market risk

##### (i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Although SunWater does not operate internationally, on occasion, SunWater may source plant and equipment or components of water infrastructure assets internationally and become exposed to foreign exchange risk.

The SunWater Board has approved policies to manage foreign exchange risk. SunWater may elect to hedge foreign exchange risk on exposures arising from future commercial transactions and recognised assets and liabilities using approved derivative risk instruments on advice from, and transacted by, Queensland Treasury Corporation (QTC).

During 2011–12, SunWater had no significant exposure to foreign exchange risk and did not enter into any derivative contracts to hedge its foreign exchange risk exposure.

##### (ii) Price risk

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

During 2011–12, SunWater had no significant exposure to price risk.

##### (iii) Cash flow and fair value interest rate risk

SunWater's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose SunWater to cash flow interest rate risk, whereas borrowings issued at fixed rates expose SunWater to fair value interest-rate risk. SunWater manages its interest rate risk in consultation with QTC in accordance with policies approved by the SunWater Board. Interest rate risk is measured monthly through the monitoring of changes in yields over the debt duration profile.

The following interest rate sensitivity analysis assumes that the rate would be held constant over the financial year, with the change occurring at the beginning of the financial year. SunWater has assumed a movement of +/- 100 basis points in interest rates applicable to its borrowings as a reasonable expectation based on historical patterns for the type of debt facility held.

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

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

#### (b) Credit risk

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

Cash is invested under the following approved policy conditions:

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

During 2011-12, SunWater had no transactions involving derivative financial instruments.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 2 FINANCIAL RISK MANAGEMENT (continued)

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

| MAXIMUM EXPOSURE TO CREDIT RISK<br>CATEGORY                                       | NOTE | 2012<br>\$'000 | 2011<br>\$'000 |
|---|------|----------------|----------------|
| <b>Consolidated</b>   |      |                |                |
| Cash at bank and at call invested in Australian institutions rated AA- or higher* | 8    | 40,501         | 48,506         |
| Held-to-maturity investments in Australian institutions rated A- to A+*           | 8    | 45,724         | 51,700         |
| Held-to-maturity investments in Australian institutions rated AA- or higher*      | 8    | 101,554        | 153,150        |
| Other cash and cash equivalents   | 8    | 6              | 8              |
| Receivables – current   | 9    | 7,580          | 4,662          |
| Receivables – non-current   | 9    | -              | -              |
| Advance to Burnett Dam Alliance   | 11   | -              | 1,000          |
|   |      | <b>195,365</b> | <b>259,026</b> |
| <b>Parent</b>   |      |                |                |
| Cash at bank and at call invested in Australian institutions rated AA- or higher* | 8    | 28,875         | 31,288         |
| Held-to-maturity investments in Australian institutions rated A- to A+*           | 8    | 45,724         | 51,700         |
| Held-to-maturity investments in Australian institutions rated AA- or higher*      | 8    | 101,554        | 153,150        |
| Cash and cash equivalents   | 8    | 6              | 8              |
| Receivables – current   | 9    | 12,976         | 12,970         |
| Receivables – non-current   | 9    | 18,021         | 24,576         |
|   |      | <b>207,156</b> | <b>273,692</b> |

\* Inclusive of accrued interest.

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

No financial assets and financial liabilities have been offset and presented net in the balance sheets.

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

#### (c) Liquidity risk

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

SunWater had an approved borrowing program of \$159M during 2011/12 (undrawn). This facility is reviewed and renewed annually. SunWater has a rolling \$30M working capital facility with QTC. This facility (undrawn during 2011/12) operates as an overdraft arrangement which is used to cover temporary funding shortfalls. The facility is repayable on demand.

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

| 2012                | CARRYING<br>AMOUNT<br>\$'000 | LESS THAN<br>1 YEAR<br>\$'000 | 1 – 5<br>YEARS<br>\$'000 | OVER 5<br>YEARS<br>\$'000 | TOTAL<br>CASH FLOWS<br>(CONTRACTUAL)<br>\$'000 |
|---------------------|------------------------------|-------------------------------|--------------------------|---------------------------|--|
| <b>Consolidated</b> |                              |                               |                          |                           |  |
| Payables            | 25,627                       | 25,627                        | -                        | -                         | 25,627   |
| Borrowings – QTC    | 242,232                      | 19,243                        | 77,016                   | 232,485*                  | 328,744  |
| Deposits payable    | 408                          | 39                            | 38                       | 331                       | 408  |
|                     | <b>268,267</b>               | <b>44,909</b>                 | <b>77,054</b>            | <b>232,816</b>            | <b>354,779</b>                                 |
| <b>Parent</b>       |                              |                               |                          |                           |  |
| Payables            | 24,395                       | 24,395                        | -                        | -                         | 24,395   |
| Borrowings – QTC    | 217,522                      | 15,686                        | 62,788                   | 215,232*                  | 293,706  |
| Intercompany loan   | 40,984                       | 40,984                        | -                        | -                         | 40,984   |
| Deposits payable    | 408                          | 39                            | 38                       | 331                       | 408  |
|                     | <b>283,309</b>               | <b>81,104</b>                 | <b>62,826</b>            | <b>215,563</b>            | <b>359,493</b>                                 |

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 2 FINANCIAL RISK MANAGEMENT (continued)

| 2011                | CARRYING<br>AMOUNT<br>\$'000 | LESS THAN<br>1 YEAR<br>\$'000 | 1 – 5<br>YEARS<br>\$'000 | OVER 5<br>YEARS<br>\$'000 | TOTAL<br>CASH FLOWS<br>(CONTRACTUAL)<br>\$'000 |
|---------------------|------------------------------|-------------------------------|--------------------------|---------------------------|--|
| <b>Consolidated</b> |                              |                               |                          |                           |  |
| Payables            | 24,307                       | 24,307                        | -                        | -                         | 24,307   |
| Borrowings – QTC    | 247,273                      | 19,570                        | 78,150                   | 242,502*                  | 340,222  |
| Deposits payable    | 439                          | 14                            | 25                       | 400                       | 439  |
|                     | <b>272,019</b>               | <b>43,891</b>                 | <b>78,175</b>            | <b>242,902</b>            | <b>364,968</b>                                 |
| <b>Parent</b>       |                              |                               |                          |                           |  |
| Payables            | 22,926                       | 22,926                        | -                        | -                         | 22,926   |
| Borrowings – QTC    | 217,543                      | 16,013                        | 63,922                   | 216,223*                  | 296,158  |
| Intercompany loan   | 34,501                       | 20,625                        | 13,876                   | -                         | 34,501   |
| Deposits payable    | 439                          | 14                            | 25                       | 400                       | 439  |
|                     | <b>275,409</b>               | <b>59,578</b>                 | <b>77,823</b>            | <b>216,623</b>            | <b>354,024</b>                                 |

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

### NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

#### (i) Estimated impairment of assets

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

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

- Water charges applied to irrigators are regulated by the Queensland Government which subsidises water prices by way of community service obligation payments for the forecast shortfall between revenue raised in accordance with the regulated charges and the estimated efficient costs of storage and distribution of water for irrigation purposes. As the regulated price does not provide for a commercial return on capital, the reduced cash flows substantially impact on the values assigned to the water infrastructure assets.
- The Queensland Competition Authority (QCA), appointed to conduct an independent review and make recommendations to government on future irrigation water pricing, handed down its final report *SunWater Irrigation Price Review: 2012-17* in May 2012. In June 2012, SunWater's shareholding Ministers directed SunWater to charge its irrigation customers the final recommended prices as defined in this report for the period commencing 1 July 2012 and ending 30 June 2017.
- The cash flow projections used in SunWater's model are based on these approved irrigation pricing arrangements and likely future pricing trends.
- SunWater applied its pre-tax weighted average cost of capital (WACC) as the discount rate. WACC includes a market-determined rate that reflects the risks associated with operating the business. The risk-free factor, used in the calculation of WACC, is based on a 5 year moving average of the daily risk-free rate.
- There is not an open market for the sale of water infrastructure owned by SunWater.
- The cash flow projections anticipate that business efficiencies will be achieved over time to meet QCA determined efficient costs and that future price paths will recover efficient costs.

#### (ii) Useful life of property, plant and equipment

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

#### (iii) Non-current intangible assets

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

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 4 REVENUE

|  | CONSOLIDATED   |                | PARENT         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>Revenue from continuing operations activities</b> |                |                |                |                |
| Industrial water charges                             | 109,599        | 102,617        | 80,864         | 75,350         |
| Irrigation water charges                             | 48,893         | 42,460         | 48,019         | 41,383         |
| Urban water charges                                  | 8,624          | 7,548          | 8,449          | 7,382          |
| Drainage charges                                     | 1,364          | 1,316          | 1,364          | 1,316          |
| Water allocations revenue                            | 12,784         | 10,919         | 11,552         | 10,010         |
| Consulting and facilities services revenue           | 13,418         | 14,576         | 21,003         | 21,571         |
| Electricity generation                               | 491            | 841            | 485            | 595            |
| Community service obligation - irrigation            | 6,289          | 1,224          | 6,289          | 1,224          |
| Community service obligation - urban                 | 4,971          | 4,799          | -              | -              |
| Community service obligation - other                 | -              | 695            | -              | 695            |
| Other fees and charges                               | 286            | 165            | 285            | 165            |
| Grants   | 302            | 345            | 16             | (10)           |
| Interest   | 12,523         | 14,256         | 13,097         | 15,336         |
| Dividends received                                   | -              | -              | 7,500          | 16,500         |
| Rent received  | 283            | 189            | 283            | 189            |
| Other  | 944            | 611            | 890            | 526            |
| <b>Total revenue from continuing operations</b>      | <b>220,771</b> | <b>202,561</b> | <b>200,096</b> | <b>192,232</b> |

### NOTE 5 OTHER INCOME

|  | CONSOLIDATED   |                | PARENT         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>Other income</b>                    |                |                |                |                |
| Gain on disposal of non-current assets | 1,022          | 1,652          | 1,022          | 1,652          |
| Proceeds from insurance settlement     | 3,442          | 156            | 2,650          | 156            |
| <b>Total other income</b>              | <b>4,464</b>   | <b>1,808</b>   | <b>3,672</b>   | <b>1,808</b>   |

### NOTE 6 FINANCE COSTS

|  | CONSOLIDATED   |                | PARENT         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>Interest and finance charges paid/payable</b> |                |                |                |                |
| Amount capitalised                               | (2)            | -              | (2)            | -              |
| <b>Finance costs expensed</b>                    | <b>18,236</b>  | <b>17,996</b>  | <b>18,070</b>  | <b>16,833</b>  |

### NOTE 7 INCOME TAX AND INCOME TAX EQUIVALENTS

|   | CONSOLIDATED    |                | PARENT          |                |
|---|-----------------|----------------|-----------------|----------------|
|   | 2012<br>\$'000  | 2011<br>\$'000 | 2012<br>\$'000  | 2011<br>\$'000 |
| <b>(a) Income tax equivalents expense</b>   |                 |                |                 |                |
| Current tax equivalents expense   | 21,698          | 13,606         | 13,457          | 8,721          |
| Deferred tax equivalents expense/(credit)   | (28,903)        | 6,642          | (26,448)        | 5,647          |
| Over-provided in prior years  | 269             | 393            | 269             | 393            |
|   | <b>(6,936)</b>  | <b>20,641</b>  | <b>(12,722)</b> | <b>14,761</b>  |
| Income tax equivalents expense/(credit) is attributable to:                                     |                 |                |                 |                |
| Profit/(loss) from continuing operations  | (6,936)         | 20,641         | (12,722)        | 14,761         |
| Deferred tax equivalents expense/(credit) included in income tax equivalents expense comprises: |                 |                |                 |                |
| Decrease/(increase) in deferred tax assets (note 15)  | (7,522)         | 1,608          | (6,326)         | 1,296          |
| Increase/(decrease) in deferred tax liabilities (note 20)                                       | (21,381)        | 5,034          | (20,122)        | 4,351          |
|   | <b>(28,903)</b> | <b>6,642</b>   | <b>(26,448)</b> | <b>5,647</b>   |

NOTES TO THE FINANCIAL STATEMENTS  
30 JUNE 2012

NOTE 7 INCOME TAX AND INCOME TAX EQUIVALENTS (continued)

|  | CONSOLIDATED   |                | PARENT          |                |
|--|----------------|----------------|-----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000  | 2011<br>\$'000 |
| <b>(b) Numerical reconciliation of income tax equivalents expense to prima facie tax equivalents payable</b> |                |                |                 |                |
| Profit/(loss) from continuing operations before income tax equivalents expense                               | (24,006)       | 67,012         | (35,794)        | 63,915         |
| Tax at 30%   | (7,202)        | 20,103         | (10,738)        | 19,173         |
| Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income:                     |                |                |                 |                |
| Entertainment expenses   | 23             | 20             | 23              | 20             |
| Dividends from subsidiaries  | -              | -              | (2,250)         | (4,950)        |
| Sundry items   | (26)           | 125            | (26)            | 125            |
| Prior year over provision  | 269            | 393            | 269             | 393            |
| <b>Income tax equivalents expense</b>  | <b>(6,936)</b> | <b>20,641</b>  | <b>(12,722)</b> | <b>14,761</b>  |

NOTE 8 CASH AND CASH EQUIVALENTS

|                  | CONSOLIDATED   |                | PARENT         |                |
|------------------|----------------|----------------|----------------|----------------|
|                  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Cash on hand     | 6              | 8              | 6              | 8              |
| Cash at bank     | 2,482          | 9,130          | 1,767          | 2,536          |
| Deposits on call | 38,019         | 39,376         | 27,108         | 28,752         |
| Term deposits    | 147,278        | 204,850        | 147,278        | 204,850        |
|                  | <b>187,785</b> | <b>253,364</b> | <b>176,159</b> | <b>236,146</b> |

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

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

|  |                |                |                |                |
|--|----------------|----------------|----------------|----------------|
| <b>Balances as per statement of cash flows</b> | <b>187,785</b> | <b>253,364</b> | <b>176,159</b> | <b>236,146</b> |
|--|----------------|----------------|----------------|----------------|

