



2017-18 ANNUAL REPORT

Transformation in action





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About this report

This annual report provides a review of SunWater Limited's financial and non-financial performance for the 12 months ended 30 June 2018. The report includes a summary of activities undertaken to meet key performance indicators set out in SunWater's Statement of Corporate Intent 2017-18 (SCI), which represents our performance agreement with our shareholding Ministers.

This annual report aims to provide information to meet the needs of SunWater stakeholders. An electronic version of this annual report is available on the SunWater website: www.sunwater.com.au

We invite your feedback on our report. Please contact our Customer Services team by calling 13 15 89 or email customerservices@sunwater.com.au

Aboriginal acknowledgement

SunWater respectfully acknowledges the Traditional Owners of the land on which we operate and pays our respect to their Elders past and present.

A new direction defined



Who we are

We operate 365 days a year to deliver the lifeblood of regional Queensland

SunWater is a water solutions and service provider supplying more than 5000 customers across agriculture, urban and industrial sectors. For more than 80 years we have delivered water and we currently deliver more than 40 per cent of the water used commercially in Queensland through a network of critical infrastructure including:

- 19 major dams
- 64 weirs and barrages
- 730 kilometres of water channels
- 79 major pumping stations
- 2120 kilometres of pipelines
- 10 water treatment plants

Core capabilities

Our focus is to deliver safe and reliable water solutions for customers including:

- bulk water storage and distribution
- water infrastructure development
- water facilities maintenance and management
- customer water account management
- flood hydrology and hydraulics
- specialist consulting services including design.

Within SunWater there are three additional operating companies:

- Burnett Water Pty Ltd
- Eungella Water Pipeline Pty Ltd
- North West Queensland Water Pipeline Pty Ltd.

Our purpose and values

Delivering value through water solutions for today and tomorrow

WORK TOGETHER

We are our best when we work together as one SunWater and with our stakeholders front of mind.

VALUE PEOPLE

We are the sum of our parts, and everyone matters.

TAKE RESPONSIBILITY

We all have a part to play to deliver on our promises.

Shareholders

SunWater Limited was established under the *Government Owned Corporation Act 1993* (Qld) and is a registered water service provider under the *Water Act 2000*.

Our shareholding Ministers as at 30 June 2018 are:

- **The Hon Curtis Pitt MP**, then Minister Treasurer and Minister for Trade and Investment.
(1 July 2017 to 11 December 2017)
- **The Hon Jackie Trad MP**, Deputy Premier, Treasurer and Minister for Aboriginal and Torres Strait Islander Partnerships.
(12 December 2017 to 30 June 2018)
- **The Hon Mark Bailey MP**, then Minister for Main Roads, Road Safety and Ports and Minister for Energy, Biofuels and Water Supply.
(1 July 2017 to 9 August 2017 and 27 September 2017 to 11 December 2017)
- **The Hon Dr Anthony Lynham MP**, Minister for Natural Resources, Mines and Energy.
(12 December 2017 to 30 June 2018)

Year in Review

We are pleased to provide an overview of the results achieved through the efforts of our people against the objectives agreed by the Board and Executive Leadership Team for 2017-18.

This year has been about challenging how we can do things better and what we need to change to truly be a valued water solutions provider to our customers. We are pleased to share our highlights and outline the next steps on our journey as we strive to set new benchmarks for customer engagement, organisational efficiency and safe high performance.

Delivering our FY18 strategy

Commercially focused

We delivered on our commitment in 2017-18 with 1.2 gigalitres of water delivered within targeted distribution levels and service level efficiencies. This result demonstrates our ongoing focus to deliver sustainability and value for customers and we sought to achieve this through open and transparent communication.

Two local management arrangements at St George and Theodore were approved to provide irrigators the opportunity to manage their water distribution assets. At the same time, customers in Mary River and Bundaberg water supply schemes elected for SunWater to continue managing these assets for local irrigators. We will continue to support our customers' desire to be more empowered and involved in local decision making.

SunWater successfully applied for grant funding from the National Water Infrastructure Development Fund (NWIDF) in 2017-18 for Efficiency Improvement Projects (EIP) that will recover up to 14,000 megalitres of lost water per annum. These projects see SunWater contributing a combined \$25.5 million towards the \$28.2 million Mareeba Dimbulah EIP and the \$11.8 million Nogoia Mackenzie EIP that will benefit local irrigation customers by maximising opportunities for water delivery in those areas.

SunWater also worked closely with the Queensland Competition Authority (QCA) and state agencies in 2017-18 to guide discussion around the bulk water pricing review. Under this process, the

QCA will make a recommendation to the Queensland Government on SunWater's future irrigation prices. The QCA review did not start during the report period, however it is expected to start in early 2018-19.

As part of our preparation for this process during the reporting period, we provided customers transparent records of our operating expenses. We met with irrigation advisory committees around the state to discuss potential changes to the price path and allow customers to have their say. We were pleased to give irrigators a chance to have their voices heard in this important process which will balance the commercial needs of our business with future viability for customers.

A sustainable business

SunWater played a major role in the delivery of the Queensland Bulk Water Opportunities Statement which reflects Government's objectives for bulk water supply and commitment for future water security across Queensland. SunWater provided valuable insight into potential new future infrastructure projects and upgrade initiatives to ensure our dams continue to be safe in extreme weather events and safeguard customer water security in our storages.

As part of our commitment to maximise the safety and efficiency of our infrastructure, SunWater undertook five major feasibility studies in 2017-18. We are very proud of the collective effort undertaken to complete the detailed business case for the Rookwood Weir project, which will support agricultural production, urban water supply and industrial developments throughout Gladstone and the Capricorn Coast. SunWater was announced as being responsible for the construction of the \$352 million project in the 2018-19 state budget and we'll now put our planning into action as we progress towards design ahead of a proposed start of construction by the end of 2019.

We carried out the Burdekin Haughton Water Supply Scheme Upgrade Feasibility Study, which involved assessing the viability of channel upgrades, efficiency improvements and additional pipelines and storages. We also progressed the Bundaberg Channel



Capacity Upgrade Study which identified projects that could deliver an additional 55,650 ML of water per annum for customers. Continued work in this space will ensure we're best placed to deliver infrastructure required to maximise water access for our customers.

SunWater's Dam Improvement Program (DIP) is the largest program of infrastructure improvements undertaken in our history. We made great progress with a number of projects in 2017-18, including spillway improvements to Fairbairn and Paradise dams plus the Burdekin Falls Dam Foundation Drainage Improvement Project. We'll continue to progress several DIP projects throughout the next financial year to ensure our infrastructure remains safe and efficient. SunWater also completed the Boondooma Dam flood repair works.

We also supported Building Queensland on the completion of the Nullinga Dam and Other Options preliminary business case, which estimated the proposed Nullinga Dam could provide up to 90,000 ML of additional water per year for our Far North Queensland customers. The study has set the wheels in motion for a detailed business case to start in 2018-19.

Supportive stakeholders

We continued our journey to put customers at the centre of everything we do and improve value in every interaction. SunWater has worked hard over the past year to strengthen our trust, communication and responsiveness to customers.

Chairman and CEO message



We implemented recommendations handed down by the Inspector-General Emergency Management (IGEM) on time and under budget, including improved informational signage and the implementation of emergency alert systems at six dams. This work will ensure SunWater is ideally positioned to roll out best practice disaster management operations and support communities through extreme weather events.

SunWater delivered two innovative community safety campaigns to help inform community stakeholders. The first was a grassroots project in St George that involved filming a hip hop video with local kids to spread messages about weir safety. The second was a fishing safety campaign to raise awareness of hazards around dams and weirs, which included a partnership with popular fishing television program Creek to Coast and lift-outs in industry publications. We also held community open days at five dams to improve local understanding around our infrastructure and help communities prepare for storm season.

While SunWater's core business is water delivery and associated infrastructure management, we understand the important role our dams play in uniting local communities. We stepped up our efforts to facilitate regional councils taking ownership of dam recreation areas and creating bespoke open spaces for their residents to enjoy. Positive conversations were had with Whitsunday and Central Highlands regional councils and we look forward to strengthening these partnerships.

A safe high-performance culture

We made major strides this year in our efforts to further SunWater as an efficient and dynamic workplace capable of meeting future challenges head on. An organisational restructure in January put us in the best position possible to deliver our strategy and provide more support to the regions.

The 2019-23 SunWater Corporate Plan was provided to shareholders in May 2018. The plan outlines the key business focus areas we will progress over the coming five years and formally aligns our business objectives with our values – work together, value people and take responsibility. It continues our journey of placing customers at the centre of everything we do, embedding a safe high-performing culture through empowerment of our people and finding ways for continuous improvement in delivering our services.

Our focus for FY19

Our key focus areas in 2018-19.

Improving business systems and process

We are committed to improving our information technology and business systems to ensure staff can perform as efficiently as possible to deliver better value to customers.

Efficiency focus

We will continue to progress our efficiency focus to improve the way we work and target cost savings. In 2018-19 we will relocate our Brisbane office to a new location in Fortitude Valley, which will greatly improve the way staff can collaborate and work together, whilst delivering savings.

Strengthen internal and external relationships

SunWater will continue to progress our customer centric strategy and improve our engagement with all stakeholders to work towards improved customer service. We are committed to implementing ongoing system improvements to enhance transparency for shareholders and engagement for customers as well as updating our website. Next financial year, we will be making our submission for the next QCA regulated price path for irrigation bulk water.

Improve infrastructure and plan for the future

We will be focused on delivering long-term value for customers by looking at innovative ways we can deliver water security, maximise available supply and enhance dam upgrades and safety. The progression of business cases for Paradise and Burdekin Falls DIPs, Nullinga Dam and Burdekin Falls Dam raising will be supplemented by our work on the ground progressing Rookwood Weir, Fairbairn DIP and EIP at Mareeba Dimbulah and Nogoia Mackenzie water supply schemes. SunWater will also be progressing discussions with customers on how we can look to work with them on longer-term lower-cost power solutions.

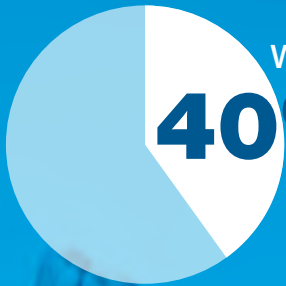
Leadership and culture

SunWater will continue to improve our leadership and culture and developing our people to be able to deliver services now and in the future for our customers.

Leith Bouly
Chairman

Nicole Hollows
Chief Executive

Sunwater at a glance



We supply around **40%** of the water used commercially in Queensland



400+ people across 19 locations

We operate

365 days

per year to deliver the **LIFEBLOOD** of regional Queensland

50%

Half of our people live and work in regional Queensland

On average, we deliver more than 1,300,000 ML of water each year



that's enough water to fill

Sydney Harbour 3 times

We service more than

5000

customers



Irrigation



Industrial



Urban

Capacity of **6715** gigalitres of water storage in dams, weirs and barrages



19 DAMS



64 WEIRS & BARRAGES



730 KM WATER CHANNELS



79 PUMPING STATIONS

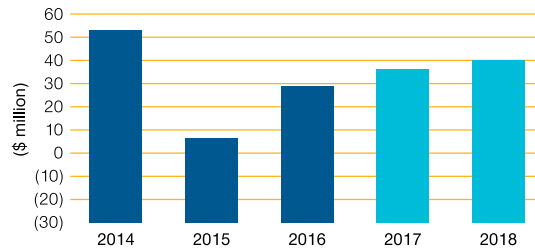


2120 KM PIPELINES

Key highlights

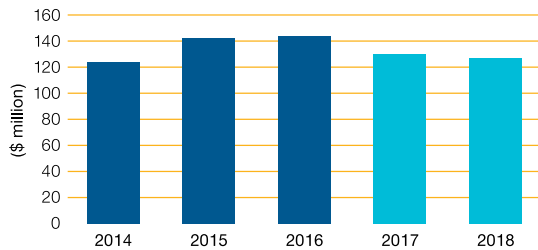
SunWater Limited sustained strong financial growth throughout the year. A reduction in the impairment of assets helped drive a 10 percent increase in Net Profit After Tax (NPAT) while revenue has remained relatively stable. The cash position and robust performance have allowed the group to declare a dividend of 100 per cent NPAT.

NPAT



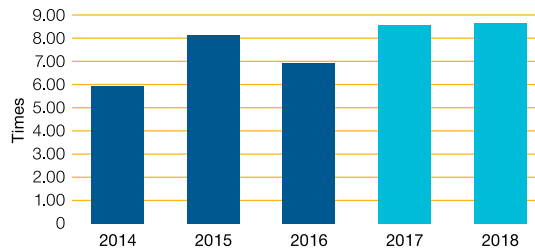
SunWater's NPAT has increased by 10% to \$39.66m and was ahead of the SCI budget expectation.

EBITDA



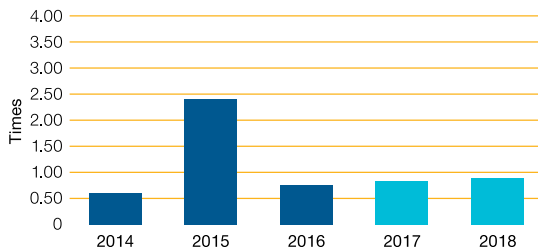
Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) has marginally decreased primarily due to progress made on Fairbairn Dam Improvement Project (stage 2) and one-off business restructuring costs.