**(b) Risk exposure**

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

NOTE 9 RECEIVABLES

|   | CONSOLIDATED   |                | PARENT         |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>Current</b>                          |                |                |                |                |
| Trade debtors                           | 8,969          | 5,784          | 5,047          | 5,484          |
| Term trade debtors                      | 111            | 178            | 111            | 178            |
| Intercompany receivables                | -              | -              | 1,076          | 3,288          |
| Intercompany taxation receivables       | -              | -              | 8,242          | 5,320          |
|   | 9,080          | 5,962          | 14,476         | 14,270         |
| Allowance for impairment of receivables | (1,500)        | (1,300)        | (1,500)        | (1,300)        |
|   | <b>7,580</b>   | <b>4,662</b>   | <b>12,976</b>  | <b>12,970</b>  |
| <b>Non-current</b>                      |                |                |                |                |
| Intercompany receivables                | -              | -              | 18,021         | 24,576         |
|   | -              | -              | <b>18,021</b>  | <b>24,576</b>  |

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 9 RECEIVABLES (continued)

#### (a) Impaired receivables

The ageing of trade receivables is as follows:

|                       | GROSS RECEIVABLE |              | IMPAIRMENT   |              |
|-----------------------|------------------|--------------|--------------|--------------|
|                       | 2012             | 2011         | 2012         | 2011         |
|                       | \$'000           | \$'000       | \$'000       | \$'000       |
| <b>Consolidated</b>   |                  |              |              |              |
| Not past due          | 6,219            | 203          | 3,164        | 202          |
| Past due 0 – 30 days  | 530              | 200          | 1,444        | 279          |
| Past due 31 – 60 days | 1,005            | 302          | 256          | 297          |
| More than 60 days     | 1,215            | 795          | 920          | 522          |
|                       | <b>8,969</b>     | <b>1,500</b> | <b>5,784</b> | <b>1,300</b> |

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

|                                   | 2012         | 2011         |
|-----------------------------------|--------------|--------------|
|                                   | \$'000       | \$'000       |
| At 1 July                         | 1,300        | 1,100        |
| Allowances added/(written back)   | 200          | 200          |
| <b>Carrying amount at 30 June</b> | <b>1,500</b> | <b>1,300</b> |

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

#### (b) Foreign exchange and interest rate risk

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

#### (c) Fair value and credit risk

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

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

### NOTE 10 INVENTORIES

|                             | CONSOLIDATED |              | PARENT       |              |
|-----------------------------|--------------|--------------|--------------|--------------|
|                             | 2012         | 2011         | 2012         | 2011         |
|                             | \$'000       | \$'000       | \$'000       | \$'000       |
| <b>Materials and stores</b> | <b>2,223</b> | <b>2,356</b> | <b>2,223</b> | <b>2,356</b> |

#### Inventory expense

Inventories recognised as expense during the year ended 30 June 2012 amounted to \$2.000M (2011: \$1.439M). There were no write-downs of inventories to net realisable value charged as an expense during the year ended 30 June 2012 (2011: nil). Inventory to the value of \$0.060M was written off during the year (2011: \$0.078M). There were no reversals of previous write-downs (2011: nil).

### NOTE 11 OTHER CURRENT ASSETS

|                                 | CONSOLIDATED  |               | PARENT        |               |
|---------------------------------|---------------|---------------|---------------|---------------|
|                                 | 2012          | 2011          | 2012          | 2011          |
|                                 | \$'000        | \$'000        | \$'000        | \$'000        |
| GST receivable                  | 1,783         | 1,593         | 1,689         | 1,530         |
| Prepayments                     | 710           | 887           | 710           | 887           |
| Advance to Burnett Dam Alliance | -             | 1,000         | -             | -             |
| Accrued revenue <sup>(1)</sup>  | 18,858        | 17,238        | 15,411        | 11,116        |
|                                 | <b>21,351</b> | <b>20,718</b> | <b>17,810</b> | <b>13,533</b> |

<sup>(1)</sup> Includes water delivered to 30 June but not invoiced.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 12 OTHER FINANCIAL ASSETS

|   | CONSOLIDATED   |                | PARENT         |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Shares in controlled entities – at cost | -              | -              | 81,296         | 81,296         |

Information relating to the controlled entities is set out below.

| NAME OF ENTITY                               | COUNTRY OF INCORPORATION | CLASS OF SHARES | EQUITY HOLDING |           |
|--|--------------------------|-----------------|----------------|-----------|
|  |                          |                 | 2012<br>%      | 2011<br>% |
| North West Queensland Water Pipeline Pty Ltd | Australia                | Ordinary        | 100            | 100       |
| Eungella Water Pipeline Pty Ltd              | Australia                | Ordinary        | 100            | 100       |
| Burnett Water Pty Ltd                        | Australia                | Ordinary        | 100            | 100       |

### NOTE 13 PROPERTY, PLANT AND EQUIPMENT

|   | CONSOLIDATED   |                | PARENT         |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>Land<sup>(1)</sup></b>                         | <b>7,653</b>   | <b>7,904</b>   | <b>7,653</b>   | <b>7,904</b>   |
| Buildings and land improvements <sup>(1)</sup>    | 16,277         | 14,969         | 16,243         | 14,935         |
| Accumulated depreciation                          | (3,580)        | (3,207)        | (3,570)        | (3,198)        |
| <b>Total buildings and land improvements</b>      | <b>12,697</b>  | <b>11,762</b>  | <b>12,673</b>  | <b>11,737</b>  |
| Plant and equipment <sup>(1)</sup>                | 19,205         | 19,615         | 19,193         | 19,604         |
| Accumulated depreciation                          | (11,315)       | (10,287)       | (11,311)       | (10,284)       |
| Accumulated impairment                            | (365)          | (365)          | (365)          | (365)          |
| <b>Total plant and equipment</b>                  | <b>7,525</b>   | <b>8,963</b>   | <b>7,517</b>   | <b>8,955</b>   |
| Water infrastructure <sup>(1)</sup>               | 810,990        | 796,023        | 655,559        | 640,663        |
| Accumulated depreciation                          | (123,799)      | (104,300)      | (78,985)       | (64,130)       |
| Accumulated impairment                            | (172,781)      | (105,630)      | (166,424)      | (99,273)       |
| <b>Total water infrastructure</b>                 | <b>514,410</b> | <b>586,093</b> | <b>410,150</b> | <b>477,260</b> |
| <b>Assets under construction<sup>(1)(2)</sup></b> | <b>172,186</b> | <b>89,884</b>  | <b>170,459</b> | <b>89,768</b>  |
| Accumulated impairment                            | (28,744)       | -              | (28,744)       | -              |
|   | <b>143,442</b> | <b>89,884</b>  | <b>141,715</b> | <b>89,768</b>  |
| <b>Total property, plant and equipment</b>        | <b>685,727</b> | <b>704,606</b> | <b>579,708</b> | <b>595,624</b> |

<sup>(1)</sup> At cost or deemed cost.

<sup>(2)</sup> Includes the costs of investigating feasibilities associated with the development of business cases for proposed water infrastructure projects that, at commencement, were deemed more likely to proceed to construction. If circumstances arise in the future whereby any of the business cases are unsuccessful, the unrecoverable value is written off at that time.

### Reconciliations

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 13 PROPERTY, PLANT AND EQUIPMENT (continued)

|  | LAND<br>\$'000 | BUILDINGS & LAND<br>IMPROVEMENTS<br>\$'000 | PLANT &<br>EQUIPMENT<br>\$'000 | WATER<br>INFRA-STRUCTURE<br>\$'000 | ASSETS UNDER<br>CONSTRUCTION<br>\$'000 | TOTAL<br>\$'000 |
|--|----------------|--|--------------------------------|------------------------------------|--|-----------------|
| <b>Year ended 30 June 2011</b>         |                |  |                                |                                    |  |                 |
| Carrying amount at 1 July 2010         | 8,134          | 10,571                                     | 8,497                          | 558,019                            | 82,067                                 | 667,288         |
| Additions                              | 103            | 2,452                                      | 2,757                          | 48,421                             | 62,977                                 | 116,710         |
| Disposals                              | (333)          | (812)                                      | (60)                           | (1,333)                            | -                                      | (2,538)         |
| Transfer between classes               | -              | 10   | (10)                           | -                                  | (55,160)                               | (55,160)        |
| Depreciation expense                   | -              | (459)                                      | (2,221)                        | (18,631)                           | -                                      | (21,311)        |
| Impairment loss                        | -              | -  | -                              | (383)                              | -                                      | (383)           |
| <b>Carrying amount at 30 June 2011</b> | <b>7,904</b>   | <b>11,762</b>                              | <b>8,963</b>                   | <b>586,093</b>                     | <b>89,884</b>                          | <b>704,606</b>  |

#### Parent

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

|  | LAND<br>\$'000 | BUILDINGS & LAND<br>IMPROVEMENTS<br>\$'000 | PLANT &<br>EQUIPMENT<br>\$'000 | WATER<br>INFRA-STRUCTURE<br>\$'000 | ASSETS UNDER<br>CONSTRUCTION<br>\$'000 | TOTAL<br>\$'000 |
|--|----------------|--|--------------------------------|------------------------------------|--|-----------------|
| <b>Year ended 30 June 2011</b>         |                |  |                                |                                    |  |                 |
| Carrying amount at 1 July 2010         | 8,134          | 10,545                                     | 8,489                          | 446,330                            | 80,361                                 | 553,859         |
| Additions                              | 103            | 2,452                                      | 2,757                          | 46,333                             | 62,479                                 | 114,124         |
| Disposals                              | (333)          | (812)                                      | (60)                           | (1,328)                            | -                                      | (2,533)         |
| Transfer between classes               | -              | 10   | (10)                           | -                                  | (53,072)                               | (53,072)        |
| Depreciation expense                   | -              | (458)                                      | (2,221)                        | (14,075)                           | -                                      | (16,754)        |
| Impairment loss                        | -              | -  | -                              | -                                  | -                                      | -               |
| <b>Carrying amount at 30 June 2011</b> | <b>7,904</b>   | <b>11,737</b>                              | <b>8,955</b>                   | <b>477,260</b>                     | <b>89,768</b>                          | <b>595,624</b>  |

#### Impairment

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

|   | CONSOLIDATED   |                      | PARENT         |                      |
|---|----------------|----------------------|----------------|----------------------|
|   | LOSS<br>\$'000 | (REVERSED)<br>\$'000 | LOSS<br>\$'000 | (REVERSED)<br>\$'000 |
| <b>Bundaberg Water Supply Scheme</b>  | 9,211          |                      | 9,211          |                      |
| This CGU comprises all of the water infrastructure assets in the Bundaberg Water Supply Scheme. The impairment loss mainly arises because additional future cash outflows are expected to absorb currently forecast cash inflows. Recoverable amount is determined as value in use. The discount rate used was 10.6% (2011: nil).         |                |                      |                |                      |
| <b>Burdekin Haughton Water Supply Scheme</b>  | 12,635         |                      | 12,635         |                      |
| This CGU comprises all of the water infrastructure assets in the Burdekin Haughton Water Supply Scheme. The impairment loss mainly arises because additional future cash outflows are expected to absorb currently forecast cash inflows. Recoverable amount is determined as value in use. The discount rate used was 10.6% (2011: nil). |                |                      |                |                      |
| <b>Mareeba Dimbulah Water Supply Scheme</b>   | 27,152         |                      | 27,152         |                      |
| This CGU comprises all of the water infrastructure assets in the Mareeba Dimbulah Water Supply Scheme. The impairment loss mainly arises because additional future cash outflows are expected to absorb currently forecast cash inflows. Recoverable amount is determined as value in use. The discount rate used was 10.6% (2011: nil).  |                |                      |                |                      |
| Other cash generating units – individually not significant. Recoverable amount is determined as value in use. The discount rate used was 10.6% (2011: nil).   | 20,091         | 1,938                | 20,091         | 1,938                |
| <b>Total</b>  | <b>69,089</b>  | <b>1,938</b>         | <b>69,089</b>  | <b>1,938</b>         |

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 13 PROPERTY, PLANT AND EQUIPMENT (continued)

At 30 June 2011, QCA's review of the future price path with respect to irrigation water was still in progress. In the absence of an approved future pricing structure post 1 July 2012, estimates of future irrigation cash inflows were based on conservative assumptions aligned as closely as possible with the government's announced irrigation pricing policy and incorporating approved interim increases. Estimates of future cash outflows were based on SunWater's Network Service Plans that had been submitted to the QCA to assist in their reviews.

Having due regard to the inherent uncertainty underlying the key assumptions that arose from the delayed outcome of the QCA pricing review, over which management had no control, the accounting estimate of impairment/reversal of impairment so derived was not recognised in the financial statements at 30 June 2011.

#### Assets under construction

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

|                                | CONSOLIDATED   |                      | PARENT         |                      |
|--------------------------------|----------------|----------------------|----------------|----------------------|
|                                | LOSS<br>\$'000 | (REVERSED)<br>\$'000 | LOSS<br>\$'000 | (REVERSED)<br>\$'000 |
| Connors River Dam and Pipeline | 28,744         |                      | 28,744         |                      |

The Connors River Dam and Pipeline projects have been under investigation by SunWater for some years. During that time, SunWater advanced the business case for the development of the infrastructure with a number of foundation and non-foundation customers in the Bowen and Galilee Basin coal precincts. This business case was presented to government, which in late 2011 advised SunWater that it intended to minimise its investment in the projects and required SunWater to pursue user funding as the preferred approach.

Negotiations with customers and pre-construction activities continued through until late June 2012, at which time it was confirmed that there was insufficient customer commitment to the projects to enable them to continue.

SunWater again consulted with government, and on 13 July 2012, shareholding Ministers confirmed that the State would not provide debt or equity support to SunWater to build and own this infrastructure and that without financial support from customers or the private sector, there was no prudent alternative but for SunWater to protect its commercial position, recover costs where possible and seek to minimise any additional losses.

Further consultation with customers and external advisers confirmed that the projects were not commercially viable at the existing level of customer commitment.

On 25 July 2012, SunWater's Board resolved to cease all project activities and approved the impairment of pre-construction costs associated with the Connors River Dam and Pipeline projects net of any recoveries available to SunWater from customers under existing contractual obligations. Total pre-construction costs amounted to \$45.100M (ex GST) of which \$16.356M (ex GST) is recoverable from customers. SunWater holds securities in support of the recoverable amount.

In accordance with the requirements of AASB110, *Events after the Reporting Period*, the impairment of \$28.744M has been recorded in the year ended 30 June 2012.

### NOTE 14 INTANGIBLE ASSETS

|                                  | CONSOLIDATED   |                | PARENT         |                |
|----------------------------------|----------------|----------------|----------------|----------------|
|                                  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Software <sup>(1)</sup>          | 16,433         | 15,481         | 16,433         | 15,481         |
| Accumulated amortisation         | (14,315)       | (13,604)       | (14,315)       | (13,604)       |
| Accumulated impairment           | (359)          | (359)          | (359)          | (359)          |
|                                  | 1,759          | 1,518          | 1,759          | 1,518          |
| Trade names                      | 8              | 8              | 8              | 8              |
| Water allocations <sup>(1)</sup> | 57,958         | 53,329         | 9,568          | 4,513          |
|                                  | 59,725         | 54,855         | 11,335         | 6,039          |

<sup>(1)</sup> At cost or deemed cost.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 14 INTANGIBLE ASSETS (continued)

#### Reconciliations

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

|  | SOFTWARE<br>\$'000 | TRADE NAMES<br>\$'000 | WATER<br>ALLOCATIONS<br>\$'000 |
|--|--------------------|-----------------------|--------------------------------|
| <b>Consolidated</b>                                  |                    |                       |                                |
| <b>Year ended 30 June 2012</b>                       |                    |                       |                                |
| Carrying amount at 1 July 2011                       | 1,518              | 8                     | 53,329                         |
| Additions – at cost                                  | 952                | -                     | 5,055                          |
| Disposals/retirements                                | -                  | -                     | (426)                          |
| Amortisation expense                                 | (711)              | -                     | -                              |
| <b>Carrying amount at 30 June 2012<sup>(1)</sup></b> | <b>1,759</b>       | <b>8</b>              | <b>57,958</b>                  |
| <b>Year ended 30 June 2011</b>                       |                    |                       |                                |
| Carrying amount at 1 July 2010                       | 1,374              | 8                     | 53,461                         |
| Additions – at cost                                  | 1,427              | -                     | -                              |
| Disposals/retirements                                | -                  | -                     | (132)                          |
| Amortisation expense                                 | (1,283)            | -                     | -                              |
| <b>Carrying amount at 30 June 2011<sup>(1)</sup></b> | <b>1,518</b>       | <b>8</b>              | <b>53,329</b>                  |
| <b>Parent</b>  |                    |                       |                                |
| <b>Year ended 30 June 2012</b>                       |                    |                       |                                |
| Carrying amount at 1 July 2011                       | 1,518              | 8                     | 4,513                          |
| Additions – at cost                                  | 952                | -                     | 5,055                          |
| Disposals/retirements                                | -                  | -                     | -                              |
| Amortisation expense                                 | (711)              | -                     | -                              |
| <b>Carrying amount at 30 June 2012<sup>(1)</sup></b> | <b>1,759</b>       | <b>8</b>              | <b>9,568</b>                   |
| <b>Year ended 30 June 2011</b>                       |                    |                       |                                |
| Carrying amount at 1 July 2010                       | 1,374              | 8                     | 4,513                          |
| Additions – at cost                                  | 1,427              | -                     | -                              |
| Disposals/retirements                                | -                  | -                     | -                              |
| Amortisation expense                                 | (1,283)            | -                     | -                              |
| <b>Carrying amount at 30 June 2011<sup>(1)</sup></b> | <b>1,518</b>       | <b>8</b>              | <b>4,513</b>                   |

<sup>(1)</sup> Net of retirements [fully written down].

### NOTE 15 DEFERRED TAX ASSETS

|  | CONSOLIDATED   |                | PARENT         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| The balance comprises temporary differences attributable to: |                |                |                |                |
| Allowance for impairment of receivables                      | 450            | 390            | 450            | 390            |
| Property, plant and equipment                                | 7,362          | 1,756          | 5,865          | -              |
| Accrued payables   | 18             | 1,359          | 15             | 1,327          |
| Accrued employee benefits                                    | 1,348          | 1,340          | 1,348          | 1,340          |
| Revenue received in advance                                  | 530            | 605            | 530            | 605            |
| Provision for Rocklea land commitment                        | 360            | 356            | 360            | 356            |
| Unearned renewal annuity                                     | 1,569          | 1,524          | 1,569          | 1,524          |
| Rent incentive   | 605            | 698            | 605            | 698            |
| Provision for natural disasters                              | 2,467          | -              | 1,408          | -              |
| Provision for legal fees                                     | 416            | -              | 416            | -              |
| Provision for defects Paradise Dam                           | 425            | -              | -              | -              |
| <b>Balance at 30 June</b>                                    | <b>15,550</b>  | <b>8,028</b>   | <b>12,566</b>  | <b>6,240</b>   |

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 15 DEFERRED TAX ASSETS (continued)

|  | CONSOLIDATED   |                | PARENT         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>Movements:</b>                                    |                |                |                |                |
| Opening balance at 1 July                            | 8,028          | 9,636          | 6,240          | 7,536          |
| Credited/(charged) to the income statement           | 7,522          | 177            | 6,326          | 489            |
| Losses utilised to offset current tax payable        | -              | (1,785)        | -              | (1,785)        |
| <b>Closing balance at 30 June</b>                    | <b>15,550</b>  | <b>8,028</b>   | <b>12,566</b>  | <b>6,240</b>   |
| Deferred tax assets to be recovered after 12 months  | 13,759         | 4,939          | 10,753         | 3,183          |
| Deferred tax assets to be recovered within 12 months | 1,791          | 3,089          | 1,813          | 3,057          |
| <b>Closing balance at 30 June</b>                    | <b>15,550</b>  | <b>8,028</b>   | <b>12,566</b>  | <b>6,240</b>   |

### NOTE 16 PAYABLES

|                                | CONSOLIDATED   |                | PARENT         |                |
|--------------------------------|----------------|----------------|----------------|----------------|
|                                | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Trade creditors                | 5,990          | 5,122          | 5,990          | 5,119          |
| Intercompany taxation payables | -              | -              | -              | 437            |
| Other creditors and accruals   | 19,637         | 19,185         | 18,405         | 17,370         |
|                                | <b>25,627</b>  | <b>24,307</b>  | <b>24,395</b>  | <b>22,926</b>  |

### NOTE 17 PROVISIONS

|  | CONSOLIDATED   |                | PARENT         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>Current</b>                             |                |                |                |                |
| Employee benefits (note 21) <sup>(1)</sup> | 4,497          | 4,467          | 4,497          | 4,467          |
| Natural disaster repairs <sup>(2)</sup>    | 8,225          | 2,852          | 4,694          | 2,852          |
| Legal costs <sup>(3)</sup>                 | 1,385          | 1,508          | 1,385          | 1,508          |
| Paradise Dam defects <sup>(4)</sup>        | 1,417          | -              | -              | -              |
| Income tax                                 | 10,786         | 9,994          | 10,786         | 9,994          |
| Dividends                                  | -              | 34,005         | -              | 34,005         |
|  | <b>26,310</b>  | <b>52,826</b>  | <b>21,362</b>  | <b>52,826</b>  |
| <b>Non-current</b>                         |                |                |                |                |
| Land commitment <sup>(5)</sup>             | 1,199          | 1,186          | 1,199          | 1,186          |
|  | <b>1,199</b>   | <b>1,186</b>   | <b>1,199</b>   | <b>1,186</b>   |

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

<sup>(2)</sup> SunWater's water infrastructure suffered damage in late 2010 and early 2011 due to the impact of widespread flooding and cyclone Yasi. The provision represents management's estimate of the amount of damage incurred but not rectified as at 30 June 2012. Remedial works are expected to be carried out within the next financial year.

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

<sup>(4)</sup> Agreement was reached between SunWater (on behalf of Burnett Water Pty Ltd) and the Burnett Dam Alliance (BDA) during 2012 over the amount payable by the BDA to rectify defects associated with the construction of Paradise Dam. Remedial works are expected to be carried out within the next financial year.

<sup>(5)</sup> By way of an agreement between the former State Water Projects and the Department of Natural Resources and Water, SunWater is required to settle with the department, the disposition of certain surplus land.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 17 PROVISIONS (continued)

#### Movements in provisions

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

|  | NATURAL<br>DISASTERS<br>\$'000 | LEGAL<br>OBLIGATIONS<br>\$'000 | PARADISE DAM<br>DEFECTS<br>\$'000 | INCOME TAX<br>\$'000 | LAND<br>COMMITMENT<br>\$'000 |
|--|--------------------------------|--------------------------------|-----------------------------------|----------------------|------------------------------|
| <b>Consolidated</b>                    |                                |                                |                                   |                      |                              |
| Carrying amount at 1 July 2011         | 2,852                          | 1,508                          | -                                 | 9,994                | 1,186                        |
| Provisions added/(written back)        | 6,873                          | 1,125                          | 2,361                             | 21,967               | 13                           |
| Payments made during the year          | (1,500)                        | (1,248)                        | (944)                             | (21,175)             | -                            |
| <b>Carrying amount at 30 June 2012</b> | <b>8,225</b>                   | <b>1,385</b>                   | <b>1,417</b>                      | <b>10,786</b>        | <b>1,199</b>                 |
| <b>Parent</b>                          |                                |                                |                                   |                      |                              |
| Carrying amount at 1 July 2011         | 2,852                          | 1,508                          | -                                 | 9,994                | 1,186                        |
| Provisions added/(written back)        | 2,801                          | 1,125                          | -                                 | 21,967               | 13                           |
| Payments made during the year          | (959)                          | (1,248)                        | -                                 | (21,175)             | -                            |
| <b>Carrying amount at 30 June 2012</b> | <b>4,694</b>                   | <b>1,385</b>                   | <b>-</b>                          | <b>10,786</b>        | <b>1,199</b>                 |

### NOTE 18 BORROWINGS

|                                 | CONSOLIDATED   |                | PARENT         |                |
|---------------------------------|----------------|----------------|----------------|----------------|
|                                 | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>Unsecured <sup>(1)</sup></b> |                |                |                |                |
| QTC loan                        | 242,232        | 247,273        | 217,522        | 217,542        |
| Intercompany loan               | -              | -              | 40,984         | 34,501         |
|                                 | <b>242,232</b> | <b>247,273</b> | <b>258,506</b> | <b>252,043</b> |
| Represented by:                 |                |                |                |                |
| Current                         | 1,985          | 1,769          | 40,984         | 20,625         |
| Non-current                     | 240,247        | 245,504        | 217,522        | 231,418        |
|                                 | <b>242,232</b> | <b>247,273</b> | <b>258,506</b> | <b>252,043</b> |

<sup>(1)</sup> Borrowings by subsidiary company are secured by parent entity guarantee.

#### (a) Financing arrangements

The loans from QTC are interest bearing. Parent entity non-current borrowings are interest only and have no fixed repayment date. The terms of the facilities are reviewed by QTC annually. Subject to the annual approval of the Queensland Treasurer, borrowings are sourced from the SunWater Client Specific Pool, except in the case of borrowings by SunWater's subsidiary companies which borrow externally through QTC's generic debt pool. SunWater may draw up to the amount of the approved borrowing program of \$159 million in 2012 (2011: \$50 million). This facility was unused at 30 June 2012.

SunWater has a rolling \$30 million working capital facility with QTC. This facility, which is repayable on demand, operates as an overdraft arrangement which is used to cover temporary funding shortfalls. The facility was undrawn as at 30 June 2012 (2011: undrawn).

#### (b) Fair value

|   | CONSOLIDATED                         |                                 |                                      |                                 |
|---|--------------------------------------|---------------------------------|--------------------------------------|---------------------------------|
|   | 2012<br>CARRYING<br>AMOUNT<br>\$'000 | 2012<br>FAIR<br>VALUE<br>\$'000 | 2011<br>CARRYING<br>AMOUNT<br>\$'000 | 2011<br>FAIR<br>VALUE<br>\$'000 |
| The carrying amounts and fair values of interest bearing liabilities at balance date are: |                                      |                                 |                                      |                                 |
| <b>Borrowings</b>   | <b>242,232</b>                       | <b>265,176</b>                  | <b>247,273</b>                       | <b>256,124</b>                  |
|   | PARENT                               |                                 |                                      |                                 |
|   | 2012<br>CARRYING<br>AMOUNT<br>\$'000 | 2012<br>FAIR<br>VALUE<br>\$'000 | 2011<br>CARRYING<br>AMOUNT<br>\$'000 | 2011<br>FAIR<br>VALUE<br>\$'000 |
| The carrying amounts and fair values of interest bearing liabilities at balance date are: |                                      |                                 |                                      |                                 |
| <b>Borrowings</b>   | <b>217,522</b>                       | <b>236,566</b>                  | <b>217,542</b>                       | <b>217,530</b>                  |

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 19 OTHER LIABILITIES

|                                 | CONSOLIDATED   |                | PARENT         |                |
|---------------------------------|----------------|----------------|----------------|----------------|
|                                 | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>Current</b>                  |                |                |                |                |
| Deposits payable                | 408            | 439            | 408            | 439            |
| Unearned annuity <sup>(1)</sup> | 5,231          | 5,078          | 5,231          | 5,078          |
| Rent incentive                  | 310            | 310            | 310            | 310            |
| Other                           | 13             | 19             | 13             | 19             |
|                                 | <b>5,962</b>   | <b>5,846</b>   | <b>5,962</b>   | <b>5,846</b>   |
| <b>Non-current</b>              |                |                |                |                |
| Rent incentive                  | 1,707          | 2,018          | 1,707          | 2,018          |
|                                 | <b>1,707</b>   | <b>2,018</b>   | <b>1,707</b>   | <b>2,018</b>   |