EBITDA interest cover



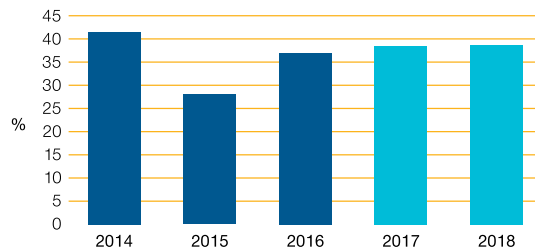
The EBITDA Interest Cover (excluding impairment) has marginally improved primarily due to lower borrowing costs with Queensland Treasury Corporation.

Current ratio



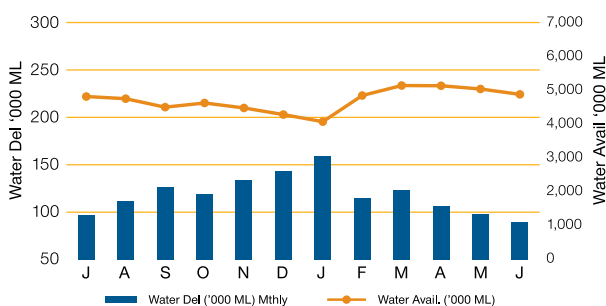
The current ratio has steadily improved in 2017-18 as cash asset reserves have increased following the \$289m special dividend and return of contributed equity payout in the 2017 year.

Market gearing



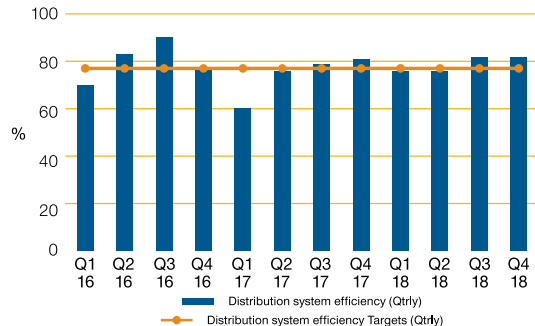
Market Gearing (Debt/Debt + Equity) has remained relatively stable. The marginal increase is due to the divestment of the St George channel water infrastructure assets and liabilities which has reduced contributed equity. Borrowings remained at \$284m during the year.

Water – available and delivered



A number of storages received significant inflows during this year's wet season resulting in some dam storages increasing in capacity.

Distribution system efficiency



SunWater managed channel shutdowns in 2017-18 in order to achieve an average channel distribution efficiency of 79% which was above the target of 77%.

Health, safety and environment

We are committed to ensuring our people go home safe, every day.



Employees undertaking safe work practices.

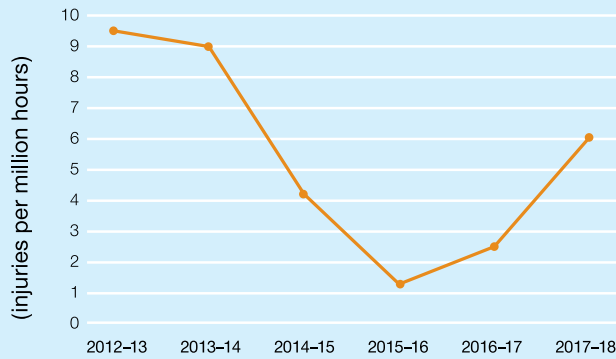
We are continuing our journey to achieve zero harm for our people, contractors, visitors and the environment through the embedding of our safety and environmental plans focused on reducing and mitigating risk.

As our systems and plans mature, we are seeing an increase in the reporting of hazards and near misses from staff and contractors to help us mitigate risks that may cause harm. We also capture all contractor incident data to use in overall safety statistics. This enables us to more accurately reflect our true safety and environment performance and work with our contractor organisations to share learnings and implement preventative measures.

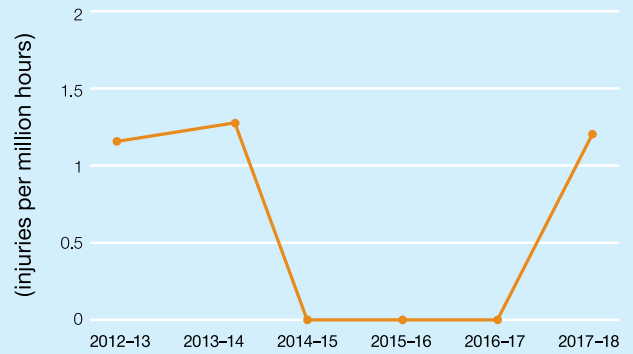
SunWater's safety and environment performance is reviewed at all Board and Executive Leadership meetings to ensure continuous improvement and provide a safe environment for all of our staff, contractors and visitors. We are committed to achieving a safety culture that embraces personal, above-the-line accountability, visual safety leadership and a genuine care for our people. To support this commitment, we will implement a state-wide program over the coming year including the Switched On behavioural safety program to promote safe behaviours that underpin our values. This investment is a commitment to ensuring that our people go home safe, every day.

Our safety performance in 2017-18 saw an increase in injury rates. The injury rate increased due to the inclusion of contractor safety statistics in addition to SunWater employee statistics. As a result, SunWater recorded a Lost Time Injury Frequency Rate (LTIFR) of 1.18 during the year and a Total Recordable Injury Frequency Rate (TRIFR) of 7.10 as at 30 June 2018. Since December 2017 SunWater has not recorded a lost time injury or a recordable injury.

Total Recordable Injury Frequency Rate



Lost Time Injury Frequency Rate



Safety, Health and Environment Council

Safety, Health and Environment Council has been established to support SunWater’s Executive Leadership Team. With senior membership drawn from across the SunWater business, the Council’s oversight includes:

- leading a ‘one SunWater’ approach to safety
- implementing compliance with legislative regulatory requirements and Advisory Standards or Codes of Practice
- delivering state-wide safety strategies and directions to achieve no harm
- achieving safety, health and environmental objectives and targets
- monitoring and considering corrective actions arising from SunWater’s safety, health and environmental performance
- ensuring appropriate policies, procedures, systems, notes and accountabilities are developed and maintained to meet safety, health and environmental responsibilities and objectives
- leading processes and initiatives to meet SunWater’s objectives and have a high visual presence.

Our systems

SunWater’s quality assurance system provides the framework by which we manage, operate and maintain our water infrastructure. Our quality management system incorporates a continuous improvement program to ensure procedures are effective and contemporary. In April 2018, we successfully achieved a recertification audit by SAI Global to the revised ISO 9001 and ISO 14001 Standards.

SunWater currently holds the following ISO certification:

- Quality Management ISO 9001:2008
- Environmental Management ISO 14001:2004
- Safety Management AS/NZ 4801

Emergency Action Plan reviews

In 2017–18, SunWater started a program to review, update and implement 24 Emergency Action Plans (EAP) for 22 SunWater dams and 2 non-SunWater-owned dams, to comply with 2017 legislative changes and provide emergency staff with relevant training.

At the request of Townsville City Council, SunWater updated the Ross River Dam EAP to adopt the same format as other SunWater EAPs.

The majority of the EAPs were updated with consultation with local councils and local and district disaster management groups.

Health, safety and environment (continued)



Callide Dam, Biloela.

Emergency management response for flood operations

In response to the 2015 IGEM Review of Seqwater and SunWater warnings communications, SunWater established the Emergency Management Improvement Project in March 2016. This project implements recommendations for improving our messaging, education and information for downstream communities, and improved disaster operations.

The project is designed to significantly advance SunWater’s capabilities in flood modelling, improve cross-agency coordination and implement world-class approaches to provide information to downstream residents and increase community preparedness.

This Emergency Management Improvement Project consists of four parts:

- increased information and data availability (internal and external), and flood impact mapping
- additional catchment monitoring and gauging station infrastructure
- improved hydrologic (forecasting) modelling capability
- improved warnings and communication tools.

The majority of the scope for the Emergency Management Improvement Project was completed at the end of 2017, with final works yet to be completed on Callide gates by mid 2019 and six downstream sirens to be installed during 2018.

As part of the project SunWater established a dedicated centre to monitor weather and dam levels and respond to any dam safety events. The Operations Centre operates 365 days a year to continuously monitor weather and dam levels, respond to any dam safety events, provide early and improved warning communications, and provide a point of contact for disaster management groups. The Operations Centre successfully managed the Ex-Tropical Cyclone Debbie weather event during March 2017 and prepared for stand up on four occasions for Tropical Cyclones Linda, Nora and Iris and the monsoon burst that affected Townsville in late February.

To ensure benefits of the Emergency Management Improvement Project initiatives are maximised, we have this year undertaken a program of community engagement and education. We are working closely with local authorities to ensure a coordinated approach to community messaging.



Callide Creek flood review

The IGEM *2015 Callide Creek Flood Review* (June 2015) that followed Tropical Cyclone Marcia in February 2015 made 13 recommendations.

The first recommendation was that DNRME and SunWater undertake studies to determine whether or not it was feasible to operate Callide Dam as a flood mitigation dam (including alternative means of effective community outcomes). Following completion of detailed studies, review of shortlisted options and public consultation, the joint report entitled *Callide Valley Flood Mitigation Study* was submitted to Government, with final decision made in April 2018 and available on the Internet. The final recommendations of the report – as now approved by the Government include:

- it is not feasible to operate Callide Dam as a flood mitigation dam
- SunWater modifies the operation of the dam spillway gates to make limited manual early flood event releases as a warning of likely higher imminent releases
- SunWater makes the necessary modifications to facilitate improved manual and remote control of the Callide Dam spillway gates consistent with safe and reliable long-term operations.

SunWater is currently designing the modified works necessary to allow the recommended operational improvements. Construction is expected to be completed in early 2019, though commissioning, implementing and training against revised operational rules may not be finalised until mid-2019. SunWater will continue to review the project to complete as soon as practical, while maintaining safe operation of the dam.

SunWater also worked closely with Banana Shire Council (BSC) and related agencies to implement the other IGEM recommendations (relevant to SunWater) from 2015 to 2017. These included improved forecasting and flood impact modelling capability, additional rainfall and streamflow gauging stations, early communication and timely flood warnings, clearer messaging, improved coordination with agencies, alignment of warning triggers and levels, enhanced multi-channel warning systems for downstream residents (including the new SunWater mobile app), and public education and information including catchment-wide flood impact maps.

Delivering value for our customers

Our strong regional presence ensures we are on the ground when and where our customers need us.



Victor Dang, SSS Strawberry Farm, Bundaberg.

Providing better service to customers

We have continued to take steps towards transforming our customer experience by enhancing services and improving transparency of information. Developing customer relationships and generating conversations has allowed us to deliver water in ways that best meet customer need, within the context of the climate challenges we face in Queensland.

This year we implemented the customer centric strategy to drive a more consistent experience for our customers across four focus areas – customer satisfaction, sustainability and growth, cost of service and service delivery. We have focused on collaborating with customers so we can better address their needs and provide them with a better understanding of our business.



SSS Strawberry Farm, Bundaberg.

Customer service commitment

This year we updated our customer service commitment which outlined our operational principles to provide open and transparent service. We updated the complaints and feedback form on our website as a tool to close the loop on customer enquiries. This forms part of our overall Customer Service Commitment and will be monitored to ensure improvements are implemented.

Our Customer Service team continued to focus on improving transparency of information for our customers. We operate a 24/7 customer services centre, which fielded 16,057 telephone calls during 2017-18. This figure is up from the previous years of 15,192 in 2016-17 and 14,468 in 2015-16. This increase can be attributed to the transition to the SunWater water ordering system for the Burdekin Haughton scheme and increasing our communications to customers regarding current and forecast announced allocations.

On average 60 per cent of calls are from customers enquiring about their water accounts and billing, 30 per cent are from solicitors or customers regarding permanent water/property transfers and the remaining 10 per cent are community enquiries regarding dam operations, recreation and public safety. In 2018-19 we will look at ways we can provide more timely and transparent information on our website, to reduce the number of calls and improve our customer experience.

Measuring customer experience

Customer experience metrics, research and insights helped us drive continuous improvement. A customer engagement survey was rolled out in 2017-18 to understand how customers view our performance. From the survey of 194 respondents:

- 76 per cent were satisfied with our timely manner in resolving customer issues and enquiries
- 69 per cent agree that we go out of our way to provide good customer service
- 58 per cent found their enquiry was resolved at first contact.

We will continue to monitor our service levels through biannual surveys as we strive for ongoing improvement.

Commercial business opportunities

We service a range of commercial customers including coal and gas companies, regional councils, power stations, water boards and industrial businesses.

SunWater has approximately 145 urban and industrial customers across 31 bulk water and irrigation supply schemes and 14 pipelines. Authentic engagement, customer advocacy and a flexible approach have remained a priority. We increased the use of data monitoring for commercial customers to explore potential cost and service efficiencies.

SunWater understands the increasing cost of living faced by regional communities. We continue to provide councils and urban customers with reliable water supply, continual cost reviews and driven efficiencies to minimise price increases.

Delivering value for our customers (continued)

Maximising available water

SunWater strives to meet the growing bulk water supply needs of regional Queensland amid challenging weather conditions. This year Queensland had a dry summer overall, with most of the state away from the southeast corner recording below to well below average rainfall. Autumn rainfall was well above average in northern and interior Queensland, but below average from central to southern Queensland and on the southeast coast.