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

|                                | OPENING<br>BALANCE<br>\$'000 | ANNUITY<br>REVENUE<br>\$'000 | REFURBISHMENT<br>EXPENDITURE<br>\$'000 | MOVEMENT<br>\$'000 | CLOSING<br>BALANCE<br>\$'000 |
|--------------------------------|------------------------------|------------------------------|--|--------------------|------------------------------|
| <b>Consolidated</b>            |                              |                              |  |                    |                              |
| <b>Year ended 30 June 2012</b> |                              |                              |  |                    |                              |
| <b>Water Supply Scheme</b>     |                              |                              |  |                    |                              |
| Barker Barambah Supply         | 675                          | (137)                        | 270                                    | 133                | 808                          |
| Bowen Broken Supply            | 189                          | (7)                          | 270                                    | 263                | 452                          |
| Boyne Supply                   | (418)                        | (46)                         | 0                                      | (46)               | (464) *                      |
| Bundaberg Supply               | 804                          | (626)                        | 901                                    | 275                | 1,079                        |
| Burdekin Supply                | (809)                        | (856)                        | 575                                    | (281)              | (1,090) *                    |
| Callide Supply                 | 147                          | (81)                         | 240                                    | 159                | 306                          |
| Chinchilla Weir Supply         | (26)                         | (3)                          | 6                                      | 3                  | (23) *                       |
| Cunnamulla Weir Supply         | 11                           | (11)                         | 1                                      | (10)               | 1                            |
| Dawson Supply                  | (2,031)                      | (173)                        | 617                                    | 444                | (1,587) *                    |
| Eton Supply                    | 542                          | (256)                        | 288                                    | 32                 | 574                          |
| Lower Mary Supply              | 2                            | (96)                         | 0                                      | (96)               | (94) *                       |
| Macintyre Brook Supply         | 1,782                        | (213)                        | 200                                    | (13)               | 1,769                        |
| Maranoa Supply                 | (2)                          | (5)                          | 0                                      | (5)                | (7) *                        |
| Mareeba Supply                 | (1,365)                      | (431)                        | 25                                     | (406)              | (1,771) *                    |
| Nogoa Supply                   | 521                          | (411)                        | 732                                    | 321                | 842                          |
| Pioneer Supply                 | 1,895                        | (238)                        | 558                                    | 320                | 2,215                        |
| Proserpine Supply              | 40                           | (31)                         | 137                                    | 106                | 146                          |
| St George Supply               | (49)                         | (203)                        | 935                                    | 732                | 683                          |
| Tarong Pipelines               | 7                            | (3)                          | 12                                     | 9                  | 16                           |
| Three Moon Creek Supply        | 79                           | (66)                         | 95                                     | 29                 | 108                          |
| Upper Burnett Supply           | 268                          | (290)                        | 530                                    | 240                | 508                          |
| Upper Condamine Supply         | 688                          | (196)                        | 280                                    | 84                 | 772                          |

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 19 OTHER LIABILITIES (continued)

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

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

|                                | OPENING<br>BALANCE<br>\$'000 | ANNUITY<br>REVENUE<br>\$'000 | REFURBISHMENT<br>EXPENDITURE<br>\$'000 | MOVEMENT<br>\$'000 | CLOSING<br>BALANCE<br>\$'000 |
|--------------------------------|------------------------------|------------------------------|--|--------------------|------------------------------|
| <b>Consolidated</b>            |                              |                              |  |                    |                              |
| <b>Year ended 30 June 2011</b> |                              |                              |  |                    |                              |
| <b>Water Supply Scheme</b>     |                              |                              |  |                    |                              |
| Barker Barambah Supply         | 453                          | (87)                         | 309                                    | 222                | 675                          |
| Bowen Broken Supply            | 464                          | (314)                        | 39                                     | (275)              | 189                          |
| Boyne Supply                   | (404)                        | (14)                         | -                                      | (14)               | (418) *                      |
| Bundaberg Supply               | 191                          | (423)                        | 1,036                                  | 613                | 804                          |
| Burdekin Supply                | (376)                        | (596)                        | 163                                    | (433)              | (809) *                      |
| Callide Supply                 | 146                          | (108)                        | 109                                    | 1                  | 147                          |
| Chinchilla Weir Supply         | (27)                         | (2)                          | 3                                      | 1                  | (26) *                       |
| Cunnamulla Weir Supply         | 11                           | (10)                         | 10                                     | -                  | 11                           |
| Dawson Supply                  | (2,129)                      | (69)                         | 167                                    | 98                 | (2,031) *                    |
| Eton Supply                    | 453                          | (232)                        | 321                                    | 89                 | 542                          |
| Lower Mary Supply              | 45                           | (70)                         | 27                                     | (43)               | 2                            |
| Macintyre Brook Supply         | 1,385                        | (109)                        | 506                                    | 397                | 1,782                        |
| Maranoa Supply                 | 6                            | (8)                          | -                                      | (8)                | (2) *                        |
| Mareeba Supply                 | (978)                        | (409)                        | 22                                     | (387)              | (1,365) *                    |
| Nogoa Supply                   | 465                          | (242)                        | 298                                    | 56                 | 521                          |
| Pioneer Supply                 | 1,603                        | (138)                        | 430                                    | 292                | 1,895                        |
| Proserpine Supply              | 35                           | (17)                         | 22                                     | 5                  | 40                           |
| St George Supply               | (171)                        | (175)                        | 297                                    | 122                | (49) *                       |
| Tarong Pipelines               | -                            | (1)                          | 8                                      | 7                  | 7                            |
| Three Moon Creek Supply        | 148                          | (77)                         | 8                                      | (69)               | 79                           |
| Upper Burnett Supply           | (133)                        | (200)                        | 601                                    | 401                | 268                          |
| Upper Condamine Supply         | 422                          | (114)                        | 380                                    | 266                | 688                          |

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 19 OTHER LIABILITIES (continued)

|                            | OPENING<br>BALANCE<br>\$'000 | ANNUITY<br>REVENUE<br>\$'000 | REFURBISHMENT<br>EXPENDITURE<br>\$'000 | MOVEMENT<br>\$'000 | CLOSING<br>BALANCE<br>\$'000 |
|----------------------------|------------------------------|------------------------------|--|--------------------|------------------------------|
| <b>Distribution System</b> |                              |                              |  |                    |                              |
| Bundaberg Distribution     | (1,393)                      | (991)                        | 2,006                                  | 1,015              | (378) *                      |
| Burdekin Distribution      | 1,692                        | (986)                        | 2,815                                  | 1,829              | 3,521                        |
| Dawson Distribution        | (331)                        | (67)                         | 1,190                                  | 1,123              | 792                          |
| Emerald Distribution       | 1,360                        | (206)                        | 746                                    | 540                | 1,900                        |
| Eton Distribution          | 465                          | (126)                        | 623                                    | 497                | 962                          |
| Lower Mary Distribution    | 798                          | (60)                         | 171                                    | 111                | 909                          |
| Mareeba Distribution       | (267)                        | (731)                        | 3,037                                  | 2,306              | 2,039                        |
| St George Distribution     | (434)                        | (127)                        | 1,926                                  | 1,799              | 1,365                        |
| <b>Total</b>               | <b>3,499</b>                 | <b>(6,709)</b>               | <b>17,270</b>                          | <b>10,561</b>      | <b>14,060</b>                |

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

### NOTE 20 DEFERRED TAX LIABILITIES

|  | CONSOLIDATED   |                | PARENT         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| The balance comprises temporary differences attributable to: |                |                |                |                |
| Inventories  | 558            | 589            | 558            | 589            |
| Accrued revenue  | 2,584          | 5,295          | 1,034          | 2,861          |
| Water allocations  | 7,134          | 7,185          | 1,354          | 1,354          |
| Property, plant and equipment                                | 7,543          | 26,131         | -              | 18,264         |
| <b>Closing balance at 30 June</b>                            | <b>17,819</b>  | <b>39,200</b>  | <b>2,946</b>   | <b>23,068</b>  |
| <b>Movements</b>   |                |                |                |                |
| Opening balance at 1 July                                    | 39,200         | 34,166         | 23,068         | 18,717         |
| Charged/(credited) to the income statement                   | (21,381)       | 5,034          | (20,122)       | 4,351          |
| <b>Closing balance at 30 June</b>                            | <b>17,819</b>  | <b>39,200</b>  | <b>2,946</b>   | <b>23,068</b>  |
| Deferred tax liabilities to be settled after 12 months       | 14,677         | 33,316         | 1,354          | 19,618         |
| Deferred tax liabilities to be settled within 12 months      | 3,142          | 5,884          | 1,592          | 3,450          |
| <b>Closing balance at 30 June</b>                            | <b>17,819</b>  | <b>39,200</b>  | <b>2,946</b>   | <b>23,068</b>  |

### NOTE 21 EMPLOYEE BENEFITS

|  | CONSOLIDATED   |                | PARENT         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>Employee benefits liability</b>   |                |                |                |                |
| Provision for employee benefits (note 17)  | 4,497          | 4,467          | 4,497          | 4,467          |
| Accrued salaries and wages   | -              | 222            | -              | 222            |
| <b>Aggregate employee benefits liability</b>                                       | <b>4,497</b>   | <b>4,689</b>   | <b>4,497</b>   | <b>4,689</b>   |
| <b>Employee numbers</b>  |                |                |                |                |
| <b>Number of employees (full time equivalents excluding casuals) as at 30 June</b> | <b>490</b>     | <b>470</b>     | <b>490</b>     | <b>470</b>     |

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 22 CONTRIBUTED EQUITY

|  | CONSOLIDATED   |                | PARENT         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |

#### (a) Share capital

Issued and paid up capital:

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| 2 ordinary shares of \$190.1345M each <sup>(1)</sup> | 380,269 | 380,047 | 380,269 | 380,047 |
|--|---------|---------|---------|---------|

<sup>(1)</sup> Shares have no par value.

|  | NUMBER OF<br>SHARES<br>\$'000 | CONTRIBUTION<br>PER SHARE<br>\$'000 | TOTAL<br>\$'000 |
|--|-------------------------------|-------------------------------------|-----------------|
|--|-------------------------------|-------------------------------------|-----------------|

#### (b) Movements in ordinary share capital

|                                     |          |                |                |
|-------------------------------------|----------|----------------|----------------|
| Opening balance 1 July 2011         | 2        | 190,023        | 380,047        |
| Equity injections                   | -        | 111            | 222            |
| <b>Closing balance 30 June 2012</b> | <b>2</b> | <b>190,134</b> | <b>380,269</b> |

#### (c) Capital risk management

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

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

During 2012, SunWater's strategy was to maintain a market gearing ratio with a 50% upper limit (2011: 50%). The market gearing ratios at 30 June 2012 and 30 June 2011 were as follows:

|                             | CONSOLIDATED   |                | PARENT         |                |
|-----------------------------|----------------|----------------|----------------|----------------|
|                             | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Total borrowings            | 242,232        | 247,273        | 258,506        | 252,043        |
| Total equity                | 659,085        | 675,933        | 596,017        | 618,867        |
| Total capital               | 901,317        | 923,206        | 854,523        | 870,910        |
| <b>Market gearing ratio</b> | <b>27%</b>     | <b>27%</b>     | <b>30%</b>     | <b>29%</b>     |

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

### NOTE 23 DIVIDENDS

|  | PARENT         |                |
|--|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 |

#### Ordinary shares

|   |          |               |
|---|----------|---------------|
| 2010 final dividend of \$4.4765M per share declared in respect of prior financial year's profit from continuing operations and provided for but not paid as at 30 June 2011 <sup>(1)(2)</sup> | -        | 8,953         |
| 2011 first and final dividend of \$12.526M per share declared and provided for but not paid as at 30 June 2011 <sup>(1)(2)</sup>  | -        | 25,052        |
|   | <b>-</b> | <b>34,005</b> |

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

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

<sup>(3)</sup> No dividend was declared for year ended 30 June 2012.

### NOTE 24 REMUNERATION OF AUDITORS

During the year, fees of \$0.122M (2011: \$0.153M) were paid or payable for services provided by the auditor of the consolidated entity in relation to the audit of:

- the financial report of the parent entity and its subsidiaries; and

No other services were provided.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

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

|   | CONSOLIDATED   |                | PARENT         |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Profit/(loss) for the year                                | (17,070)       | 46,371         | (23,072)       | 49,154         |
| Non-cash items:   |                |                |                |                |
| Depreciation and amortisation                             | 22,972         | 22,594         | 18,326         | 18,037         |
| Impairment  | 95,895         | 383            | 95,895         | -              |
| Bad and doubtful debts                                    | 208            | 200            | 208            | 200            |
| Net (gain)/loss on sale or disposal of non-current assets | (554)          | (221)          | (554)          | (227)          |
| Interest received   | (13,337)       | (7,238)        | (15,436)       | (9,175)        |
| Interest paid   | 18,213         | 16,765         | 17,567         | 16,495         |
| Dividends received  | -              | -              | (7,500)        | (16,500)       |
| Change in assets and liabilities:                         |                |                |                |                |
| (Increase)/decrease in inventories and intangibles        | (4,495)        | 347            | (4,922)        | 216            |
| (Increase)/decrease in deferred tax assets                | (7,522)        | 1,608          | (6,326)        | 1,296          |
| (Increase)/decrease in receivables                        | (5,010)        | 2,586          | 673            | (3,437)        |
| (Increase)/decrease in other assets                       | (4,288)        | (6,240)        | (6,681)        | (1,571)        |
| (Decrease)/increase in creditors                          | 9,160          | 7,721          | 3,650          | 3,846          |
| (Decrease)/increase in deferred revenue                   | 2,916          | (3,782)        | 2,906          | (2,647)        |
| (Decrease)/increase in income taxes payable               | 792            | 6,830          | 792            | 6,830          |
| (Decrease)/increase in deferred tax liabilities           | (21,381)       | 5,035          | (20,122)       | 4,351          |
| <b>Net cash inflow from operating activities</b>          | <b>76,499</b>  | <b>92,959</b>  | <b>55,404</b>  | <b>66,868</b>  |

### NOTE 26 COMMITMENTS FOR EXPENDITURE

|   | CONSOLIDATED   |                | PARENT         |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>(a) Capital expenditure commitments</b>  |                |                |                |                |
| Capital expenditure commitments (including GST) contracted for but not brought to account are as follows: |                |                |                |                |
| ICT projects  | 731            | 341            | 731            | 341            |
| Water infrastructure projects   | 38,203         | 32,651         | 38,135         | 32,651         |
|   | <b>38,934</b>  | <b>32,992</b>  | <b>38,866</b>  | <b>32,992</b>  |
| Payable:  |                |                |                |                |
| <b>Not later than one year</b>  | <b>38,934</b>  | <b>32,992</b>  | <b>38,866</b>  | <b>32,992</b>  |
| <b>(b) Non-cancellable operating lease expense commitments</b>  |                |                |                |                |
| Future operating lease commitments (including GST) not brought to account and payable:                    |                |                |                |                |
| Within one year   | 3,619          | 3,195          | 3,619          | 3,195          |
| Later than one year but not later than five years   | 15,169         | 13,354         | 15,169         | 13,354         |
| Later than five years   | 7,074          | 10,084         | 7,074          | 10,084         |
|   | <b>25,862</b>  | <b>26,633</b>  | <b>25,862</b>  | <b>26,633</b>  |

SunWater leases property under non-cancellable operating leases expiring from one to ten years. Leases generally provide SunWater with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based either on movements in the consumer price index or operating criteria.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 26 COMMITMENTS FOR EXPENDITURE (continued)

#### Future projects and acquisitions

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

Details of SunWater's dam safety upgrade program are disclosed in note 29.

### NOTE 27 RELATED PARTIES DISCLOSURES

#### Key management personnel compensation

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

#### Key management personnel compensation disclosures by category

| CATEGORY                         | 2012<br>\$'000 | 2011<br>\$'000 |
|----------------------------------|----------------|----------------|
| <b>Consolidated</b>              |                |                |
| Short-term employee benefits     | 1,665          | 1,475          |
| Post-employment benefits         | 143            | 123            |
| At-risk performance remuneration | 139            | 98             |
| <b>Total</b>                     | <b>1,947</b>   | <b>1,696</b>   |
| <b>Parent</b>                    |                |                |
| Short-term employee benefits     | 1,636          | 1,443          |
| Post-employment benefits         | 141            | 121            |
| At-risk performance remuneration | 139            | 98             |
| <b>Total</b>                     | <b>1,916</b>   | <b>1,662</b>   |

#### Compensation – directors

| NAME OF DIRECTOR   | SHORT-TERM<br>EMPLOYEE BENEFITS<br>\$'000 | POST-EMPLOYMENT<br>BENEFITS<br>\$'000 | TOTAL<br>\$'000 |
|--|---|---------------------------------------|-----------------|
| <b>Consolidated – 2012</b>                                     |   |                                       |                 |
| Scott Spencer, Chair (retired 30 May 2012)                     | 53  | 5                                     | 58              |
| Will Siganto, Chair (commenced 31 May 2012)                    | -   | -                                     | -               |
| Margaret (Jane) Bertelsen, Deputy Chair (retired 21 June 2012) | 44  | 4                                     | 48              |
| Tom Connor   | 32  | 3                                     | 35              |
| John Gibson  | 39  | 3                                     | 42              |
| Greg Moynihan  | 38  | 3                                     | 41              |
| Kirstin Ferguson   | 34  | 3                                     | 37              |
| Alan Millhouse   | 25  | 2                                     | 27              |
| Anthony Mooney (commenced 1 October 2011)                      | 21  | 2                                     | 23              |
| <b>Consolidated – 2011</b>                                     |   |                                       |                 |
| Scott Spencer, Chair   | 53  | 5                                     | 58              |
| Margaret (Jane) Bertelsen, Deputy Chair                        | 40  | 4                                     | 44              |
| Tom Connor   | 31  | 2                                     | 33              |
| John Gibson  | 37  | 3                                     | 40              |
| Greg Moynihan  | 35  | 3                                     | 38              |
| Kirstin Ferguson   | 32  | 3                                     | 35              |
| Neil Turner  | 32  | -                                     | 32              |
| Alan Millhouse   | 18  | 2                                     | 20              |

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 27 RELATED PARTIES DISCLOSURES (continued)

| NAME OF DIRECTOR   | SHORT-TERM<br>EMPLOYEE BENEFITS<br>\$'000 | POST-EMPLOYMENT<br>BENEFITS<br>\$'000 | TOTAL<br>\$'000 |
|--|---|---------------------------------------|-----------------|
| <b>Parent – 2012</b>   |   |                                       |                 |
| Scott Spencer, Chair (retired 30 May 2012)                     | 53  | 5                                     | 58              |
| Will Siganto, Chair (commenced 31 May 2012)                    | -   | -                                     | -               |
| Margaret (Jane) Bertelsen, Deputy Chair (retired 21 June 2012) | 27  | 2                                     | 29              |
| Tom Connor   | 28  | 3                                     | 31              |
| John Gibson  | 35  | 3                                     | 38              |
| Greg Moynihan  | 34  | 3                                     | 37              |
| Kirstin Ferguson   | 34  | 3                                     | 37              |
| Alan Millhouse   | 25  | 2                                     | 27              |
| Anthony Mooney (commenced 1 October 2011)                      | 21  | 2                                     | 23              |
| <b>Parent – 2011</b>   |   |                                       |                 |
| Scott Spencer, Chair   | 53  | 5                                     | 58              |
| Margaret (Jane) Bertelsen, Deputy Chair                        | 24  | 2                                     | 26              |
| Tom Connor   | 27  | 2                                     | 29              |
| John Gibson  | 33  | 3                                     | 36              |
| Greg Moynihan  | 31  | 3                                     | 34              |
| Kirstin Ferguson   | 32  | 3                                     | 35              |
| Neil Turner  | 28  | -                                     | 28              |
| Alan Millhouse   | 18  | 2                                     | 20              |

Directors' remuneration excludes insurance premiums (exclusive of GST) of \$81,773 (2011 - \$80,179) paid by the parent entity in respect of directors' and officers' liability insurance contracts as the contracts do not specify premiums paid in respect of individual directors and officers.

### Compensation – executives

| TITLE OF EXECUTIVE                              | SHORT-TERM<br>EMPLOYEE BENEFITS<br>\$'000 | POST-EMPLOYMENT<br>BENEFITS<br>\$'000 | AT-RISK<br>PERFORMANCE<br>REMUNERATION<br>\$'000 | TOTAL<br>\$'000 |
|---|---|---------------------------------------|--|-----------------|
| <b>Parent 2012</b>                              |   |                                       |  |                 |
| Chief Executive Officer                         | 444                                       | 15                                    | 54   | 513             |
| General Manager, Corporate                      | 262                                       | 33                                    | 34   | 329             |
| General Manager, Infrastructure Management      | 230                                       | 22                                    | 26   | 278             |
| General Manager, Infrastructure Development     | 249                                       | 23                                    | 25   | 297             |
| General Manager, People, Performance and Safety | 194                                       | 25                                    | -  | 219             |
| <b>Parent 2011</b>                              |   |                                       |  |                 |
| Chief Executive Officer                         | 427                                       | 22                                    | 48   | 497             |
| General Manager, Corporate                      | 259                                       | 32                                    | 27   | 318             |
| General Manager, Infrastructure Management      | 222                                       | 17                                    | -  | 239             |
| General Manager, Infrastructure Development     | 223                                       | 22                                    | 23   | 268             |
| General Manager, People, Performance and Safety | 66  | 8                                     | -  | 74              |

### Transactions with director-related entities

SunWater and its controlled entities used the legal services of Allens Arthur Robinson, a firm of which Mr Alan Millhouse is a consultant. During the period of Mr Millhouse's directorship, total value of those legal services (inclusive of GST) was \$520,546. The services were procured on a commercial basis in accordance with board-approved processes and the State Purchasing Policy.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 27 RELATED PARTIES DISCLOSURES (continued)

#### Transactions with subsidiaries

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

During the year ended 30 June 2012, the following significant transactions occurred between the parent entity and its subsidiaries:

|  | 2012<br>\$'000 | 2011<br>\$'000 |
|--|----------------|----------------|
| Sales of water to subsidiaries                                 | 4,630          | 4,218          |
| Sales of services to subsidiaries                              | 7,647          | 7,009          |
| Interest received from subsidiaries                            | 1,736          | 1,941          |
| Interest paid to subsidiaries                                  | 1,822          | 1,099          |
| Current tax payable assumed from tax consolidated subsidiaries | 7,866          | 5,320          |
| Dividends received from subsidiaries                           | 7,500          | 16,500         |
| Loan received from subsidiary                                  | 6,000          | 680            |

#### Transactions with entities subject to common control

All State of Queensland controlled entities are related parties for the purposes of AASB 124 *Related Party Disclosures*. In its normal commercial business activities, SunWater transacts with Queensland Government departments, statutory bodies, other GOCs and local government bodies. All material transactions are negotiated on terms equivalent to those that prevail in arm's length transactions or in accordance with government policy.

During the year ended 30 June 2012, the following significant transactions occurred between SunWater Limited and other State of Queensland controlled entities.

|  | 2012<br>\$'000 | 2011<br>\$'000 |
|--|----------------|----------------|
| Equity contributions from shareholders | 222            | 20,727         |
| Dividends declared                     | -              | 34,005         |
| Interest received from QTC             | 911            | 1,609          |
| Water sales, CSO, grants               | 21,844         | 20,232         |
| Consultancies                          | 11,672         | 5,554          |
| Interest paid to QTC                   | 17,849         | 17,610         |

### NOTE 28 CONTINGENCIES

SunWater had contingent liabilities at 30 June 2012 in respect of:

- (a) In November 2008, one of two inflatable dams mounted on top of Bedford Weir failed. In the ensuing unexpected release of a large volume of water downstream, a fatality occurred. The incident is the subject of an ongoing Workplace Health and Safety Queensland prosecution and may be subject to a later inquiry by the Coroner. In September 2009, the relatives of the deceased person also instituted legal action for personal injuries. At the date of this report, legal proceedings are continuing. A provision of \$0.100M has been made in the financial statements for legal costs associated with these proceedings.
- (b) In June 2010, the failure of a coffer dam at Marian Weir resulted in the sudden inflow of water into the coffer dam. A fatality involving an employee of the contractor engaged to design and construct the coffer dam occurred. This matter is subject to a Workplace Health and Safety Queensland prosecution. At the date of this report, legal proceedings are continuing. A provision of \$0.085M has been made in the financial statements for legal costs associated with these proceedings.
- (c) In the 2011 year, SunWater signed a letter of guarantee with a potential mining customer which requires delivery of an agreed water solution at a pre-determined time in the future. If SunWater is unable to supply the water solution as agreed, it will incur a financial penalty for every day the solution is delayed, up to a cap of \$19.900M. At this date, there is no indication that the solution will be delayed or that the financial penalty will be incurred.
- (d) Since the finalisation of the Commission of Inquiry into the 2010/11 flood event and the release of the final report, it has been reported that landowners whose properties were inundated during the floods will seek compensation through one or more class actions against the dam operator. SunWater provided assistance to the dam operator under a contract to provide flood operations support. At the date of this report, SunWater is not aware of any claims against it in this matter.

**NOTE 28 CONTINGENCIES (continued)**

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

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

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

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

(g) At 30 June 2012, SunWater was engaged in commercial disputes under various contracts.

A notice of dispute has been received from a landholder in connection with a pipeline easement. Subsequent to year end, further notices of dispute have been received from that landholder and other landholders in relations to the pipeline easement and / or the associated water transportation agreement. At the date of this report, it is not possible to reliably estimate the eventual outcome of these disputes or the financial consequences thereof.

SunWater had contingent assets at 30 June 2012 in respect of:

(a) SunWater has made a claim under its insurance policies for losses attributable to the flood events in 2010/11. At 30 June 2012, revenue from insurance proceeds of \$3.000M has been taken up in the statements of comprehensive income.

(b) SunWater has made a claim under its insurance policies for legal costs associated with the Bedford Weir and Marian Weir incidents. At 30 June 2012, revenue from insurance proceeds of \$0.437M has been receipted and taken up in the statements of comprehensive income.

(c) SunWater anticipates that it will make a claim under its insurance policies for legal costs associated with the Commission of Inquiry into the recent flood events. At 30 June 2012, no revenue from insurance proceeds has been taken up in the statements of comprehensive income.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 JUNE 2012

### NOTE 29 DAM SAFETY UPGRADE PROGRAM

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

The dam safety program has previously identified the need to upgrade a number of dam spillways in response to spillway adequacy reviews. Spillway upgrades have been completed for Fred Haigh Dam (2006), Bjelke-Petersen Dam (2008), Borumba Dam (2009) and Tinaroo Falls Dam (2011).

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

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

| SAFETY UPGRADE               | COMMENCEMENT | ESTIMATED COSTS |
|------------------------------|--------------|-----------------|
| Kinchant Dam                 | 2011         | \$30.000M       |
| Burdekin Falls Dam – stage 1 | 2012         | \$12.000M       |
| Eungella Dam                 | 2014         | \$5.400M        |
| Wuruma Dam                   | 2014         | \$9.600M        |
| Burdekin Falls Dam – stage 2 | 2016         | \$150.000M      |
| Teemburra Dam                | 2018         | \$5.800M        |
| Coolmunda Dam                | 2021         | \$4.400M        |
| Fred Haigh Dam – stage 2     | 2023         | \$3.200M        |
| Leslie Dam                   | 2024         | \$4.000M        |
| Peter Faust Dam              | 2034         | \$0.900M        |

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

### NOTE 30 SUBSEQUENT EVENTS

Events that have occurred subsequent to balance date that materially impact on these financial statements have been brought to account (refer note 13). Other than the matters stated in note 13, there were no other events subsequent to balance date that require an adjustment to the financial statements or require a disclosure thereof.