Severe thunderstorms were reported in various parts of Queensland throughout the summer, bringing large hail, strong winds, flash flooding and the wettest summer day on record to a few sites. This resulted in minor to moderate flows into some SunWater storages with a number reaching full supply capacity or spilling.

We aim to maximise available water supply to service our customers and communities. The total volume of water held in SunWater storages at the beginning of 2017-18 was approximately 5,074,000 ML, which is 76 per cent of the total full supply volume of all our storages. The volume of water held in all SunWater storages at 30 June 2018 totalled approximately 4,894,000 ML – 73 per cent of our full supply of storages.

Throughout 2017-18 high priority announced water allocations were 100 per cent for all water supply schemes. Ten water supply schemes commenced the year with medium priority allocation less than 100 per cent. All schemes increased to 100 per cent availability of medium priority allocation during the course of the year with the exception of the Upper Condamine scheme which remained at 10 per cent, and the Upper Dawson scheme which finished the year at 97 per cent.

Each November we publish a performance report that compares original projections with actual results for the financial year. In 2017-18 we developed a new process in consultation with customers to ensure plans meet current and future information needs of customers.

Irrigator Advisory Committees

We engage with our largest customer base through Irrigator Advisory Committees (IACs). IACs are elected by water allocation holders in each scheme to represent the interests of the broader irrigation customer base. They provide us with a mechanism to engage and discuss scheme operational issues with irrigators.

The key issues raised by IACs in 2017-18 related to:

- potential and future water supply restrictions resulting from dry conditions in several schemes
- the upcoming review of irrigation prices by the Queensland Competition Authority
- feedback on our improved Network Service Plans.

IAC meetings are held on a regular basis and minutes are published on our corporate website for public access.

Network service plan annual performance reports

Network Service Plans provide transparency across our work programs and offer an opportunity for customers to influence operations and asset renewal projects within their schemes. We continue to improve transparency around the cost of providing water services by publishing 30 Network Service Plans. Tabled with customers and published around the beginning of each financial year, the plans outline the routine and non-routine activities to take place within each water supply scheme in the coming year. Projected costs are compared to the targets set by the QCA in 2012 and feedback is sought from customers and incorporated into the plans before final versions are published.

Each November we publish a performance report that compares original projections with actual results for the financial year. In 2017-18 we developed a new process in consultation with customers to ensure plans meet current and future information needs of customers.

Bulk water pricing review

Irrigation pricing

We are working with customers to improve the transparency of our costs through Network Service Plans and consultation with Irrigator Advisory Committees (IACs). IACs consist of a cross-section of irrigation customers who provide feedback on our operations, services and ongoing engagement in relation to water pricing. This year's prices are based on previous recommendations by the QCA and in some cases do not reflect a rise in costs beyond our control. These include electricity, insurance premiums, acrolein chemical (used to control weed growth in water channels), flood-related repairs and implementing the IGEM recommendations. Currently SunWater is absorbing these costs, with irrigators benefiting from low and stable water charges.

Arrangements for local government

In 2017-18 we have water supply contracts with 21 councils across regional Queensland with approximately 200,000 ML of water allocations contracted for regional councils.

Based on Government advice we have not reviewed urban prices and levied consumer price index increases only. Consistent with our commitment to Government, we are developing improved options for future urban water charges and a more transparent pricing structure through working with our urban customers.

We are mindful of the cost of living. Consistent with our commitment to Government, we have not reviewed urban prices and levied consumer price index increases only. We are developing improved options for future urban water charges and a more transparent pricing structure through working with our urban customers.



Local management arrangements

In October 2015 the Queensland Government announced its decision to transition up to eight SunWater channel irrigation schemes to Local Management Arrangements (LMA). Local management will place the channel irrigation schemes under the ownership and operation of newly established Boards. These Boards comprise SunWater customers, local irrigators and business representatives who benefit from the schemes.

The current path to transition consists of concurrent phases:

- Transition schemes: Special purpose companies have been established for the Eton, Emerald, St George and Theodore schemes.
 - o The St George Channel Scheme was successfully transferred to Mallowa Irrigation Ltd on 30 June 2018
 - o SunWater is working with Theodore Water Pty Ltd to ensure a smooth transfer of the scheme by 30 September 2018
 - o If agreement can be reached with the Boards on the final terms of the transfer and there is support for the transfer of more than 70 per cent by water allocation, the transfer date for Emerald and Eton schemes is currently targeted to be 31 March 2019.
- Investigation schemes: Interim boards were established for the Bundaberg, Burdekin Haughton, Lower Mary and Mareeba Dimbulah schemes to determine the suitability of local management arrangements for these schemes. The Lower Mary and Bundaberg Interim Investigation Boards conducted detailed investigations and in December 2017 decided not to pursue local management for these schemes. The Burdekin Haughton and Mareeba Dimbulah Interim Investigation Boards have submitted their proposals to Government for approval. These proposals are being considered by the Government.

Strengthening our operations

Like the water we supply, we are always on the move, ready to respond to our customers' needs and changing environment.



Fairbairn Dam Improvement Project.

Dam Improvement Program

The improvement of SunWater's dams continued to be a major focus in 2017-18. Dam renewal is essential to ensure they continue to function in line with best management practices to secure reliable water supply and to protect the welfare of downstream communities. SunWater's dams are managed to achieve the requirements of Queensland's Dam Safety Regulator and relevant national and international guidelines.

SunWater's DIP includes annual and comprehensive risk assessments for

each of our 19 dams. The program ensures our dams continue to satisfy current design standards and can safely hold and safely release excess volumes of water during periods of extreme rainfall. This includes assessment against improved current design standards and guidelines, increasing community expectations for risk reduction and the latest understanding of hydrology and rainfall patterns.

Between 2006 and 2016 SunWater completed six DIP projects at Fred Haigh Dam, Bjelke Petersen Dam, Tinaroo Falls Dam, Kinchant Dam, Eungella Dam and Stage 1 works at Fairbairn Dam.

In 2017-18 SunWater completed two improvement projects at Paradise Dam and Burdekin Falls Dam as well as continuing work on Fairbairn Dam Improvement Project Stage 2. We also completed the flood repair works at Boondooma Dam.

The DIP is continually reviewed to assess project priorities as they align to our Dam Policy and timeframes. It is expected to be constructed over the next 10 years, which is prioritised according to Portfolio Risk Assessment and reviewed annually.

Dam Improvement Program projects

Paradise Dam Improvement Project

Following a record flood event in January 2013, a Dam Safety Review and Comprehensive Risk Assessment at Paradise Dam was conducted. Engineering assessments identified areas of the dam that could be further strengthened to withstand extreme weather events. As a result of this assessment, flood repair works were carried out in 2013 and 2014 immediately following the flood event.

Further improvement works at Paradise Dam were completed in late 2017. Stage 1 of these works included:

- strengthening and additional concrete protection to the base of the primary spillway
- downstream protection of the left-hand side dam wall
- construction of an access and drainage culvert.

Planning is underway for the next stage of works, which is proposed to carry out more significant improvements to the primary and secondary spillways. It is anticipated that Stage 2 will not be completed until 2025, allowing for optimisation and scoping of preferred options, a detailed business case approval, planning and design, project approvals, and staged construction over several wet seasons.

Fairbairn Dam Improvement Project

Stage 2 works started at Fairbairn Dam in April 2017. Construction is scheduled for completion in December 2020, weather and environmental factors permitting.

The improvement works involve:

- modification of drain outlets
- repair and replacement of blocked drains
- replacement of steel anchors and installation of additional anchors (increased protection)
- filling voids under the concrete slabs of the spillway
- construction of a mass reinforced concrete overlay.



Burdekin Houghton Main Channel Augmentation Project.

In addition, Stage 3 works were approved by the SunWater Board following investigation works that identified potential risks associated with pressure fluctuations that may occur under the spillway side walls during extreme flood events. Several options were considered, with new gravity sidewalls assessed as the most efficient and cost-effective solution. These works have started and will be delivered in parallel with Stage 2 works.

Burdekin Falls Dam Foundation Drainage Improvement Project

SunWater completed improvement works to Burdekin Falls Dam's foundation drainage systems in 2017. More than 280 new drains were added to the lower access gallery and an additional 140 new drains were added downstream of the spillway apron. These drains are designed to reduce up-lift pressure on the foundations and improve drainage function and efficiency for years to come.

Burdekin Falls Saddle Dam and Monoliths Improvement Project

The improvement project at Burdekin Falls Dam follows on from the Foundation Drainage Improvement Project in 2017. This second, larger project will evaluate, determine and implement the most efficient scope of works to improve the risk profile of the dam for the impact of severe weather events.

Initially, proposed improvement works considered raising saddle dams around the perimeter of Dalrymple Lake to more effectively contain water and control releases during significant weather events, in addition to improving the structural capacity of the main dam. The detailed business case scheduled to be developed in 2017 was placed on hold in late 2017. This followed an initial hydrology review with potentially significant increases in the estimates of the inflows for extreme flood events, which impacts on the engineering design solution.

SunWater is currently progressing with a detailed review of the dam's catchment hydrology and is undertaking a comprehensive risk assessment and review of engineering options. This involves a number of specialised consultancy services, peer review by Australian experts and development of new techniques unique for very large catchments (the catchment area of over 114,000km² is nearly twice the size of Tasmania). This is expected to be completed late 2018 and will help inform future project design requirements. A revised detailed business case led by Building Queensland under the Queensland Government's Project Assurance Framework will be progressed in 2019. It is expected construction works will start in 2020 and take up to three years to complete.

Strengthening our Operations (continued)



Works at Fairbairn Dam Improvement Project.

Infrastructure projects

Rookwood Weir

The Lower Fitzroy River Infrastructure Project (Rookwood Weir) was established to investigate water storage infrastructure options to secure water for industry, urban and agricultural customers in the Rockhampton, Capricorn Coast and Gladstone regions. SunWater and the Gladstone Area Water Board (GAWB) developed the EIS, business case and early works as joint proponents.

The detailed business case was approved by the respective Boards of Building Queensland, SunWater and GAWB in September 2017. The business case identified the Rookwood Weir site as the preferred option to proceed at a scale suitable to supply 76,000 ML per annum of high priority water, per the allowance within the Water Plan. The site of the proposed \$352 million Rookwood Weir is located on the Fitzroy River, approximately 66km south-west of Rockhampton.

Funding commitments have been made by both the Queensland and Federal governments with details of agreements to be finalised. In July 2018, the Queensland Government confirmed SunWater as being responsible to develop, build and operate the dam.

Rookwood Weir will provide up to 42,000 ML of high priority water for agricultural and industrial customers, 30,000 ML of urban and industrial water for customers in Gladstone, and 4000 ML to supplement urban supplies along the Capricorn Coast.

Burdekin Falls Dam Raising

SunWater is developing a preliminary business case to investigate long-term water supply requirements and options for raising the dam wall at Burdekin Falls Dam. Should demand for water exceed the current capacity of the dam, the viability of two metre, six metre or 14.6 metre raising heights are being assessed.

Completion of the preliminary business case will position SunWater closer to construction readiness should future demand for water necessitate raising the dam. Dependent on the outcome of the preliminary business case, SunWater would then work with Building Queensland on a detailed business case and the preparation of an EIS. This process is likely to commence in 2019.

Burdekin Falls Dam Hydro-electricity

SunWater has supported several investigations into harnessing the significant energy potential stored in Burdekin Falls Dam. Stanwell is currently completing an Options Analysis Report led by Building Queensland for a hydro-electric power station that would generate electricity as water flows from the dam during normal operations and spill events.

This detailed business case is assessing the most appropriate location, size and form of power generation. A 30–50 megawatt hydro power station is being considered. However, through the Burdekin Falls Dam Raising business case, SunWater and Stanwell are also looking at the ability of the dam to accommodate larger hydro options, particularly if the dam were to be raised and storage capacity increased. The detailed business case is being undertaken in consultation with Building Queensland.

Burdekin Haughton Water Supply Scheme Upgrade Feasibility Study

Burdekin Falls Dam is the key water storage in Burdekin Haughton Water Supply Scheme (BHWSS) — a large, complex system of channels and pipelines delivering water to a wide region of irrigation, industrial and urban customers.

Utilising \$1.7 million of \$1.9 million in funding from the NWIDF, SunWater undertook a feasibility study to address key issues facing BHWSS, while also considering the long-term environmental and economic sustainability of the region. The report was finalised in June 2018.

As owner and manager of the BHWSS scheme, SunWater is focused on ensuring it has the capacity to continue servicing customer requirements into the future. A range of potential options to improve supply outcomes are being assessed. These include an upgrade of the Haughton main channel, additional pipelines and balancing storages, targeted channel lining to prevent seepage and groundwater dewatering and re-use.

Burdekin Haughton Main Channel Augmentation Project

SunWater is supporting Townsville City Council as it implements the Haughton Pipeline Duplication Project. The pipeline project will see supplies of bulk raw water pumped into Ross River Dam from SunWater's Burdekin Haughton Water Supply Scheme (BHWSS) to augment or 'top up' the city's water supply during periods of very low rainfall.

To support the pipeline duplication and meet possible increases in demand from Townsville City Council and irrigation customers, SunWater will also increase the capacity of the Burdekin Haughton Main Channel.

SunWater is working to deliver this channel augmentation in conjunction with Townsville City Council's commissioning of the Haughton Pipeline Duplication toward the end of 2019.