## DIRECTORS' DECLARATION

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

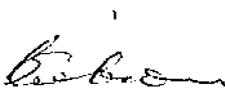
- (a) in their opinion, there are reasonable grounds to believe that SunWater Limited will be able to pay its debts as and when they become due and payable;
- (b) the notes to the financial statements of SunWater Limited for 2011-2012 as set out on pages 20 to 47 of the Financial Report comply with:
  - (i) Accounting Standards;
  - (ii) International Financial Reporting Standards, and this statement has been included in the notes to the financial statements of SunWater Limited for 2011-2012 as set out in note 1(a);
- (c) in their opinion, the financial statements and notes of SunWater Limited for 2011-2012 as set out on pages 6 to 49 of the Financial Report of SunWater Limited for 2011-2012 are in accordance with the *Corporations Act 2001* (Cth) including:
  - (i) that the financial statements and notes of SunWater Limited for 2011-2012 comply with Accounting Standards; and
  - (ii) give a true and fair view of:
    - a. the financial position and performance of SunWater Limited; and
    - b. the financial position and performance of the consolidated entity.

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



**W Siganto**  
Chair

Brisbane, Qld  
29 August 2012



**J L Gibson**  
Director

# INDEPENDENT AUDITOR'S REPORT

To the Members of SunWater Limited

## Report on the Financial Report

I have audited the accompanying financial report of SunWater Limited ("the Company"), which comprises the statements of financial position as at 30 June 2012, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Company and the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

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

### Auditor's Responsibility

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

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

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

### Independence

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

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

In conducting the audit, the independence requirements of the *Corporations Act 2001* have been complied with.

**Opinion**

In my opinion -

- (a) the financial report of SunWater Limited is in accordance with the *Corporations Act 2001*, including -
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

**Other Matters - Electronic Presentation of the Audited Financial Report**

This auditor's report relates to the financial report of Sunwater Limited and the consolidated entity for the year ended 30 June 2012. Where the financial report is included on Sunwater Limited's website the company's directors are responsible for the integrity of Sunwater Limited's website and I have not been engaged to report on the integrity of Sunwater Limited's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or otherwise included with the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

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



**Luke Malone**  
as Delegate of the Auditor-General of Queensland

Brisbane  
29 August 2012

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE PRACTICES

*Our focus is to ensure our business systems, processes and capabilities are consistent with ensuring compliance with regulatory and good governance obligations.*

SunWater was established as a statutory Government Owned Corporation (GOC) on 1 October 2000 under the *Government Owned Corporations Act 1993* (Qld) (GOC Act). On 1 July 2008, SunWater transitioned to become a public company under the *Corporations Act 2001* (Cth) and became SunWater Limited ACN 131 034 985. SunWater is wholly owned by the Queensland Government.

SunWater is committed to best-practice corporate governance to ensure appropriate degrees of accountability and transparency to stakeholders. SunWater's corporate governance practices and frameworks have been established in compliance with the governance requirements set out in relevant legislation, including the GOC Act and the *Financial Accountability Act 2009* (Qld), and having regard to the Queensland Government's *Corporate Governance Guidelines for GOCs*.

SunWater has implemented significant processes to ensure its internal policies, guidelines and practices remain aligned with the wider legislative and GOC policy framework relevant to SunWater and its subsidiaries. Through regular monitoring, reporting and disclosure, SunWater is able to demonstrate that its corporate governance practices are adequate and appropriate.

## PRINCIPLE 1: FOUNDATIONS OF MANAGEMENT AND OVERSIGHT

To ensure that the Board is able to effectively fulfil the requirements of section 88 of the GOC Act and relevant provisions of the *Corporations Act*:

- The Board Charter defines the roles and responsibilities of the Board and matters which are delegated to management. The Board Charter is published on SunWater's website: [www.sunwater.com.au](http://www.sunwater.com.au) as part of SunWater's release of information publication scheme.
- The Audit and Corporate Governance Committee, the Industry, Regulation, Safety and Environment Committee, and the Remuneration Committee have specific committee charters. These Charters are published on SunWater's website: [www.sunwater.com.au](http://www.sunwater.com.au) as part of SunWater's release of information publication scheme.
- A register of committees and their functions is maintained by SunWater.
- There is a formal induction process in place for new Board members in relation to their Board and committee functions and responsibilities.
- The Board Handbook is regularly reviewed and is available to facilitate Board induction, operations and self-evaluation processes.
- Management's responsibilities are defined and documented in formal position descriptions and performance plans.
- A performance evaluation for the CEO and Senior Executives took place as part of SunWater's annual achievement development system. The evaluation process and results are overseen by the Remuneration Committee.
- Separately, the Board undertakes a process of self evaluation every 18 months.

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

There is a range of procedures and controls in place to ensure that the interests of shareholding Ministers and the public are properly protected:

- The Board is appointed by the Governor-in-Council in accordance with the GOC Act.
- The Board is comprised of non-executive Directors, all of whom are considered to be independent and have declared any business or other relationships that could compromise their ability to exercise unfettered and independent judgement. The skills, experience and expertise of each Director are set out on pages 28 to 29 of this report.
- Work undertaken for SunWater by any business in which a Director has an interest is recorded and assessed against materiality thresholds to ensure ongoing director independence. Depending on the nature and amount of work undertaken, SunWater has defined the materiality threshold for: a supplier of SunWater at 40% or more and a customer of SunWater at 5% or more; of the total of the relevant expenditure or revenue category or categories in any rolling 12 month period.
- Directors declare their business interests and any business or other relationships and must notify the Board of changes to business interests and appointments.
- The Board generally reviews all Director independence information on a monthly basis and Directors are required to disclose at the commencement of every Board and Committee meeting any matters relevant to their independence.
- The Board and Committees regularly review their information needs to ensure the information received is appropriate for the effective discharge of their charters.

- While the Chair continuously monitors the performance of individual Directors, the Board and Committees, a formal self-evaluation process is undertaken every 18 months. The latest self-evaluation process is currently underway and is expected to be completed by the end of August 2012. The evaluation process considers the effectiveness of the Directors, Board and Committees, including Board and Committee structure and roles, strategy and planning, Board dynamics and relationship with management, internal processes, organisational performance, risk assessment and external communication. The results of these assessments are communicated to shareholding Ministers in writing.
- The Board has established and administers an ongoing performance evaluation and reporting process. As part of the process, training and development requirements are identified to ensure that Directors have appropriate skills and knowledge of water industry and corporate governance issues. Where necessary, Directors may seek independent professional advice at the Company's expense.

### PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

SunWater holds all Directors and employees to the highest standards of ethical behaviour. SunWater is committed to corporate practices which recognise the interests of employees, clients and the community as a whole and obligations of corporate social responsibility:

- SunWater has implemented a Code of Conduct outlining practices necessary to maintain confidence in SunWater's integrity which applies to all employees and Directors. The Board Handbook also outlines the Directors' ethical obligations to ensure SunWater's integrity is maintained. The Code of Conduct is available on SunWater's website: [www.sunwater.com.au](http://www.sunwater.com.au).
- SunWater has established a Trading in Securities Policy which applies to regulate any situation where Directors, officers or employees may in the course of their duties have access to inside information about any securities or where dealings in securities may create a conflict of interest. The Trading in Securities Policy is available on SunWater's website: [www.sunwater.com.au](http://www.sunwater.com.au).
- SunWater's framework for managing complaints of alleged impropriety and misconduct has evolved in response to changes in the Queensland government's approach to managing misconduct and the Crime and Misconduct Commission's (CMC) role in this regard.
- SunWater's CEO is obliged by law to notify the CMC of suspected or alleged misconduct. A 'Complaints of alleged impropriety and misconduct Framework' has been put in place to evaluate, report and investigate these matters as required.
- Further, SunWater has partnered with the RISQ Group to provide an independent telephone and on-line disclosure reporting line for employees and third parties to report matters of alleged impropriety and misconduct anonymously. There is also a dedicated on-line portal on SunWater's website; the "Reporting Unlawful or Unethical Behaviour Contact" under the Contact Us tab to facilitate reporting of allegations of unethical behaviour, misconduct and fraud.

### PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

SunWater has appropriate structures and rigorous procedures and controls in place to ensure complete and accurate reporting of its financial position:

- SunWater has established an Audit and Corporate Governance Committee to oversee preparation of financial statements and to confirm that accounting methods applied are consistent and comply with applicable accounting standards and concepts. The Committee also advises the Board on the efficacy of the internal and external audit functions, the adequacy of accounting procedures and system controls (including delegations), and budget and financial forecasts. In addition, the Committee monitors significant business transactions and processes including capital structure, asset values, taxation and solvency.
- The Audit and Corporate Governance Committee comprises 4 independent non-executive Director members who have appropriate financial experience and understand the water industry. The Audit and Corporate Governance Committee ensures that strategic and operational risks of significance are subject to review by independent management and makes recommendations to the Board about policy, risk management and compliance improvements.

The CEO, General Manager Corporate and Manager Finance have confirmed in writing that the 2011-12 financial statements present a true and fair view and are in accordance with accounting standards.

## PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURES

As a GOC, SunWater is accountable to its shareholding Ministers who are in turn accountable to the Queensland Parliament. SunWater is committed to maintaining a level of disclosure that provides shareholding Ministers with timely and complete access to information:

- SunWater submits detailed Quarterly Scorecards to its shareholding Ministers on its performance against the annual Statement of Corporate Intent (SCI), and comprehensive information on operations, financial performance and financial position is publicly released through annual and interim reports as required.
- SunWater immediately informs its shareholding Ministers of any significant matter that impacts upon its ability to achieve the objectives in SunWater's SCI and Corporate Plan.
- SunWater adopts a broad approach to disclosure by regularly providing submissions and briefing notes to shareholding Ministers on specific matters.
- To ensure that SunWater meets its disclosure requirements, SunWater regularly assesses the key information needs of stakeholders.
- SunWater also maintains a publication scheme on its website, in accordance with its obligations under the *Right to Information Act 2009* (Qld).

## PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

SunWater is committed to providing balanced and comprehensive information to shareholding Ministers to ensure that the requirements of open and accountable government are met:

- SunWater engages with stakeholders through a range of communication strategies to ensure effective and active consultation.
- Shareholding Ministers are advised in a timely manner of all issues that have a significant financial, operational, employee, community or environmental impact.

- SunWater seeks to actively engage with shareholding Ministers to meet legislative and regulatory requirements, promote integrity and confidence and promote awareness and understanding of emerging issues of significance to SunWater's commercial operations.

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK

SunWater has in place a comprehensive framework and procedures for the identification, monitoring and management of key risks associated with its business activities:

- The Board and its Committees monitor management's performance in identifying areas of risk and implementing effective strategies to manage and mitigate identified risks.
- A risk management methodology and process based on AS/NZS ISO31000:2009 has been adopted. SunWater maintains a number of specific project and operational risk management registers which use (as much as practicable) common processes, categories and assessment criteria. Management of SunWater's business risks includes the use of a hierarchy of registers which elevate risks of higher importance to management team, committee and Board consideration as required.
- SunWater has implemented and maintains systems, policies and procedures which ensure:
  - Integration and alignment of risk management systems with corporate and operational objectives
  - Clear communication throughout SunWater of the Board and Senior Management's position on risk
  - Common risk management terminology issued
  - Risk management forms part of normal business practice and is not undertaken as a separate task at set times

- Information systems for reporting on risk are integrated to enable aggregation and reporting at a corporate level.
- SunWater has a high level commitment to the prevention of fraud both within SunWater and against SunWater. It has implemented policies and procedures to address the risks of fraud which include:
  - Staff responsibilities in relation to fraud prevention and identification
  - Responsibility for fraud investigation once a fraud has been identified
  - Processes for reporting on fraud-related matters to management
  - Reporting and recording processes to be followed to manage and finalise allegations of fraud
  - Periodic assessments of the risk of fraud within its business operations
  - The CEO, General Manager Corporate, and Manager Finance confirm to the Board that the statement given under recommendations applying to Principle 4 is founded on a sound system of risk management and internal compliance and control which implements Board policies, and that the risk management and control system is operating effectively in all material respects
- At the highest level of risk consideration, SunWater has established a strategic issues log and corporate risk register which are regularly reported to the Board (monthly) and Committees (in line with review schedules agreed for each identified corporate risk). Risks are assigned by the Board to the Committees based on their impact on the business and their external consequences. The Audit and Corporate Governance Committee oversees general business risk management issues and the Industry, Regulation, Safety and Environment Committee oversees risks in the water, regulatory and environmental management areas.

- Higher risks are aligned with established business priorities and assessed against a comprehensive risk intelligence framework developed by an external advisor. Identified risks are typically categorised under the areas of governance, strategy and planning, operations and infrastructure, compliance and reporting
- Internally, SunWater has dedicated internal audit, legal, business improvement and governance resources to oversee management of risk identification, planning, mitigation and review processes and, additionally, sources external advice as required.

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

SunWater has established a Remuneration Committee which meets at least 4 times each year and assists the Board in discharging its duties in regard to executive appointments, executive performance, staff remuneration and industrial relations matters. It considers and recommends to the Board the remuneration and terms of employment for the CEO and Senior Executives and is directly involved in the associated performance planning and review processes. It also oversees the SunWater Enterprise Agreement renewal process. The appropriateness of SunWater's remuneration strategy is assessed utilising community and industry standards and other external information.

## Remuneration of Directors

Remuneration of Directors is determined by the Governor-in-Council. Total remuneration levels for individual Directors are reported earlier in this Report.

## Senior Executive and Staff Remuneration

The Remuneration Committee of the Board oversees all employee remuneration. SunWater remuneration policies for the majority of SunWater staff, excluding staff members on individual contract, are determined by an Enterprise Agreement in accordance with the Queensland Government approved negotiating framework. SunWater does not have a performance payment scheme for employees covered by the Enterprise Agreement.

Senior Executive remuneration is set by the Board in accordance with Queensland Government policy for the Governance Arrangements for Chief and Senior Executives. Their remuneration is based on external independent advice on position evaluation and having regard to Queensland Government policy. Remuneration levels are set on the basis of Total Fixed Remuneration, and are inclusive of all payments and benefits. Senior Executive remuneration and conditions for new appointments are based on Queensland Government's preferred outer limit employment agreements. Existing senior positions are based on a mix of outer limit and tenured employee arrangements.

A Performance Pay Scheme for the CEO and Senior Executives based on agreed targets set by the Board and CEO was in place during 2011-12. The scheme was reviewed in accordance with Queensland Government guidelines.

## Subsidiary Companies

Each subsidiary company has a Board of Directors drawn from the SunWater Board, and meets on average 3 times per year to overview the management, operations, performance and financial reporting activities of that company.

# COMPLIANCE IN KEY AREAS

## Dam safety

SunWater has in place a comprehensive dam safety program that meets or exceeds dam safety guidelines set by the dam safety regulator (DEWS), and monitors dam safety as required by the *Water Supply (Safety and Reliability) Act 2008* and in accordance with the Australian National Committee on Large Dams (ANCOLD) guidelines. Annual updates are provided to SunWater's insurance broker to comply with insurance policy disclosure requirements. In recognition of revised maximum probable flood estimates and relevant ANCOLD and Queensland Government regulatory Guidelines on Acceptable Flood Capacity for Dams, SunWater has established and is implementing a program of dam safety upgrades. The upgrade program has been developed using a decision criteria methodology that optimises the reduction of safety risks and ensures value for money investments. SunWater presented the methodology to the 2011 ANCOLD conference.

## Quality management

SunWater is certified under ISO9001:2008 for Quality Management Systems, supporting and implementing continuous improvement of quality and compliance management. SunWater is a Project Managed Organisation as certified by the Australian Institute of Project Management.

## Environmental management

The SunWater Environmental Management System is certified under AS/NZS ISO14001:2004 and ensures that best-practice environmental management and compliance is achieved across the business.

## Workplace Health and Safety Management

The SunWater Workplace Health and Safety Management System is certified under AS/NZS 4801:2001 and ensures that best-practice WH&S management and compliance are achieved across the business.

## Financial management

SunWater complied with the relevant requirements of the *Financial Accountability Act 2009* (Qld), Corporations Act and the GOC Act.

## Local industry policy

During the year, SunWater complied with the Queensland Government's Local Industry Policy and supports competitive local industry access to tender for work on relevant infrastructure and resource-based projects and major procurements in Queensland. Amongst other commitments to the Queensland Government's Local Industry Policy, SunWater, in its planning for works, ensures consideration is given to offer opportunities to capable local suppliers in the development of work packages. SunWater reports on local industry involvement in these projects as required by submitting local industry participation plans and outcome reports to the Queensland Department of Science, Information Technology, Innovation and the Arts in line with the Queensland Government's policy and guidelines.

## Right to Information

In compliance with the *Right to Information Act 2009* (Qld), SunWater publishes (and regularly updates) its publication scheme and disclosure log on its website.

## SunWater Compliance Program

SunWater has implemented a compliance framework to achieve best practice in managing, monitoring and reporting compliance obligations. A system is in place to identify, review and respond to changes in legal obligations. The performance of this system is monitored and overseen by management to ensure that compliance objectives are met.

## Legal Proceedings

SunWater's internal Legal Services team provides representation for SunWater in respect to litigation or disputes with a view to resolving these in an appropriate and commercial manner. During the year the Legal Services team has been involved in the investigation and subsequent legal proceedings brought by Workplace Health and Safety Queensland in respect to the fatality of an employee of a contractor engaged by SunWater to design and construct a coffer dam at Marian Weir. Legal proceedings are also continuing in respect of a failure of an inflatable rubber dam at Bedford Weir in November 2008 which resulted in the fatality of a member of the public. SunWater's Legal Services team manages legal proceedings with a view to resolving disputes efficiently and effectively. In addition to this, SunWater maintains a full range of commercial insurances.

## Internal audit

Internal Audit is a key component of SunWater's corporate governance framework. It operates under a Charter approved and regularly reviewed by the Audit and Corporate Governance Committee. SunWater Internal Audit provides an independent assurance activity over the internal control systems across SunWater by delivering audit work against an approved annual audit plan which is approved by the Audit and Corporate Governance Committee.

The function is performed independently using an objective, systematic, disciplined and proactive approach and in conformance with the International Standards of Professional Practice of Internal Auditing. The audit plan is risk based and focuses on areas of highest risk with consideration of industry trends and other external factors affecting the business.

The Audit and Corporate Governance Committee monitors the status of internal audit projects under the approved annual audit plan and management actions on previous audit recommendations on a regular basis.

Internal Audit has engaged two co-source partners to assist with delivery of the annual audit plan.

SunWater's Internal Audit has increased its focus this year on risks associated with accounts payable and cash management, crisis management and business continuity, right to information, IT governance and travel management.

## Corporate planning and reporting

SunWater produces a Corporate Plan with a 5 year outlook, and a Statement of Corporate Intent (SCI) that is the annual performance agreement between the Board and shareholding Ministers. Quarterly Scorecards provide shareholding Ministers with details of SunWater's progress towards key undertakings and financial performance against targets and budgets documented in the SCI. Consolidated business and group performance reports are provided to the Board on a monthly basis. SunWater currently also releases an Interim Report each February to report progress against performance targets within the Annual SCI, and a Forecast Report at the end of each financial year to communicate SunWater's performance in the previous 12 months and its expectations for the coming year.

## DETAILS OF MODIFICATIONS TO THE SCI 2011-12

During the year, SunWater sought a modification to the 2011-12 Statement of Corporate Intent. The modification involved an amendment to the annual target associated with the financial metric for Economic Profit and had no impact on SunWater's costs or operations. The modification was agreed to by shareholding Ministers.

**Debt drawdown:** No debt draw downs occurred during 2011-12

**Derivative transactions:** No derivative transactions occurred during 2011-12

### Significant revenue /expenditure

**contracts:** During the year, SunWater entered into the following significant expenditure contracts:

- Flowserve – contract value \$10.115M signed on 12 August 2011 for the supply and installation of pumps associated with the Burdekin to Moranbah Augmentation project; and
- Moody Civil and Pipe Contractors – contract value \$34M signed 9 August 2011 for Kenya to Chinchilla Pipeline project.

**Water Trading Activity:** During the year, SunWater's water trading activities were audited by external auditors – no issues or recommendations were identified.

### Recycling Initiatives during 2011-12:

SunWater recycled 28T of scrap metal, 10T of sawdust bags (used as dunnage) and 5T of timber toms (used to support the bottom pipe during road transport to maintain ovality).

## SUBSIDIARY REPORTING

SunWater's subsidiaries – Burnett Water Pty Ltd, Eungella Water Pipeline Pty Ltd and North West Queensland Water Pipeline Pty Ltd, being small proprietary companies, are not required to prepare separate special purpose financial statements. For public reporting purposes, the subsidiaries are consolidated into SunWater Limited financial report.

## GOVERNMENT DIRECTIVES

### Claude Wharton Sub-scheme

SunWater received a directive from its shareholding Ministers in November 2010 in relation to the Claude Wharton sub-scheme of the Upper Burnett Water Supply Scheme; this direction was confirmed and extended in September 2011.

The directive stated that any announced allocations of Medium Priority water allocations held by SunWater (Burnett Water Allocations) in the Claude Wharton sub-scheme (Zones NB, NA, GB and GY) must be made available for seasonal assignment, with the following conditions:

- Water can only be 'temporary transferred' to Medium Priority allocation holders within the Claude Wharton sub-scheme,
- The volume to be 'temporary transferred' to Medium Priority water allocation holders is in proportion to their individual nominal volumes, and
- No Part A charge is to be levied by SunWater however, the relevant Part B charges will apply for any water taken.

Additionally, SunWater cannot transfer or lease allocations that it holds without approval by Minister and Treasurer.

### Irrigation Pricing

The Queensland Competition Authority's (QCA) review of irrigation pricing concluded with the release of their final report in May 2012. Subsequently the Queensland Government provided SunWater with an irrigation pricing directive that requires SunWater to apply the QCA recommended prices across the 5 year price path beginning 1 July 2012.

**Key Statistics: Scheme Summary**

| Scheme                   | Segment        | Scheme Segment                          | No. of Customers | Water             | Available Water (ML) | Available Water (%) | Water           | Water          | TT                | TT                   |
|--------------------------|----------------|---|------------------|-------------------|----------------------|---------------------|-----------------|----------------|-------------------|----------------------|
|                          |                |   |                  | Entitlements (ML) |                      |                     | Deliveries (ML) | Deliveries (%) | Sales Volume (ML) | Purchase Volume (ML) |
| Awoonga Callide Pipeline | Non-price Path | Awoonga Callide Pipeline Non-price Path |                  | 0                 | 12,399               |                     | 12,399          | 100.00         |                   |                      |
|                          |                |   | 29               | 0                 | 12,399               |                     | 12,399          | 100.00         | 0                 | 0                    |
| Barker Barambah          | Non-Price Path | Barker Barambah Non-Price Path          |                  | 2,909             | 2,809                | 96.56               | 675             | 24.04          | 0                 | 0                    |
| Barker Barambah          | Price Path     | Barker Barambah Price Path              |                  | 30,712            | 31,465               | 102.45              | 7,299           | 23.20          | 50                | 50                   |
| Barker Barambah          | SunWater       | Barker Barambah SunWater                |                  | 694               | 794                  | 114.41              | 0               | 0.00           | 0                 | 0                    |
|                          |                |   | 171              | 34,315            | 35,068               | 102.19              | 7,974           | 22.74          | 50                | 50                   |
| Bowen Broken Rivers      | Non-Price Path | Bowen Broken Rivers Non-Price Path      |                  | 32,355            | 32,419               | 100.20              | 12,249          | 37.78          | 301               | 365                  |
| Bowen Broken Rivers      | Price Path     | Bowen Broken Rivers Price Path          |                  | 5,676             | 5,676                | 100.00              | 1,002           | 17.65          | 0                 | 0                    |
| Bowen Broken Rivers      | SunWater       | Bowen Broken Rivers SunWater            |                  | 899               | 835                  | 92.88               | 497             | 59.47          | 64                | 0                    |
|                          |                |   | 55               | 38,930            | 38,930               | 100                 | 13,748          | 35.31          | 365               | 365                  |
| Boyne River and Tarong   | Non-Price Path | Boyne River and Tarong Non-Price Path   |                  | 33,688            | 33,369               | 99.06               | 13,365          | 40.05          | 0                 | 0                    |
| Boyne River and Tarong   | Price Path     | Boyne River and Tarong Price Path       |                  | 9,142             | 9,461                | 103.49              | 2,116           | 22.37          | 0                 | 0                    |
| Boyne River and Tarong   | SunWater       | Boyne River and Tarong SunWater         |                  | 1,625             | 1,625                | 100.00              | 279             | 17.17          | 0                 | 0                    |
|                          |                |   | 158              | 44,455            | 44,456               | 100.00              | 15,760          | 35.45          | 0                 | 0                    |
| Bundaberg                | Non-Price Path | Bundaberg Non-Price Path                |                  | 23,762            | 23,573               | 99.20               | 3,507           | 14.88          | 225               | 44                   |
| Bundaberg                | Price Path     | Bundaberg Price Path                    |                  | 185,689           | 186,231              | 100.29              | 74,516          | 40.01          | 2,755             | 3,256                |
| Bundaberg                | SunWater       | Bundaberg SunWater                      |                  | 170,878           | 170,558              | 99.81               | 12,876          | 7.55           | 320               | 0                    |
|                          |                |   | 1129             | 380,329           | 380,362              | 100.01              | 90,898          | 23.90          | 3,300             | 3,300                |
| Burdekin Haughton        | Non-Price Path | Burdekin Haughton Non-Price Path        |                  | 263,800           | 263,956              | 100.06              | 157,944         | 59.84          | 0                 | 135                  |
| Burdekin Haughton        | Price Path     | Burdekin Haughton Price Path            |                  | 398,241           | 413,615              | 103.86              | 212,596         | 51.40          | 6,630             | 6,585                |
| Burdekin Haughton        | SunWater       | Burdekin Haughton SunWater              |                  | 417,551           | 417,461              | 99.98               | 84,969          | 20.35          | 90                | 0                    |
|                          |                |   | 398              | 1,079,592         | 1,095,033            | 101.43              | 455,509         | 41.60          | 6,720             | 6,720                |
| Callide Valley           | Non-Price Path | Callide Valley Non-Price Path           |                  | 5,959             | 5,624                | 94.38               | 4,233           | 75.27          | 0                 | 0                    |
| Callide Valley           | Price Path     | Callide Valley Price Path               |                  | 18,323            | 16,601               | 90.60               | 6,869           | 41.37          | 180               | 180                  |
| Callide Valley           | SunWater       | Callide Valley SunWater                 |                  | 22                | 22                   | 100.00              | 15              | 68.18          | 0                 | 0                    |
|                          |                |   | 138              | 24,304            | 22,247               | 91.54               | 11,117          | 49.97          | 180               | 180                  |
| Chinchilla Weir          | Non-Price Path | Chinchilla Weir Non-Price Path          |                  | 1,450             | 1,172                | 80.83               | 894             | 76.30          | 278               | 0                    |
| Chinchilla Weir          | Price Path     | Chinchilla Weir Price Path              |                  | 2,594             | 2,821                | 108.75              | 2,291           | 81.23          | 860               | 1,087                |
| Chinchilla Weir          | SunWater       | Chinchilla Weir SunWater                |                  | 5                 | 56                   | 1120.00             | 27              | 47.54          | 20                | 71                   |
|                          |                |   | 32               | 4,049             | 4,049                | 100.00              | 3,212           | 79.34          | 1,158             | 1,158                |