Boondooma Dam Spillway Repairs

The 2011 Queensland floods caused significant scouring of the Boondooma Dam spillway chute and its reinforced concrete Erosion Control Structure downstream. Further flood damage in 2013 resulted in SunWater collaboratively working with customers and stakeholders to identify a solution that returned the spillway to its pre-flood risk profile at a minimum lifecycle cost.

The project involved excavating 123,000m³ of rock, the placement of 13,400m³ of concrete and installing 1085 ground anchors. Works started in January 2017 and were successfully completed under budget in April 2018. The \$38 million project delivered defensive anchors within the unlined spillway chute, stabilisation of the spillway right wall and construction of secondary control structures to minimise risks and damage to the spillway from future flooding. The project enhanced the spillway's safety to enable continued reliable water supply to Tarong Power Station and irrigation customers along the Boyne River.

Non-routine maintenance planning

SunWater maintains its water infrastructure in accordance with regulatory requirements and in line with corporate management strategies. We continually maintain our assets to provide the level of service agreed with our customers now and for future generations.

Our non-routine maintenance program balances risks against costs to ensure we deliver minimum whole-of-life maintenance costs for our customers. Common non-routine maintenance activities include the refurbishment of pumps, valves and electrical and hydraulic systems to extend their useful lives. We regularly engage with customers and seek feedback through Irrigator Advisory Committees and Network Service Plans.

Over the last year we have focused on greater customer engagement during the planning of our non-routine maintenance program. Our regional planning and delivery focus is supported by a planning team based in Clare and project management and delivery driven from our regional offices.

Bedford weir coronial inquest recommendations

In November 2008, an inflatable rubber fabric dam located at Bedford Weir in Central Queensland unexpectedly deflated. The deflation caused a large volume of water to rapidly spill over the weir resulting in the death of a child swimming downstream. SunWater acknowledges the tragedy of this incident and our thoughts remain with the family of the deceased. We remain committed to the safety of our staff, customers and the community as our first priority.

In 2017–18 SunWater continued to implement the recommendations made by the 2016 coronial inquest to ensure there is not a reoccurrence of this type of event. In accordance with the coroner's recommendations, SunWater has undertaken the following actions.

- SunWater implemented a program to permanently remove all fabric dams. To date:
 - o Fabric dams at the Claude Wharton Weir were successfully removed in December 2016.
 - o A fabric dam at Bedford Weir was removed in October 2017.
 - o Fabric dams at Mirani Weir and Dumbleton Weir have been deflated. SunWater is waiting until water levels reach a level where safe removal is possible.



Boondooma Dam Spillway Repairs Project.

Delivering transformation

Our experience and expertise makes us uniquely equipped to develop new and sustainable water solutions.



Nathan Dam artist impression.

Nathan Dam and Pipelines Project

The proposed Nathan Dam and Pipelines Project aims to provide long-term, reliable water supplies to mining, power, urban and existing agricultural customers in the Surat Coal Basin and the Dawson sub-region of Central Queensland.

The proposed Nathan Dam site is located upstream of Nathan Gorge on the Dawson River, approximately 70 km downstream of Taroom and 315 km upstream of where the Dawson and Fitzroy rivers meet. The potential capacity of the dam will be 888,312 ML at full supply. The Nathan Pipeline would be approximately 220 km in length, extending from Nathan Dam through the Dawson-Callide and Surat Coal Basin area to Warra. Water would be released from the dam downstream to towns and irrigation customers along the Dawson River in order to maintain existing supply arrangements, as well as to supply water to new mining customers in the Southern Bowen Basin.

On 31 May 2017 the Queensland Coordinator-General released the EIS evaluation report to the Federal Government under the bilateral agreement and recommended the project proceed subject to recommendations made in the report.

The Federal Minister for the Environment and Energy reviewed the Coordinator-General's evaluation report under the *Environment Protection and Biodiversity Conservation Act (Cth) 1999* and approved the project on 13 July 2017, with conditions including a restriction on new water for agriculture.

The EIS documents will provide the basis for statutory approvals required for the project to proceed to construction. SunWater is liaising with all potential project customers to ensure potential water demands are identified and has actively involved project stakeholders throughout investigations.

Project timing will be dependent on demand expectations of key customers in the mining sector and the completion of a detailed business case to be led by Building Queensland. Market opportunities for water sales have been monitored since the granting of environmental approval and currently there is not sufficient demand to support further development or construction of the project. SunWater is positioned to progress the project should the demand for commercially viable water sales increase.

National Water Infrastructure Development Fund

The NWIDF is an initiative of the Commonwealth Government that aims to facilitate detailed planning and construction of water infrastructure that will deliver new and affordable water, enhance water security and help stimulate regional economic development.

Two irrigation schemes have been awarded funding:

Project name	Funding SW/DEWS/Other	Project value	Finish date
Mareeba Dimbulah Water Supply Scheme – EIP	40.15% NWIDF Capital 59.85% SunWater	\$28 million	June 2021
Nogoa Mackenzie Water Supply Scheme – EIP	25.6% NWIDF Capital 74.4% SunWater	\$11.8 million	June 2022

Mareeba Dimbulah and Nogoa Mackenzie water efficiency improvements

SunWater was successful in receiving grant funding from the NWIDF (Capital) grant program to co-fund distribution efficiency works in the Mareeba Dimbulah and Nogoa Mackenzie water supply schemes. \$11.8 million was awarded for Mareeba Dimbulah and \$3 million for Nogoa Mackenzie allowing the projects to proceed. SunWater will contribute a further \$25.4 million for the works to be recouped from the sale of additional water allocations within the schemes as a direct benefit of the project.

The projects will reduce system losses and provide efficiency and operating improvements. Capturing these losses will provide additional tradable entitlements which will be sold on the local water market.

The Mareeba Dimbulah water efficiency improvement project has a submission of \$28.2 million, and comprises various channel modernisation works that will capture overflow losses from the scheme. Capturing these losses will allow up to an extra 8000 ML of water to be made available to the local water market.

The Nogoa Mackenzie water efficiency improvement project has a submission of \$11.8 million and comprises channel lining works that will prevent seepage losses from the irrigation channel system. Capturing these losses will allow up to an extra 6000 ML of water to be made available to the local water market. Construction scheduling will align with planned shutdown periods in each scheme, ensuring continued supply to our customers.

SunWater Regional Blueprint

SunWater is currently developing a strategy for achieving increased availability of water in the areas we currently service through existing Water Supply Schemes, called the 'SunWater Regional Blueprint'. The Blueprint supports the objectives set by the DNRME in their Queensland Bulk Water Opportunity Statement (QBWOS) of using existing water resources more efficiently and considering projects that will provide regional economic benefits.

The Blueprint analyses risks and opportunities on a regional basis, including supply constraints and demand drivers such as electricity costs and outlook for commodity prices. It explores a number of scenarios for how water demand might look in the future and summarises our strategy for responding to these scenarios should they arise.

The SunWater Regional Blueprint identifies products and services that will be required to address future customer needs. It will not only identify large scale projects that provide a step-change in water supply volumes, but also new water products, efficiency initiatives and infrastructure enhancements that maximise the usage and benefits of our existing assets.

The first stage – *Existing Braintrust* – consolidates existing water supply initiatives that we have previously identified, focusing on the Burdekin region as a case study. As part of this stage we identified key risks and opportunities and developed a set of actions to meet these challenges.

As part of the next stage of development, the Blueprint will introduce an economic assessment framework that allows us to identify and prioritise growth opportunities associated with our supply schemes. It will also serve as an input for Government in their broader state-wide analysis of projects that offer regional economic benefits. This represents a shift in our planning, as in the past we have only prioritised projects that provide direct financial return to our business. We will be exploring funding initiatives that are available from the Queensland and Federal governments to support projects with a high level of economic return.

Engaging our communities

With 19 dams and 18 regional offices and depots, we are part of the communities we service.



Be Rain Ready program.

Collaborating with our community

Encouraging Queensland communities to 'Be Rain Ready'

This year regional Queenslanders indicated that while 67 per cent of them accept flooding as an inevitable part of living in Queensland, many are still unprepared*. Almost six out of 10 people admit they are not fully prepared during wet seasons.

To encourage Queensland residents to 'Be Rain Ready', we launched a community education initiative in 2018 for our communities to better understand their flood risk and take steps to plan, prepare and keep their family safe. The dedicated 'Be Rain Ready' website offers a range of downloadable fact sheets, toolkits and videos to help individuals understand their flood risk and the role our dams play in the broader catchment when it rains.

The initiative was advertised through a multi-channel strategy including traditional marketing such as TV ads, media engagement and brochures and digital mediums including a microsite, social networks, the SunWater App and a suite of videos. By the end of the three-month program, strong online engagement was achieved with more than 120,000 social video views, a Facebook reach of more than 260,000 people and improved brand sentiment rating by five per cent.

**ReachTel survey of 2500 residents across regional Queensland.*



Respect the Water music video participants.

Weir safety through music

Respect the water

As part of our commitment to community education about staying safe around dams, weirs and channels, we engaged performing artists Indigenous HIP HOP Projects to collaborate with the St George community to write, record and shoot the 'Respect the Water' music video.

The project featured local students and community members to spread the message about weir safety following a

local incident at Jack Taylor Weir that nearly cost a family four young lives in early 2017.

Indigenous HIP HOP Projects guided the St George community through an intensive week-long creative process and filmed over two days across iconic St George locations including the Roe Street skate park, St George oval and Victoria Street. The video forms part of a broader community education program and acts

as a reminder that taking risks around water infrastructure is dangerous no matter people's age or swimming ability.

The initiative also provided a range of emotional and physical benefits for the participants by creating a safe space for them to express themselves through dance and song, as well as fostering positive relationships and learning new skills.

Transforming the way we work

Around half of our people live and work in regional Queensland.



SunWater staff.

Our journey

Through the 2017-18 financial year, SunWater reviewed our organisational structure to ensure we have the capability to deliver our strategy. The recommendations of the review included:

- implementing efficiencies identified through independent benchmarking. The efficiencies related to reducing overhead costs by flattening the structure and increasing a leader's span of control as well as reducing the number of overhead roles; unions were consulted and no forced redundancies were made
- positioning SunWater to demonstrate its operations are cost efficient, increasing customer and shareholder confidence and informing the QCA's bulk water price path review
- relocating several project manager positions into the regions from Brisbane to provide more local support and delivery function.

Learning and development

Leadership development of SunWater's frontline leaders remained a core focus with the continuation of the course "Success Strategies for Supervisors". In its seventh year, the course brought together frontline leaders from around the state to share the challenges of leadership, network with their peers and learn new skills to enhance the performance of their teams.

The Lunch and Learn training series continued to be popular in 2017-18. The sessions covered a range of topics from across the business and were delivered by internal subject matter experts. The series enabled employees to learn more about the company, key projects and emerging issues in the water industry.

In May 2018, 11 of our Water Operators started their Certificate III in Water Operations. This program was important to SunWater as it recognised participants'

skills learned on the job, developed our internal capability and provided industry recognition for our Water Operators.

The focus for next year will be developing our leaders through performance coaching and leadership effectiveness assessments to ensure we are delivering on our promises. This work will support in engaging our people to deliver better results for our customers.



SunWater Achievement and Innovation Awards Ceremony.

Achievement and Innovation Awards

Each year the Achievement and Innovation Awards recognise teams and individuals who excel in their area and consistently demonstrate the SunWater values. We also acknowledge staff who reach exceptional service milestones of 10 years and more, with individual awards presented to those above 25 years of service.

In 2017-18 the Fairbairn Dam Improvement Project Team consistently showed a strong commitment to safety culture, resulting in a reduction to the workplace injury rate and improvement in productivity. All nominated teams and individuals were recognised at the awards night held on 5 July 2018.