| Scheme           | Segment        | Scheme Segment                  | No. of Customers | Water Entitlements (ML) | Available Water (ML) | Available Water (%) | Water Deliveries (ML) | Water Deliveries (%) | TT Sales Volume (ML) | TT Purchase Volume (ML) |
|------------------|----------------|---------------------------------|------------------|-------------------------|----------------------|---------------------|-----------------------|----------------------|----------------------|-------------------------|
| Cunnamulla       | Non-Price Path | Cunnamulla Non-Price Path       |                  | 0                       | 0                    |                     | 0                     |                      | 0                    | 0                       |
| Cunnamulla       | Price Path     | Cunnamulla Price Path           |                  | 2,492                   | 2,492                | 100.00              | 1,516                 | 60.82                | 520                  | 520                     |
| Cunnamulla       | SunWater       | Cunnamulla SunWater             |                  | 120                     | 120                  | 100.00              | 0                     |                      | 0                    | 0                       |
|                  |                |                                 | 23               | 2,612                   | 2,612                | 100.00              | 1,516                 | 58.03                | 520                  | 520                     |
| Dawson Valley    | Non-Price Path | Dawson Valley Non-Price Path    |                  | 5,459                   | 5,051                | 92.52               | 1,761                 | 34.87                | 0                    | 120                     |
| Dawson Valley    | Price Path     | Dawson Valley Price Path        |                  | 52,305                  | 35,412               | 67.70               | 13,650                | 38.55                | 4,942                | 4,942                   |
| Dawson Valley    | SunWater       | Dawson Valley SunWater          |                  | 4,173                   | 3,615                | 86.62               | 2,251                 | 62.28                | 120                  | 0                       |
|                  |                |                                 | 157              | 61,937                  | 44,077               | 71.16               | 17,662                | 40.07                | 5,062                | 5,062                   |
| Eton             | Non-Price Path | Eton Non-Price Path             |                  | 1,674                   | 1,286                | 76.84               | 227                   | 17.66                | 0                    | 0                       |
| Eton             | Price Path     | Eton Price Path                 |                  | 51,500                  | 51,497               | 99.99               | 10,368                | 20.13                | 98                   | 98                      |
| Eton             | SunWater       | Eton SunWater                   |                  | 9,389                   | 9,389                | 100.00              | 5,831                 | 62.10                | 0                    | 0                       |
|                  |                |                                 | 321              | 62,563                  | 62,172               | 99.38               | 16,426                | 26.42                | 98                   | 98                      |
| Julius Dam       | Non-Price Path | Julius Dam Non-Price Path       |                  | 38,000                  | 38,000               | 100.00              | 8,038                 | 21.15                | 0                    | 0                       |
| Julius Dam       | SunWater       | Julius Dam SunWater             |                  | 10,850                  | 10,850               | 100.00              | 0                     | 0.00                 | 0                    | 0                       |
|                  |                |                                 | 5                | 48,850                  | 48,850               | 100.00              | 8,038                 | 16.45                | 0                    | 0                       |
| Lower Fitzroy    | Non-Price Path | Lower Fitzroy Non-Price Path    |                  | 24,045                  | 24,115               | 100.29              | 18,593                | 77.10                | 4                    | 74                      |
| Lower Fitzroy    | Price Path     | Lower Fitzroy Price Path        |                  | 3,101                   | 3,101                | 100.00              | 0                     | 0.00                 | 0                    | 0                       |
| Lower Fitzroy    | SunWater       | Lower Fitzroy SunWater          |                  | 1,475                   | 1,405                | 95.25               | 2                     | 0.14                 | 70                   | 0                       |
|                  |                |                                 | 24               | 28,621                  | 28,621               | 100.00              | 18,595                | 64.97                | 74                   | 74                      |
| Macintyre Brook  | Non-Price Path | Macintyre Brook Non-Price Path  |                  | 670                     | 450                  | 67.16               | 219                   | 48.73                | 0                    | 0                       |
| Macintyre Brook  | Price Path     | Macintyre Brook Price Path      |                  | 23,512                  | 23,371               | 99.40               | 7,349                 | 31.45                | 6,123                | 1,367                   |
| Macintyre Brook  | SunWater       | Macintyre Brook SunWater        |                  | 815                     | 1,076                | 132.02              | 4,968                 | 461.70               | 790                  |                         |
|                  |                |                                 | 99               | 24,997                  | 24,897               | 99.60               | 12,536                | 50.35                | 6,913                | 1,367                   |
| Maranoa River    | Price Path     | Maranoa River Price Path        |                  | 800                     | 800                  | 100.00              | 21                    | 2.66                 | 0                    | 0                       |
| Maranoa River    | SunWater       | Maranoa River SunWater          |                  | 5                       | 0                    | 0.00                | 0                     |                      | 0                    | 0                       |
|                  |                |                                 | 4                | 805                     | 800                  | 99.38               | 21                    | 2.66                 | 0                    | 0                       |
| Mareeba Dimbulah | Non-Price Path | Mareeba Dimbulah Non-Price Path |                  | 8,989                   | 9,716                | 108.08              | 5,527                 | 56.89                | 403                  | 3,520                   |
| Mareeba Dimbulah | Price Path     | Mareeba Dimbulah Price Path     |                  | 150,428                 | 185,872              | 123.56              | 92,267                | 49.64                | 16,401               | 16,068                  |
| Mareeba Dimbulah | SunWater       | Mareeba Dimbulah SunWater       |                  | 45,007                  | 45,066               | 100.13              | 25,150                | 55.81                | 2,845                | 61                      |
|                  |                |                                 | 1132             | 204,424                 | 240,654              | 117.72              | 122,944               | 51.09                | 19,650               | 19,650                  |

| Scheme           | Segment        | Scheme Segment                  | No. of Customers | Water             | Available Water (ML) | Available Water (%) | Water            | Water Deliveries (%) | TT                | TT                   |
|------------------|----------------|---------------------------------|------------------|-------------------|----------------------|---------------------|------------------|----------------------|-------------------|----------------------|
|                  |                |                                 |                  | Entitlements (ML) |                      |                     | Deliveries (ML)  |                      | Sales Volume (ML) | Purchase Volume (ML) |
| Mary River       | Non-Price Path | Mary River Non-Price Path       |                  | 190               | 1,190                | 626.32              | 0                | 0.00                 | 0                 | 0                    |
| Mary River       | Price Path     | Mary River Price Path           |                  | 22,017            | 22,017               | 100.00              | 3,570            | 16.22                | 252               | 252                  |
| Mary River       | SunWater       | Mary River SunWater             |                  | 11,252            | 11,252               | 100.00              | 334              | 2.97                 | 0                 | 0                    |
|                  |                |                                 | 186              | 33,459            | 34,459               | 102.99              | 3,904            | 11.33                | 252               | 252                  |
| Nogoa Mackenzie  | Non-Price Path | Nogoa Mackenzie Non-Price Path  |                  | 39,699            | 39,411               | 99.27               | 19,563           | 49.64                | 57                | 274                  |
| Nogoa Mackenzie  | Price Path     | Nogoa Mackenzie Price Path      |                  | 159,247           | 234,366              | 147.17              | 137,713          | 58.76                | 43,011            | 42,794               |
| Nogoa Mackenzie  | SunWater       | Nogoa Mackenzie SunWater        |                  | 35,050            | 36,205               | 103.30              | 11,960           | 33.03                | 0                 | 0                    |
|                  |                |                                 | 380              | 233,996           | 309,982              | 132.47              | 169,236          | 54.60                | 43,068            | 43,068               |
| Pioneer River    | Non-Price Path | Pioneer River Non-Price Path    |                  | 18,440            | 18,440               | 100.00              | 13,639           | 73.97                | 400               | 400                  |
| Pioneer River    | Price Path     | Pioneer River Price Path        |                  | 47,390            | 47,390               | 100.00              | 5,191            | 10.95                | 0                 | 0                    |
| Pioneer River    | SunWater       | Pioneer River SunWater          |                  | 12,280            | 12,280               | 100.00              | 11               | 0.09                 | 0                 | 0                    |
|                  |                |                                 | 10               | 78,110            | 78,110               | 100.00              | 18,842           | 24.12                | 400               | 400                  |
| Proserpine River | Non-Price Path | Proserpine River Non-Price Path |                  | 15,793            | 12,683               | 80.31               | 5,902            | 46.53                | 0                 | 0                    |
| Proserpine River | Price Path     | Proserpine River Price Path     |                  | 37,746            | 38,075               | 100.87              | 14,390           | 37.79                | 28                | 28                   |
| Proserpine River | SunWater       | Proserpine River SunWater       |                  | 6,537             | 9,317                | 142.53              | 0                | 0.00                 | 0                 | 0                    |
|                  |                |                                 | 93               | 60,076            | 60,075               | 100.00              | 20,292           | 33.78                | 28                | 28                   |
| St George        | Non-Price Path | St George Non-Price Path        |                  | 3,069             | 2,490                | 81.13               | 897              | 36.01                | 0                 | 0                    |
| St George        | Price Path     | St George Price Path            |                  | 71,785            | 85,684               | 119.36              | 51,233           | 59.79                | 643               | 647                  |
| St George        | SunWater       | St George SunWater              |                  | 9,721             | 13,316               | 136.99              | 10,289           | 77.27                | 0                 | 0                    |
|                  |                |                                 | 161              | 84,575            | 101,490              | 120.00              | 62,418           | 61.50                | 643               | 647                  |
| Three Moon Creek | Non-Price Path | Three Moon Creek Non-Price Path |                  | 630               | 630                  | 100.00              | 229              | 36.36                | 15                | 15                   |
| Three Moon Creek | Price Path     | Three Moon Creek Price Path     |                  | 14,104            | 14,104               | 100.00              | 3,699            | 26.23                | 0                 | 0                    |
|                  |                |                                 | 91               | 14,734            | 14,734               | 100.00              | 3,929            | 26.66                | 15                | 15                   |
| Upper Burnett    | Non-Price Path | Upper Burnett Non-Price Path    |                  | 1,999             | 1,865                | 93.30               | 696              | 37.29                | 15                | 0                    |
| Upper Burnett    | Price Path     | Upper Burnett Price Path        |                  | 28,519            | 29,227               | 102.48              | 11,815           | 40.42                | 240               | 307                  |
| Upper Burnett    | SunWater       | Upper Burnett SunWater          |                  | 18,032            | 17,980               | 99.71               | 0                | 0.00                 | 70                | 18                   |
|                  |                |                                 | 160              | 48,550            | 49,072               | 101.08              | 12,510           | 25.49                | 325               | 325                  |
| Upper Condamine  | Non-Price Path | Upper Condamine Non-Price Path  |                  | 4,214             | 4,211                | 99.94               | 1,244            | 29.54                | 0                 | 50                   |
| Upper Condamine  | Price Path     | Upper Condamine Price Path      |                  | 29,485            | 26,717               | 90.61               | 21,002           | 78.61                | 5,385             | 5,149                |
| Upper Condamine  | SunWater       | Upper Condamine SunWater        |                  | 98                | 281                  | 286.30              | 0                | 0.00                 | 50                | 236                  |
|                  |                |                                 | 100              | 33,797            | 31,209               | 92.34               | 22,246           | 71.28                | 5,435             | 5,435                |
| <b>Total</b>     |                |                                 | <b>5,056</b>     | <b>2,628,080</b>  | <b>2,764,359</b>     | <b>105</b>          | <b>1,121,733</b> | <b>41</b>            | <b>94,255</b>     | <b>88,713</b>        |

### SunWater Dams – Summary Statistics

| Dam name        | Stream name   | Nearest town | Structure description                             | Storage level above original bed (metres) | Storage capacity (ml) | Surface area at full supply level (ha) | Year completed |
|-----------------|---|--------------|---|---|-----------------------|--|----------------|
| E J Beardmore   | Balonne River   | St George    | Earthfill and mass concrete (vertical lift gates) | 12.1                                      | 81,700                | 2,850                                  | 1972           |
| Bjelke-Petersen | Barker Creek  | Murgon       | Earth and rockfill                                | 26.3                                      | 134,900               | 2,250                                  | 1988           |
| Boondooma       | Boyne River   | Proston      | Concrete faced rockfill                           | 47.8                                      | 204,200               | 1,815                                  | 1982           |
| Burdekin Falls  | Burdekin River  | Ravenswood   | Mass concrete                                     | 40.0                                      | 1,860,000             | 22,000                                 | 1987           |
| Callide         | Callide Creek   | Biloela      | Earthfill (radial gates)                          | 34.8                                      | 136,300               | 1,240                                  | 1965-98        |
| Cania           | Three Moon Creek  | Monto        | Earth and rockfill                                | 40.1                                      | 88,500                | 760                                    | 1982           |
| Coolmunda       | Macintyre Brook   | Inglewood    | Earthfill (radial gates)                          | 16.1                                      | 69,000                | 1,645                                  | 1968           |
| Eungella        | Broken River  | Eungella     | Earth and rockfill                                | 39.6                                      | 112,400               | 848                                    | 1969           |
| Fairbairn       | Nogoa River   | Emerald      | Earthfill   | 31.7                                      | 1,301,000             | 15,000                                 | 1972           |
| Fred Haigh      | Kolan River   | Gin Gin      | Earth and rockfill                                | 43.0                                      | 562,000               | 5,345                                  | 1975           |
| Julius          | Leichhardt River  | Mount Isa    | Multiple arch concrete buttress                   | 25.2                                      | 107,500               | 1,255                                  | 1976           |
| Kinchant        | Sandy Creek (North Branch) – water harvested from Pioneer River | North Eton   | Earth and rockfill                                | 18.1                                      | 62,800                | 920                                    | 1977-86        |
| Kroombit        | Kroombit Creek  | Biloela      | Earth and rockfill, RCC spillway                  | 18.6                                      | 14,600                | 289                                    | 1992           |
| Leslie          | Sandy Creek   | Warwick      | Mass concrete (radial gates)                      | 28.9                                      | 106,200               | 1,288                                  | 1965-86        |
| Paradise*       | Burnett River   | Biggenden    | Roller compacted concrete                         | 37.1                                      | 300,560               | 2,950                                  | 2005           |
| Peter Faust     | Proserpine River  | Proserpine   | Earth and rockfill                                | 39.6                                      | 491,400               | 4,325                                  | 1990           |
| Teemburra       | Teemburra Creek   | Finch Hatton | Concrete faced rockfill                           | 54.0                                      | 147,500               | 1,107                                  | 1996           |
| Tinaroo Falls   | Barron River  | Atherton     | Mass concrete                                     | 41.8                                      | 438,900               | 3,500                                  | 1958           |
| Wuruma          | Nogo River  | Eidsvold     | Mass concrete                                     | 36.6                                      | 165,400               | 1,639                                  | 1968           |

\* Owned by Burnett Water Pty Ltd – a subsidiary of SunWater



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