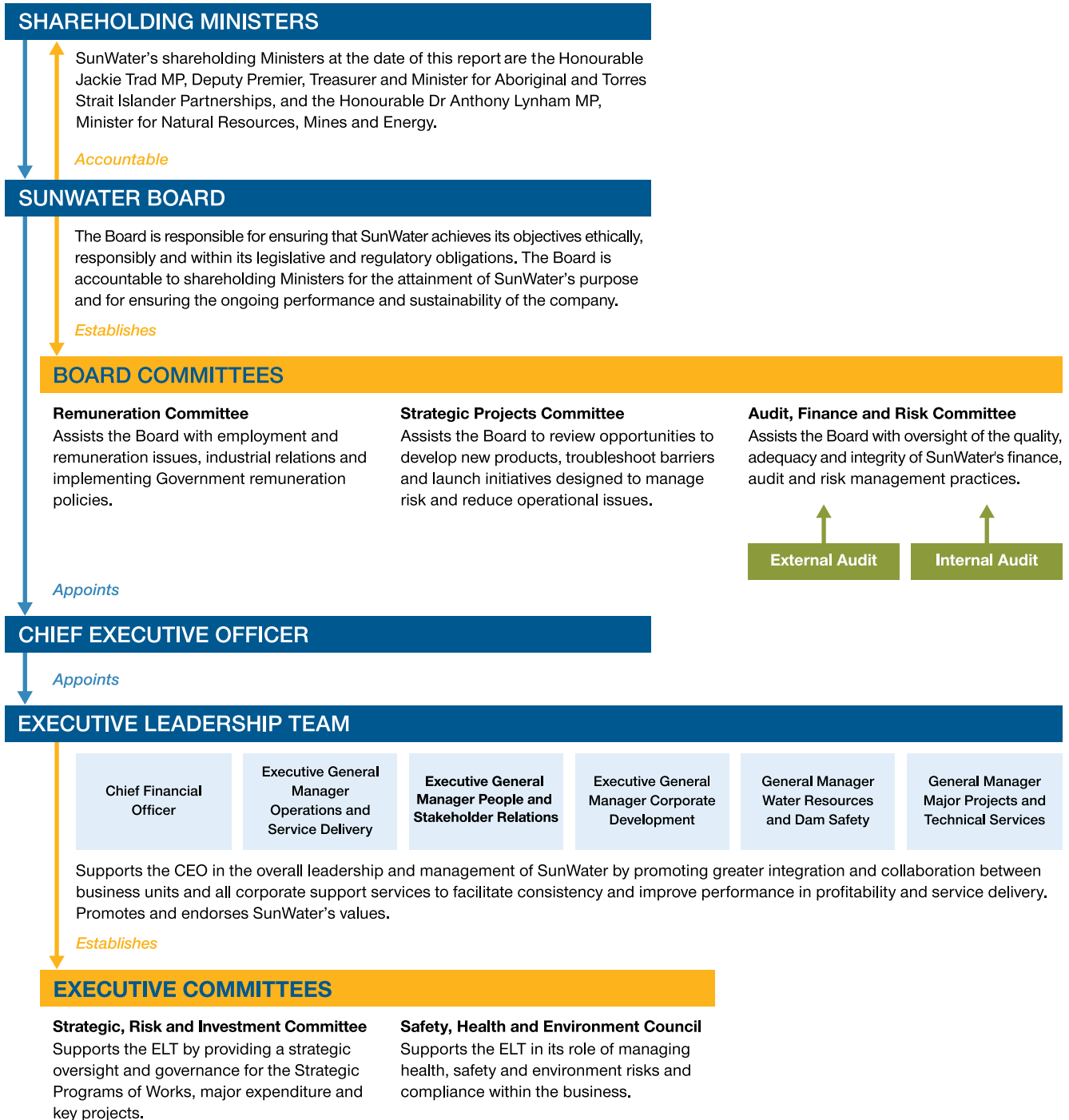
Culture

SunWater continued its journey to becoming an efficient and customer-centric company with a safe, high performance culture. To help us better understand our culture, SunWater partnered with Human Synergistics to measure the current staff engagement. A number of focus areas were identified following the exercise including employee involvement, leadership development, communication and change management.



Corporate governance

Governance structure



SunWater Board

Leith Bouilly

BRuSc, DipBusStud, FAICD, FAIM

Chairman

Appointed to the Board on 1 October 2015

Term of appointment to 30 September 2018

SunWater Board committee membership

Audit, Finance and Risk Committee to February 2017

Remuneration Committee (Chairman)

Strategic Projects Committee (Chairman)

Burnett Water Pty Ltd (Chairman)

Eungella Water Pipeline Pty Ltd (Chairman)

North West Queensland Water Pipeline Pty Ltd (Chairman)

Skills, experience and expertise

Leith has many years' experience in business and natural resource management, particularly water, at local, state and national levels.

Leith is also Chairman of Palgrove Management Co Pty Ltd and serves on the Boards of Murrumbidgee Irrigation Limited, Isis Central Sugar Mill and the Queensland Rural Industry Development Authority. She is also a member of the Australian Water Partnership committee.

Leith was formerly Chairman of Healthy Waterways and Wide Bay Water Corporation, and a Director of Seqwater.

Neville Ide

BBus, MComm, FCPA, FAICD

Director

Appointed to the Board on 1 October 2015

Term of appointment to 30 September 2018

SunWater Board committee membership

Audit, Finance and Risk Committee

Remuneration Committee

Burnett Water Pty Ltd (Non-Executive Director)

Skills, experience and expertise

Neville's industry knowledge and experience covers banking, insurance, infrastructure and corporate treasury including debt and equity capital markets, balance sheet structuring and financial risk management.

His most recent executive roles were as Group Treasurer, Suncorp Metway Limited and Director Financial Markets, Queensland Treasury Corporation. Neville is currently on the Board of RACQ Bank Limited and undertakes selective work in the financial services industry for ANZ Bank. Neville was previously a Director of RACQ Insurance Ltd and Retech Technology Co. Limited.

Patrice Sherrie

FCA, GAICD

Director

Appointed to the Board on 1 October 2015

Term of appointment to 30 September 2018

SunWater Board committee membership

Audit, Finance and Risk Committee (Chairman)

Remuneration Committee

Strategic Projects Committee to October 2016

Burnett Water Pty Ltd (Non-Executive Director)

Skills, experience and expertise

Patrice is an experienced executive and Director with over 30 years' experience in Queensland and Papua New Guinea in chartered accounting and commerce and has diverse industry experience including finance, property, childcare and the arts.

Patrice is currently a consultant to Bentleys (Qld) Pty Ltd, Treasurer of The Women's College within the University of Queensland and Director of Andersens Floor Coverings Pty Ltd.

Moya Steele

BA/LLB, MAICD

Director

Appointed to the Board on 3 December 2015

Term of appointment to 30 September 2018

SunWater Board committee membership

Strategic Projects Committee to February 2018

Audit, Finance and Risk Committee from March 2018

Skills, experience and expertise

Moya is an experienced strategic development advisor to commercial organisations and government entities across Queensland.

She is a Principal and Director of Keir Steele Lawyers and currently leads its state-wide Planning, Property and Procurement team. Moya specialises in planning and development law, providing development advisory services and strategic management of legislative process for development. She acts for both the private and public sector for major projects and infrastructure, tourism, water transport, residential, extractive industries and retail developments.

Moya currently holds the position of Discretionary Director on the Board of Townsville Enterprise and is appointed to the Property Council of Australia (Townsville Chapter).

Corporate governance (continued)

SunWater Board

David Stewart

BE(Hons), FIEAust, CPEng, NER, APEC Engineer, RPEQ, GAICD

Director

Appointed to the Board on 3 December 2015

Term of appointment to 30 September 2018

SunWater Board committee membership

Strategic Projects Committee

Eungella Water Pty Ltd (Non-Executive Director)

North West Queensland Water Pipeline Pty Ltd (Non-Executive Director)

Skills, experience and expertise

David is a civil engineer with 35 years' experience in Australia and internationally, specialising in large dams, water supply, irrigation and other infrastructure projects.

During that time, he has worked in the private sector with major engineering consulting firms and in the public sector with large water businesses, including as Executive Manager Technical Services, Executive Manager Strategy and Development and as Managing Director of Goulburn-Murray Water in Victoria.

David is currently Managing Director of the specialist engineering consultancy Australian Dams & Water Consultants Pty Ltd and is a former Director and Past Chairman of the Australian National Committee on Large Dams (ANCOLD). He was recognised by Engineers Australia in 2009 as one of Australia's 100 most influential engineers and has been awarded the River Murray Water Medal by the MDBA.

Vanessa Sullivan

BEC(Hons), GradDip(AppFin)

Director

Appointed to the Board on 15 December 2016

Term of appointment to 30 September 2019

SunWater Board committee membership

Audit, Finance and Risk Committee from February 2017 to February 2018

Strategic Projects Committee from March 2018

Skills, experience and expertise

Vanessa Sullivan was appointed to the SunWater Board of Directors on 15 December 2016.

Vanessa has more than 20 years' experience in the water, energy and carbon sectors advising government and private sector organisations on regulatory, strategy, market trading transactions and sustainability responses in the energy sector.

She is a founding partner at Lyon, a former climate change and sustainability services leader with Ernst & Young and until recently was a Director at energy business Energex.

Vanessa has extensive commercial, regulatory and finance experience across the water, energy and carbon sectors. She completed a number of significant transactions in each of these sectors including contracting a \$1 billion energy load for a large energy user, energy and water market acquisitions and developing carbon and energy strategies for global corporates.

Executive Leadership Team

Nicole Hollows

Chief Executive

Nicole Hollows was appointed SunWater Chief Executive Officer on 26 April 2016.

Nicole is an experienced Senior Executive, with a career spanning over 20 years in the resources sector. Prior to joining SunWater, she was Managing Director of global resources firm AMCI Australia and Southeast Asia. She was Chief Executive Officer of Macarthur Coal Limited from 2007 to 2011 and, under her leadership, the company grew from \$700 million to \$5 billion market capitalisation and was listed on the ASX Top 50 Companies Index.

Outside her business activities, Nicole dedicates time to charity and community organisations. She is the Chair of The Salvation Army Brisbane Red Shield Appeal Committee and an advisory Committee Member of the Salvation Army Queensland Advisory Council. Nicole is also a board member of the Water Services Association of Australia, a member of the CEO Advisory Committee for Dean of QUT Business School and a Non-Executive Director of Downer EDI Limited.

She is a member of the Institute of Chartered Accountants and Chief Executive Women, a fellow of the Australian Institute of Company Directors and is a Graduate of Harvard Business School's Program for Management Development.

Colin Bendall

Executive General Manager Operations and Service Delivery

Colin Bendall was appointed Executive General Manager Operations and Service Delivery on 2 January 2017 after serving more than 35 years with SunWater and its predecessors in technical, operational and senior management roles.

He oversees SunWater's on-ground services and is responsible for driving customer-oriented, efficient and safe operations that support regional Queensland's water needs. Colin is a highly skilled water industry specialist with expertise in the design, operation and maintenance of bulk water infrastructure with a strong customer focus. Previously, Colin worked for SunWater in technical and senior advisory roles and was involved in the design of large-scale water harvesting schemes, on-farm dams, drainage and irrigation. He has also owned and directed a successful irrigation design company.

Colin is a graduate of the Australian Institute of Company Directors and is a Water Services Australia Utility Excellence Committee Member. He has specialist industry qualifications including an Associate Diploma in Applied Science – Farm Water Supplies (Hons) and a Certificate in Tropical Agriculture.

Tim Murphy

Chief Financial Officer

Tim Murphy joined SunWater as Chief Financial Officer on 21 May 2018.

Tim is responsible for leading SunWater's corporate functions including legal, finance, procurement, Information Technology and commercial. With more than 25 years' experience as a finance professional, spanning industries including government, manufacturing and financial services, Tim is passionate about cultivating high performance teams to deliver sustained business success. He achieves this through a focus on people development, accountability and transparent communication.

Prior to joining SunWater, Tim spent a year at the Queensland Building and Construction Commission as Chief Financial Officer and five years as an Executive Director and Chief Financial Officer for The Public Trustee of Queensland, which had an operating a budget of more than \$100 million and assets under management worth in excess of \$2 billion. In this role he managed the finance, investment services and property programs. Past roles included senior placements at Bendigo Bank, AXA and Mars Chocolate Australia.

Tim is a chartered accountant and holds a Bachelor of Business (Accounting and Business Law) from the University of Ballarat and is a Fellow of the Financial Services Institute of Australasia.

Kellie Breen

Executive General Manager People and Stakeholder Relations

Kellie Breen joined SunWater as Executive General Manager People and Stakeholder Relations on 29 January 2018.

With more than 20 years' experience in human resources, Kellie delivers shareholder value by providing strategic direction to develop and implement organisational strategies aimed to improve business outcomes. At SunWater, Kellie passionately drives initiatives to embed cultural change to drive efficiency and performance for customers.

Kellie has a strong background in the resources sector and professional experience in the manufacturing, retail and legal industries in Australia and internationally. She has led significant organisation development and efficiency programs for organisations including Incitec Pivot Limited and ASX listed Peabody/Macarthur Coal, achieving large-scale labour cost savings and a successful transition of a workforce during a corporate takeover.

Kellie holds a Bachelor of Business majoring in Human Resource Management from the University of Southern Queensland and is a graduate of the Australian Institute of Company Directors.

Corporate governance (continued)

Executive Leadership Team

Peter MacTaggart

Executive General Manager Corporate Development

Peter MacTaggart became General Manager Corporate Development on 11 September 2017 after spending 15 years with SunWater in regional operations and senior infrastructure development roles.

A proven performer in the development of infrastructure assets, Peter leads SunWater's business growth strategy. This includes securing business development opportunities; overseeing regional water infrastructure planning, feasibility studies and business cases for new projects; and directing water pricing and sales strategies.

Peter has led complex infrastructure projects from concept design through to construction and commissioning. This includes billion-dollar developments and high-profile feasibility studies including the Connors River Dam and the Nathan Dam and Glebe Weir raising pipeline projects. After successfully delivering the Mitchell Group's Solomon CNG project, he took on the role of Chief Operating Officer with Verso Energy. Peter holds a Bachelor of Applied Science (Environmental Management) from the University of Queensland and a Master of Business Administration from La Trobe University.

James Stuart

General Manager Water Resources and Dam Safety

James Stuart became General Manager of Water Resources and Dam Safety on 30 January 2018 following four years with SunWater in senior water management and dam safety roles.

James oversees SunWater's dam safety program, hydrology services, customer billing and asset strategies. He uses his passion for technology to drive innovative thinking, improve data access for customers and help them use this information to find efficiencies in their water use.

Prior to joining SunWater, James was Regional Hydrology Manager for Queensland at the Bureau of Meteorology where he was congratulated in the Queensland Parliament for his work throughout the 2011 Queensland floods. He has 17 years' experience in water engineering both in Australia and overseas, which included a year spent volunteering in Peru developing flood forecasting capabilities.

James is a Chartered Civil Engineer (CPEng, RPEQ, C.WEM), completed a Master of Science in Hydrology/Hydraulics and in 2017 was elected to the Board of the National Hydrologic Warning Council of the United States.

Olivia Newman

General Manager Major Projects and Technical Services, Major Projects

Olivia Newman was appointed General Manager Major Projects and Technical Services on 22 January 2018.

Olivia is responsible for the delivery of new SunWater infrastructure, asset upgrades and renewals including the DIP. Olivia's department also provides engineering guidance and support across the organisation.

Olivia brings more than 20 years' management experience across high value, complex infrastructure programs to SunWater. Her work across a diverse portfolio of industries included a role as Program Delivery Manager on the \$12 billion Australian Rail Track Corporation's Inland Rail project.

Previously, Olivia has held senior project management roles with City of Gold Coast, City of Ipswich and Queensland Urban Utilities. Olivia holds an associate degree in Civil Engineering, a Diploma in Project Management and is a member of the Australian Institute of Project Management.

Governance principles

SunWater's corporate governance framework is underpinned by our values, principles of ethical conduct and behavioural expectations.

SunWater is committed to best-practice corporate governance to ensure appropriate degrees of accountability and transparency are provided to stakeholders. Our corporate governance practices and frameworks have been established in compliance with the governance requirements set out in relevant legislation, including the *Government Owned Corporations Act 1993 (Qld)* and the *Financial Accountability Act 2009 (Qld)*, and having regard to the Queensland Government's Corporate Governance Guidelines for Government Owned Corporations (GOCs).

The SunWater Board regularly reviews its governance framework to ensure internal policies, guidelines and practices remain aligned with the wider legislative and GOC policy framework. Through regular monitoring, reporting and disclosure, we can demonstrate that our corporate governance practices are adequate and appropriate.

Set out below is a summary of how we align our corporate governance practices to the eight principles outlined in the Corporate Governance Guidelines for Government Owned Corporations (v.2.0). Copies of SunWater's corporate governance documents are available at www.sunwater.com.au

Principle 1: Foundations of management and oversight

The Board operates under a Board Charter which defines the role and responsibilities of the Board and a Delegation of Authority Policy and Framework which further embeds those matters specifically reserved to the Board and those matters delegated to management.

The Board has established three Board Committees to assist it with its role and each Committee operates under its own charter, namely:

- Audit, Finance and Risk Committee
- Remuneration Committee
- Strategic Projects Committee.

Regular Board meetings focus (inter alia) on achievement of strategic objectives, management of risk and monitoring of operational and financial performance.

A comprehensive and tailored Board induction process for new directors is in place which includes provision of letters of appointment, setting out expectations and providing information about the business. SunWater encourages continuing professional development and customer and employee interaction activities for Directors. Directors are entitled to the provision of advice (as appropriate) at SunWater's cost.

CEO and Senior Executive responsibilities are well defined and clearly delineated through documented delegations and formal position descriptions. Key performance indicators (KPIs) are set and approved annually by the Board for the

CEO and Senior Executives and although regular feedback is provided throughout the year on performance, a 6-monthly and 12-monthly performance review is undertaken for the CEO.

Principle 2: Structure the Board to add value

The Chairman and members of the Board are appointed by the Government and all Directors of SunWater are Non-Executive Directors (including the Chairman).

The Board has documented procedures for managing and disclosing conflicts of interest and assessing the independence of judgment of Directors. Directors are required to disclose at least annually and as they occur, the existence of any material relationships that could interfere with their independent status in any way. Declaration of conflicts of interest is a formal agenda item at all Board and Committee meetings.

The Board regularly evaluates its performance, the performance of individual Directors, the Chair and the Board Committees. All Directors and Senior Executives participate in the evaluation of the Board. 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 outcomes of the evaluation were documented in Board KPIs and associated measurements for tracking, aimed to address any areas for enhancement raised during the evaluation process. A report to shareholders is provided on the outcomes of the Board evaluation.

An external Board evaluation process was completed in June 2018. The outcome of the external Board evaluation process is provided to the shareholding Ministers.

The Board has assessed its skills to ensure all directors have appropriate skills aligned to SunWater's business objectives and strategy. Training and development requirements are identified to ensure that directors have appropriate skills and knowledge of water industry and corporate governance issues. Expert assistance is sought if required.

All directors are required to maintain their skills and undertake appropriate professional development activities to assist them in meeting their responsibilities to the company.

The Board also receives feedback on its performance after each meeting when a Director critiques the proceedings and suggestions for improvement are noted.

Details of Directors' terms of office, experience, expertise and attendance at Board and committee meetings are outlined on pages 27, 28 and 38 of this report.

Corporate governance (continued)

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, customers and the community as a whole and obligations of corporate social responsibility.

SunWater has implemented a Code of Conduct outlining the practices necessary to maintain stakeholder, industry and community confidence in the behaviour of all individuals at SunWater.

The Board has in place a Directors' Code of Conduct.

SunWater has established a Trading in Securities Policy and Guide which applies to regulate any situation where employees or contractors 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.

SunWater's CEO is obliged by law to notify the Crime and Corruption Commission if the CEO reasonably suspects that a complaint involves, or may involve, corrupt conduct under the *Crime and Corruption Act 2001 (Qld)*.

SunWater's Corrupt Conduct Policy and Guide incorporates a process to evaluate, report and investigate complaints of alleged impropriety and corrupt conduct. SunWater also has separate policies in respect of complaints of alleged CEO corrupt conduct and alleged chairperson and director corrupt conduct. Further, SunWater has partnered with EthicsPoint to provide an independent telephone and online disclosure reporting line for employees and third parties to report misconduct anonymously (SunWater Whistleblower Hotline). There is also a dedicated online portal on SunWater's website: "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

The CEO and CFO are asked to certify the accuracy of SunWater's financial statements to the Board and they have confirmed in writing that the 2017-18 financial statements present a true and fair view and are in accordance with accounting standards.

SunWater's Audit, Finance and Risk Committee assists the Board to fulfil its financial reporting and risk management responsibilities. The Committee reviews financial information presented by management, oversees the quality of audits conducted by internal and external auditors, assesses the adequacy of accounting policies and effectiveness of control systems. In addition, the Committee monitors significant business transactions and processes including capital structure and taxation.

The Audit Finance and Risk Committee comprises three independent non-executive director members who, as far as possible, have appropriate financial experience and understand the water industry.

The Committee ensures that strategic and operational risks of significance are subject to review, independent of management, and makes recommendations to the Board about policy, risk management and compliance improvements.

Details of committee members, meetings held and attendances are set out on pages 27, 28 and 38 of this report.

Principle 5: Make timely and balanced disclosures

SunWater has in place a Shareholder Disclosure Policy, which captures the disclosure requirements under the GOC Act, *Financial Administration and Audit Act (1977)* and Government policy and guidelines and sets out clear accountabilities for making timely, accurate and balanced disclosure.

In practice, the Board and Senior Executives are party to an extensive reporting regime to shareholding Ministers and their representative which includes quarterly reports against key objectives, a Statement of Corporate Intent (SCI), the Corporate Plan and the Annual Report in addition to regular meetings with Shareholders and their representatives.

SunWater provides timely advice to inform its shareholding Ministers of any significant matter that impacts upon its ability to achieve the objectives in SunWater's SCI and Corporate Plan and 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

As required by the GOC Act, Shareholders are advised in a timely manner of all issues likely to have a significant financial, operating, social or environmental impact on the business. Shareholder approvals are sought as appropriate, pursuant to legislation and Shareholder policy guidelines.

SunWater's approach is based on the key principles of building trust through clear, responsive communication that manages expectations, engages early, and offers a range of different mediums to reach each stakeholder.

In the case of shareholding Ministers, our communication strategy is aimed at providing Shareholders with accurate and timely information so they can make informed assessments of the Corporation's operations and performance. These shareholding Minister communications include:

- a five-year Corporate Plan, updated annually
- an annual SCI
- an Annual Report
- quarterly scorecards reporting on performance.

Principle 7: Recognise and manage risk

The Board has ensured that through a system of oversight and management controls that SunWater has the ability to understand and subsequently manage its risks across all levels of the organisation.

Risk management

The Board, with the assistance of its committees, has put in place a rigorous governance model to ensure a sound system of oversight in the management of and monitoring of changes to the strategic and operational risk profile throughout the year.

This approach has satisfied the Board and management that the risks facing the Corporation have been properly understood and are appropriately managed.

The Board and management team worked together to develop risk appetites and risk tolerances for SunWater and monitor enterprise risks through the monthly CEO's report.

On a quarterly basis, the Audit, Finance and Risk Committee receives a comprehensive enterprise risk register which includes mitigation plans and actions. The Committee also undertakes a deep dive into key business areas to assess risks and controls on a quarterly basis.

Fraud control and prevention

The Corporation does not tolerate or condone fraud or corruption and ensures that all instances of fraud and misappropriation are promptly reported and investigated.

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
- training of managers and staff in fraud awareness.

Principle 8: Remunerate fairly and responsibly

SunWater has established a Remuneration Committee which meets at least four times each year and assists the Board in discharging its duties in regard to CEO succession, executive appointments, executive performance, staff remuneration and employee 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.

The Remuneration Committee 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.

Details of Committee members, meetings held and attendances are set out on pages 27, 28 and 38 of this report.

Remuneration of directors

Remuneration of directors is determined by the shareholding Ministers. Total remuneration levels for individual directors are reported in the Notes to the Financial Statements on page 75 of this report.

Senior executive remuneration

The Remuneration Committee of the Board oversees remuneration of the CEO and senior executive remuneration. Total remuneration levels for the CEO and senior executives are reported in the Notes to the Financial Statements on page 76 of this report.

CEO and senior executive remuneration is set by the Board in accordance with Queensland Government guidelines.

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. CEO and senior executive positions are all based on tenured employment arrangements.

The Board reviews eligibility for performance payments on an annual basis and approved entitlement to a performance-based payment in the 2017-18 performance period, which is included in the Executive Remuneration summaries on page 76.

Staff remuneration

Remuneration for the majority of SunWater staff, excluding staff members on an individual employment contract, is determined by the Enterprise Agreement in accordance with the Queensland Government-approved bargaining framework. Remuneration for staff on individual employment contracts is based on the median salary relative to each evaluated position and the employee's individual performance. SunWater does not have a performance payment scheme for non-senior executive employees.

Sustainable practices

SunWater compliance program

SunWater is committed to delivering its strategic and operational objectives in accordance with laws and principles of good governance. We have developed a Legal Legislative Compliance Framework, to ensure we identify, assess and implement changing legislative obligations.

The framework is just one of many tools required to manage our compliance obligations. The framework primarily deals with Legal Legislative Compliance and, as a secondary function, addresses the circulation of general law updates throughout SunWater. The framework will dovetail with our overall Compliance Policy.

Dam improvement

SunWater has in place a comprehensive DIP that meets or exceeds relevant guidelines set by the dam safety regulator DNRME, and monitors dam safety as required by the *Water Supply (Safety and Reliability) Act 2008* (Qld) 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. SunWater has established and is implementing a program of dam improvements in recognition of revised maximum probable flood estimates and relevant ANCOLD and Queensland Government regulatory Guidelines on acceptable flood capacity for dams. The improvement program has been developed using a decision criteria methodology that optimises the reduction of safety risks and ensures value for money investments.

SunWater keeps the portfolio risks and improvement program under regular review to ensure the program is based on the most up-to-date information.

SunWater submitted the revised 2017 Portfolio Risk Assessment to the dam regulator on 13 October 2017. Our submission included the full technical details, dam safety risk reduction and drivers of this program. Any changes to the program will again be submitted to the Queensland Dam Safety Regulator and continually improved as more studies are completed.

Financial management

SunWater has complied with the relevant requirements of the *Financial Accountability Act 2009* (Qld), *Corporations Act 2001* (Cth) and the *Government Owned Corporation Act 1993* (Qld).

Local industry policy

SunWater continues to consider opportunities for capable local suppliers to tender for the supply of goods, services and works which support local industry and Queensland communities.

Right to information

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

Legal proceedings

SunWater's 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.

Internal audit

Internal audit is a key component of SunWater's corporate governance framework. SunWater's internal audit provides an independent assurance activity over the internal control systems across SunWater by delivering audit work against an annual internal audit plan which is approved by the Audit, Finance and Risk Committee.

SunWater's internal audit is performed independently using an external firm. The audit plan is risk based and focuses on areas of highest risk to the business with due consideration of industry trends and other external factors affecting the business.

Audit reports for specific audits undertaken are submitted to the Audit, Finance and Risk Committee for consideration and discussion. The Committee also monitors implementation of agreed management actions arising from an audit.

Infrastructure maintained to reflect customer and QCA requirements

SunWater has in place fit-for-purpose asset management plans, strategies and standards that ensure all infrastructure is maintained, repaired, refurbished and enhanced to standards that are in line with regulatory and legislative requirements. We regularly engage with customers and seek feedback on operations and infrastructure through Irrigator Advisory Committees and Network Service Plans. SunWater has accreditation in Quality AS/NZS 9001, Environment AS/NZS 14001, and Safety AS/NZS 4801 standards that provide the framework within which we implement infrastructure management and maintenance.

Insurance renewal program

SunWater renews its extensive insurance portfolio each year as part of our business risk mitigation strategy. Having sufficient insurance coverage supports SunWater's key strategy of a sustainable business by embedding risk and opportunity management in the business.

As a prudent owner of commercial infrastructure assets, SunWater has appropriate insurance policies to provide protection against residual business risks. Our insurance portfolio enables us to manage financial risk through risk identification and placing required insurances at the appropriate level with reputable insurers.

Corporate planning and reporting

SunWater's annual planning and reporting processes include the production of a five to ten-year Strategic Plan, a five-year Corporate Plan and a single-year SCI. SunWater's Strategic Plan is updated annually and summarises the outcomes of SunWater's annual planning process, it sets out SunWater's vision and purpose, its strategic goals and identifies a number of strategic work programs to be implemented over a five+ year horizon. It is used to inform both the five-year Corporate Plan and the annual SCI and associated budgets.

SunWater's annual SCI details the company's objectives and performance targets agreed between the SunWater Board and shareholding Ministers.

Quarterly scorecards provide shareholding Ministers and their departments with regular updates on SunWater's performance against the SCI targets and budgets. Consolidated business and group performance reports are provided to the SunWater Board on a monthly basis.

Two matters emerging during the financial year informing our planned performance under the 2017-18 SCI included:

1. Local Management Arrangements
2. Change of Ministers.

Debt drawdown: There were no debt drawdowns in 2017-18.

Derivative transactions: No derivative transactions occurred during 2017-18.

Significant revenue/expenditure contracts: During the FY18 period, no significant construction contracts were awarded. Minor contracts were awarded for conceptual and preliminary design only for major project planning and approvals. A significant contract for \$1.3 million was awarded for installation of satellite equipment for Sunwater's operational sites.

Water Trading Activity: SunWater submitted to the shareholding Ministers a request to cease the annual audit of its Water Trading Code of Conduct. Since the commencement of the water trading process in 2007, subsequent audits have not identified any deficiencies in the water trading procedures or detected any breaches of the Code.

The shareholding Ministers advised SunWater that the following changes would replace the annual independent audit process:

- an independent external audit of SunWater's compliance with the Code every three years, commencing with an audit for the 2017-18 financial year
- spot audits of compliance with the Code as directed and deemed necessary by the SunWater Board (thus minimising potential risks)
- spot audits of compliance with the Code as directed on occasion by shareholding Ministers.

Recycling initiatives during 2017-18: SunWater's recycling efforts during the year included:

- 7.56 tonnes of scrap steel
- 91 chemical drums
- 20 litres of various oils
- 6 kg of lead acid batteries
- 1380 kg of copper wire
- 237 plastic chemical drums via Drum Muster
- 560 kg of wrapped asbestos
- continued recycling of depleted ink cartridges.

Subsidiary reporting

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

Government directives and notifications

SunWater received the following direction and notification during the year:

- SunWater Rural Water Pricing Direction Notice (No.1) 2018 pursuant to the *Water Act 2000* requiring SunWater to comply with setting rural irrigation water prices and associated fees.

Summary of other SCl matters

The 2017–18 Statement of Corporate Intent (SCI) is SunWater's annual performance agreement with shareholding Ministers.

The agreement outlines a comprehensive range of corporate objectives, strategies and performance outcomes that SunWater intends to deliver during the year.

SunWater's achievements are documented throughout this report including the specific reporting of financial performance. Those areas of performance targeted in the SCI which are not specifically covered elsewhere in this report are summarised below.

Key Performance Indicators	Actual 2015–16	Actual 2016–17	Actual 2017–18	Budget 2017–18
Financial				
Total operating revenue (\$m)	288.8	283.4	285.6	300.5
Total operating costs (\$m)	191.1	221.8	215.6	201.0
Operating profit (\$m) ⁽¹⁾	97.8	87.4	87.3	99.5
Profit before taxation (\$m)	40.7	51.1	57.4	46.6
EBITDA (\$m)	143.5	130.0	127.3	141.2
NPAT (\$m)	29.0	36.0	39.7	32.6
Total assets (\$m) ⁽²⁾	1,237.6	1,008.9	1,020.3	973.0
Debt (\$m)	245.7	284.2	284.1	285.7
Shareholder equity (\$m)	419.0	455.0	450.3	419.0
Return on average contributed equity (%)	9.2	14.4	16.0	13.0
Market gearing – debt/(debt + equity) (%)	37	38.4	38.7	40.5
Debt to EBITDA (times)	1.7	2.2	2.2	2.0
Growth project funding (\$m) ⁽³⁾	4.0	4.6	4.7	23.5
Enterprise Cost Efficiency Savings (\$m) ⁽⁴⁾	0.8	1.3	1.3	1.1
Non-Financial				
Customer water deliveries (ML-m)	1.37	1.34	1.27	1.25
Customer service levels – exceptions (No.)	13	13	71	12
Environmental compliance breaches (No.)	0	0	0	0
Distribution system efficiency (%)	82	82	82	77
Pump performance – target range (kWhr/ML/m)	3.55	3.55	3.8	3.4 to 4.3
Total recordable injury frequency rate (TRIFR) ⁽⁵⁾	1.37	1.37	7.1	<5
Lost time injury frequency rate (LTIFR) ⁽⁵⁾	0	0	1.18	0
Total workforce (FTEs) ⁽⁶⁾	403	403	379	449

Explanations and differences to financial statements

(1) Includes depreciation and amortisation. Excludes asset impairment expense

(2) Excludes deferred tax liability

(3) Growth projects were below budget in 2017–18 mainly due to delay in approval and funding for Rookwood Weir, resulting in deferred pre-construction activities

(4) Established with Enterprise Agreement (2015-18) on specific quarterly saving targets

(5) Based on 12-month rolling calculation of incidents and exposure hours

(6) FTE roles reduced by a net 20.3, as a result of restructure. As at 30 June 2018 there were 29 vacancies.

Marketing activity	Budget 2017-18	Actual 2017-18
Industry and community support		
Australian National Committee on Large Dams (ANCOLD) conference ^(a)	10,000	9,000
Other (total of sponsorships below \$5000 per event) ^(b)	45,000	27,889
Total industry and community support	55,000	36,889
Advertising		
Water safety advertising campaign	220,000	82,651
School safety program ^(c)	30,000	-
Total advertising	250,000	82,651
Corporate entertainment		
Staff awards ceremony ^(d)	13,000	8,414
Brisbane office Christmas celebration	16,000	6,952
Other (total of corporate entertainment below \$5000 per event)	31,500	22,266
Total corporate entertainment	60,500	37,632
Strategic community and stakeholder engagement activities		
IGEM and state-wide Dam Education Program ^(e)	1,150,000	947,295
Total community and stakeholder activities	1,150,000	947,295
Total all activities	1,515,500	1,104,467

(a) Sponsorship costs for ANCOLD were attributed to sponsoring the conference and renewing membership.

(b) Sponsorships below \$5000 were reduced due to a decreased number of suitable applications that aligned to the sponsorship and organisation's strategic objectives.

(c) Overall advertising spend was below budget due to a strategic decision to focus on grass-roots customer and community engagement and to leverage low cost channels.

(d) Savings on corporate entertainment was attributed to cost efficiencies and reduced venue hire fees for the staff awards and Christmas celebration.

(e) Community activities were under budget due to in-project cost efficiencies for the State-wide dam education campaign.

Directors' report

for the year ended 30 June 2018

The Directors present their report together with the financial report of SunWater Limited and its subsidiaries ("SunWater") for the financial year ended 30 June 2018 and the auditor's report thereon.

1. Directors

The following persons were Directors of SunWater Limited during the whole or part of the financial year and, except where noted otherwise, up to the date of this report:

- Leith Bouilly, appointed 1 October 2015
- Neville Ide, appointed 1 October 2015
- Patrice Sherrie, appointed 1 October 2015
- Moya Steele, appointed 3 December 2015
- David Stewart, appointed 3 December 2015
- Vanessa Sullivan, appointed 15 December 2016

Further information about Directors' qualifications, experience, term of appointment is detailed in the SunWater Board section of the Annual Report on pages 27 and 28. Details of meetings attended are in the table below.

2. Secretaries

The following persons were Secretaries of SunWater Limited during all or part of the financial year and up to the date of this report:

- Lisa Dalton (BAppSc, MAppSc, LLB (Hons), FAICD, FCIS) was appointed Secretary in November 2016. Lisa is a governance professional with over 19 years of experience in senior executive positions with responsibility for governance, risk management, human resources, strategy and communications. Lisa is an experienced company secretary and non-executive director and is a member of several Audit and Risk Management Committees.

- Brad Watkins (LLB) was alternate secretary of SunWater from 2013 to 22 May 2018. Brad has extensive experience in areas of the law ranging from corporate and commercial, energy, resources and infrastructure, through to commercial and insolvency litigation.
- Julie Tealby (BBus, CPA, FGIA, FCIS, MAICD) was appointed alternate secretary on 22 May 2018. Julie is an experienced senior executive and company secretary, skilled in Corporate Governance, Financial Services, Risk Management, Performance Management, Internal Audit and Business Process Improvement.

3. 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.

4. Financial performance

Financial Results – Consolidated	2018	2017	2016
	\$000	\$000	\$000
Profit before income tax	57,437	51,053	40,682
Profit after income tax	39,661	36,048	29,009

The financial statements are a general purpose financial report that have been prepared in accordance with the Australian Accounting Standards and interpretations, requirements of the *Corporations Act 2001* (Cth), provisions of the *Government Owned Corporations Act 1993* (Qld) (GOC Act) and other relevant legislation.

Meetings attended during 2017–18

Director	Board Meetings ⁽¹⁾		Audit, Finance and Risk Committee Meetings ⁽²⁾		Remuneration Committee Meetings		Strategic Projects Committee Meetings ⁽²⁾	
	Attended	Held ⁽³⁾	Attended	Held ⁽³⁾	Attended	Held ⁽³⁾	Attended	Held ⁽³⁾
Leith Bouilly	9	9	-	-	4	4	4	5
Patrice Sherrie	10	10	4	4	4	4	-	-
Neville Ide	10	10	4	4	4	4	-	-
Moya Steele	9	10	1	1	-	-	3	3
David Stewart	9	9	-	-	-	-	5	5
Vanessa Sullivan	9	9	3	3	-	-	1	2

(1) Leith Bouilly and Vanessa Sullivan each took a board-approved leave of absence during the year

(2) Moya Steele retired from the Strategic Projects Committee and was appointed to the Audit, Finance and Risk Committee from 1 March 2018. Vanessa Sullivan retired from the Audit, Finance and Risk Committee and was appointed to the Strategic Projects Committee from 1 March 2018.

(3) Held refers to meetings held where the Director was entitled or able to attend

5. Dividends and return of contributed equity

SunWater's Dividend Policy, as stated in the 2017-18 SCI, takes into account the return its Shareholders expect on their investment.

2016-17 dividend re-invested by Shareholders

In the 2016-17 financial year pursuant to section 131(3) (b) of the GOC Act, the shareholding Ministers directed that SunWater not pay a dividend in 2017-18 for the 2016-17 financial year.

The Government committed SunWater's full 2016-17 dividend and an additional \$100m to the Burdekin Falls Dam Saddle Dam and Monolith Improvement Project once a business case is prepared and approved by shareholding Ministers.

2017-18 Dividend

The directors recommended that a dividend of \$39.66 million be paid in respect of the 2017-18 financial year.

6. Review of operations

For a detailed overview of operating and financial performance, please see pages 7 to 25 of SunWater's Annual Report.

7. Significant changes in the state of affairs

There have been no significant changes in the state of affairs subsequent to the end of the 2017-18 financial year.

8. Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

- SunWater's operations in future financial years
 - the results of those operations in future financial years or
 - SunWater's state of affairs in future financial years
- except as set out elsewhere in this report and notes 21 and 22 in the financial statements.

9. Environmental regulation

SunWater's operations are subject to significant environmental regulation under both Commonwealth and State legislation. In February 2018, SAI Global conducted the annual certification audit of SunWater's Environmental Management System. The current certification was maintained.

10. Insurance of directors

During the financial year, SunWater paid a premium of \$0.16m (excluding 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 Limited 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.

11. Auditor's independence declaration

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

12. Relief from financial reports for wholly owned subsidiaries

SunWater and its wholly owned subsidiaries are parties to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 which grants relief to its wholly owned subsidiaries Eungella Water Pty Ltd, North West Water Pipeline Pty Ltd, Burnett Water Pty Ltd from the Corporations Act 2001 requirements for the preparation, audit and lodgement of their financial reports.

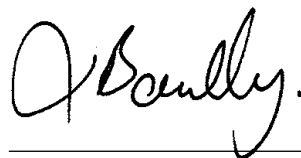
13. Rounding of amounts

In accordance with the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2017/191 commencing 1 April 2017, amounts in the financial report and Directors' report have been rounded to the nearest dollar, unless otherwise stated.

14. Auditor

The Auditor-General of Queensland continues in office in accordance with section 30 of the *Auditor-General Act 2009* (Qld). No non-audit services are provided to SunWater by the Auditor-General. Further information is set out in note 23 to the financial statements.

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



Leith Bouilly
Chairman

Dated: 21 August 2018



Patrice Sherrie
Director

Dated: 21 August 2018

Auditor's independence declaration

To the Directors of SunWater Limited

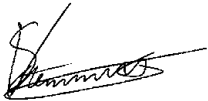
This auditor's independence declaration has been provided pursuant to s.307C of the *Corporations Act 2001*.

Independence declaration

As lead auditor for the audit of SunWater Limited for the financial year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of SunWater Limited and the entities it controlled during the period.



Vaughan Stemmett
as delegate of the Auditor-General

21 August 2018
Queensland Audit Office
Brisbane

Financial report

for the year ended 30 June 2018

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General information

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

The Financial Statements are presented in the Australian currency.

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

Level 10
179 Turbot Street
Brisbane 4000
Queensland

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

Consolidated statement of comprehensive income

for the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Revenue from operations	1	285,640	283,357
Other income	2	2,107	4,570
		287,747	287,927
Expenses:			
Operating expenditure	3A	(117,697)	(116,991)
Employee benefits	3B	(42,865)	(40,372)
Depreciation and amortisation	9,10	(37,703)	(37,954)
Impairment of assets	9,10	(17,267)	(25,763)
Loss on disposal of assets		(55)	(600)
Operating profit		72,160	66,247
Finance costs	27(c)	(14,723)	(15,194)
Profit before income tax		57,437	51,053
Income tax expense	4	(17,776)	(15,005)
Profit for the year		39,661	36,048
Other comprehensive income		-	-
Total comprehensive income for the year		39,661	36,048

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

Consolidated statement of financial position

as at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Assets			
<i>Current assets</i>			
Cash and cash equivalents	5	25,883	54,855
Advance facility	27(a)	55,303	-
Receivables	6	28,150	24,577
Inventories	27(d)	2,610	2,404
Non-current assets held for distribution	7	4,219	-
Other current assets	8	2,432	4,322
Total current assets		118,597	86,158
<i>Non-current assets</i>			
Property, plant and equipment	9	866,038	882,339
Intangible assets	10	14,787	16,940
Deferred tax assets	4	13,299	11,114
Total non-current assets		894,124	910,393
Total assets		1,012,721	996,551
Liabilities			
<i>Current liabilities</i>			
Trade and other payables	11	20,678	22,350
Provisions	12	81,842	52,463
Borrowings	16	-	1,015
Other current liabilities	13	28,893	28,339
Total current liabilities		131,413	104,167
<i>Non-current liabilities</i>			
Provisions	12	1,254	1,246
Borrowings	16	284,146	283,147
Other non-current liabilities	13	145,613	152,979
Total non-current liabilities		431,013	437,372
Total liabilities		562,426	541,539
Net assets		450,295	455,012
Equity			
Contributed equity	15	245,552	250,269
Retained earnings		204,743	204,743
Total equity		450,295	455,012

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

Consolidated statement of changes in equity

for the year ended 30 June 2018

	Notes	Contributed equity \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2016		250,269	168,695	418,964
Total comprehensive income for the year		-	36,048	36,048
Transactions with owners as owners				
Dividends provided for or paid	14 (a)	-	-	-
Return of contributed equity	14,15	-	-	-
Balance at 30 June 2017		250,269	204,743	455,012
Total comprehensive income for the year		-	39,661	39,661
Transactions with owners as owners				
Dividends provided for or paid	14 (b)	-	(39,661)	(39,661)
Return of contributed equity	14,15	(4,717)	-	(4,717)
Balance at 30 June 2018		245,552	204,743	450,295

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

Consolidated statement of cash flows

for the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
<i>Cash flows from operating activities</i>			
Receipts from customers		295,815	298,225
Community service obligations received		9,170	9,586
Government grants		1,000	-
Interest received		183	129
Payments to suppliers and employees		(206,412)	(181,330)
Income taxes paid, net		(13,771)	(31,918)
Net cash inflow from operating activities	5	85,985	94,692
<i>Cash flows from investing activities</i>			
Proceeds from sale of property, plant and equipment		4	258
Payments from/(to) advance facility		(55,303)	-
Interest received		1,524	4,772
Payments for property, plant and equipment		(46,938)	(45,572)
Net cash (outflow) from investing activities		(100,713)	(40,542)
<i>Cash flows from financing activities</i>			
Proceeds from borrowings		-	40,000
Interest paid	27(b)	(14,228)	(14,506)
Repayments of borrowings	27(b)	(16)	(1,548)
Return of shareholders equity		-	(130,000)
Dividends paid		-	(159,009)
Net cash (outflow) from financing activities		(14,244)	(265,063)
Net (decrease) increase in cash and cash equivalents		(28,972)	(210,913)
Cash and cash equivalents at the beginning of the financial year		54,855	265,768
Cash and cash equivalents at the end of the financial year	5	25,883	54,855

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

Notes to the financial statements

for the year ended 30 June 2018

Basis of preparation

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

(a) Compliance with Australian Accounting Standards

The financial report is a general purpose financial report which:

- Has been prepared in accordance with the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations, the *Corporations Act 2001* and the provisions of the *Government Owned Corporations Act 1993 (Qld)*.
- Adopts policies which are consistent with those of the previous financial year and prepared under the historical cost convention.
- Does not adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective (Refer to note 26 for more information on this and other accounting policies).
- Is a Company which is of a kind referred to in *Corporations Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.
- Presents comparative information that has been reclassified where appropriate to enhance comparability.

(b) Going concern

The financial statements are prepared on a going concern basis.

(c) Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of SunWater Limited as at 30 June 2018 and the results of all subsidiaries for the year then ended.

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

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

(d) Other accounting policies

Significant and other accounting policies (refer note 27) that summarise the measurement basis used and are relevant to an understanding of the financial performance and position are provided throughout the notes to the Consolidated Financial Statements in accordance with the structure of the financial statements. These policies have been consistently applied to the years presented unless otherwise stated.

(e) Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances. Judgements and estimates that are material to the financial statements are provided throughout the notes to the financial statements.

Notes to the financial statements

for the year ended 30 June 2018

Basis of preparation (continued)

(f) The notes to the financial statements

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

The notes are organised into the following sections:

<i>Operations:</i>	provides a breakdown of individual line items in the financial statements that the directors consider most relevant and summarises the accounting policies, judgements and estimates relevant to understanding these line items;
<i>Capital:</i>	provides information about the capital management practices of the Group and shareholder returns for the year;
<i>Risk:</i>	discusses the Group's exposure to various financial risks, and explains how these could affect the Group's financial position and performance;
<i>Group structure:</i>	explains how the Group structure impacts on the financial position and performance of the group as a whole;
<i>Unrecognised items:</i>	provides information about items that are not recognised in the financial statements as they do not yet satisfy the recognition criteria, but could potentially have a significant impact on the Group's financial position and performance; and
<i>Other:</i>	includes other information that must be disclosed to comply with Australian Accounting Standards and other regulatory pronouncements, but which is not immediately related to individual items in the financial statements and is not considered critical in understanding the financial position and performance of the Group.

Notes to the financial statements

for the year ended 30 June 2018

Note 1 Revenue

Accounting Policy

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

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

Revenue is recognised for the major business activities as follows:

Revenue from water operations comprises industrial, irrigation, urban and drainage and is recognised when water has been delivered to customers or, in cases where no water has been delivered, is accrued in accordance with contractual provisions.

Water allocations revenue is recognised at the point of sale. Water allocations are saleable rights that may be granted by the Crown, free of charge, in a Resource Operations Plan under the *Water Act 2000* (Qld). Interim water allocations (replacing water licences granted under previous legislation) and water allocations are recognised at nominal cost less impairment or deemed cost (refer note 10). All other water allocations granted free of charge are recognised, when granted, at fair value which is nominal cost (\$1).

Lease rental income from operating leases is recognised in revenue on a straight-line basis over the lease term.

Recognition of all other service revenue is based on work completed at the reporting date.

Revenue from electricity generation is recognised on the amount of electricity generated and measured at the reporting date.

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

Community service obligation (CSO) payments are received by the consolidated entity from the Queensland Government. The payments fund the Rural Water CSO in recognition of the current rural water pricing policies set by the government, urban water deliveries to a local council, and certain other activities for which there are no other revenue sources. As these are subsidies from the Queensland Government, no conditions (apart from normal commercial considerations in maintaining water deliveries) are required to be met. These amounts are recorded as revenue.

	2018 \$'000	2017 \$'000
<i>Revenue from operations</i>		
Industrial water	175,270	171,270
Irrigation water	59,695	63,269
Urban water	13,422	12,756
Drainage	1,684	1,631
Water allocations revenue	15,532	15,438
Consulting and facilities services revenue	7,542	6,883
Other operating income	841	1,622
Government grants	2,648	902
Community service obligation – irrigation	3,161	3,716
Community service obligation – urban	5,845	5,870
Total revenue from operations	285,640	283,357

Government grants include funding under the National Water Infrastructure Development Fund (NWIDF) for feasibility studies to evaluate options for improved efficiency projects located in Bundaberg and Burdekin Haughton water supply schemes. In addition, it includes funding from Building Queensland to develop a business case for the development of Lower Fitzroy River Infrastructure (Rookwood Weir) that would secure a water supply to the region. The funding is received at developmental milestones and revenue is recognised over the periods to match the costs that they are intended to compensate.

Irrigation revenue follows a cost reflective tariff over the price path set by the Queensland Corporation Authority (QCA) between 2012 and 2017. At the end of 2017, the price path was extended for a further two years. The Community Service Obligation was not adjusted during the extension period to take into account an increase in non-controllable costs and therefore SunWater absorbs these additional costs.

Notes to the financial statements

for the year ended 30 June 2018

Note 2 Other income

	2018 \$'000	2017 \$'000
Gain on disposal of non-current assets	15	68
Interest income	1,729	3,977
Rent received	249	422
Fees and other income	114	103
Total other income	2,107	4,570

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

Note 3 Expenses

	2018 \$'000	2017 \$'000
A. Operating Expenditure		
Contracted services	48,692	53,435
Electricity	36,346	31,922
Insurance	8,474	8,741
Materials and plant hire	6,652	6,422
Fleet costs	2,263	2,256
Travel and accommodation	1,233	1,580
Rates and land tax	2,056	1,972
Corporate and administrative expenses	11,981	10,663
Total operating expenditure	117,697	116,991
B. Employee benefits		
Employee benefits		
Salaries and allowances	25,931	29,259
Redundancy expenses	5,795	264
Annual leave, banked time and time off in lieu (TOIL)	2,896	2,879
Long service leave expenses	695	716
Employer superannuation contribution	3,938	4,083
Employee related expenses		
Workers' compensation premium	315	269
Payroll tax	1,942	1,974
Other employee related expenses	1,353	928
Total employee benefits	42,865	40,372

Employee benefits

Salaries and allowances are recognised as the related service is provided.

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

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

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.

Notes to the financial statements

for the year ended 30 June 2018

Note 3 Expenses (continued)

Sick Leave

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

Superannuation

Employer superannuation contributions are paid to Queensland Government or an employee's choice superannuation scheme at statutory rates or rates determined by the State Actuary. Contributions are expensed in the period in which they are paid or payable.

Note 4 Income tax

Accounting Policy

(a) Current tax – income tax equivalents

The Group is exempt from income tax under section 24AM of the *Income Tax Assessment Act 1997 (Cth)*. However, pursuant to the *Government Owned Corporations Act 1993 (Qld)* and the National Tax Equivalents Regime, the Group is required to make payments to the Queensland Government, equivalent to the amount of any Commonwealth income tax for which an exemption is received. The income tax equivalent expense (referred to as income tax expense) for the period is the tax payable on the current period's taxable income based on the Australian corporate income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

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

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

(b) Offsetting deferred tax balances

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

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

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

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

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

(c) Investment allowances and similar tax incentives

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

(d) Tax consolidation legislation

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

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which limits the joint and several liability of the wholly-owned entities in the case of a default by the parent entity, SunWater Limited.

The Group has also entered into a tax funding agreement under which the wholly-owned entities fully compensate SunWater Limited for any current tax payable assumed and are compensated by SunWater Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to SunWater Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements. The amounts receivable/payable under the tax funding agreement are due upon payment by the parent entity of those liabilities, and are subject to the parent entity providing to the wholly-owned entities satisfactory evidence of that payment, the wholly owned entities shall promptly pay to the parent entity that contribution amount and the parent entity shall promptly pay to the relevant wholly-owned entities, amounts receivable by them under the funding arrangement.

Notes to the financial statements

for the year ended 30 June 2018

Note 4 Income tax (continued)

Key estimates and judgements

Recovery of deferred tax assets

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

	2018 \$'000	2017 \$'000
(i) Income tax expense		
<i>Income tax equivalents expense</i>		
Current tax equivalents expense	18,982	14,318
Deferred tax equivalents expense/(credit)	(1,057)	1,189
Research and development tax credit	(125)	(502)
Prior year (over) provision	(24)	-
	17,776	15,005
<i>Income tax equivalents expense is attributable to:</i>		
Profit from continuing operations	17,776	15,005
(ii) Reconciliation of income tax expense		
Profit before income tax	57,437	51,053
Tax expense at the Australian rate of 30% (2017: 30%)	17,231	15,316
Non-deductible entertainment	7	16
Sundry items	659	175
Research and development tax credit	(125)	(502)
Unrecognised deferred tax asset on capital losses	4	-
Income tax expense	17,776	15,005
Current tax	18,832	13,816
Deferred tax	(1,056)	1,189
	17,776	15,005

Notes to the financial statements

for the year ended 30 June 2018

Note 4 Income tax (continued)

(iii) Movement in deferred tax balances

	Net balance at 1 July	Charged to Income Statement	Charged to Contributed Equity	Net balance at 30 June	Deferred Tax Asset (DTA)	Deferred Tax Liability (DTL)
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2018						
Employee benefits	1,088	(91)	-	997	997	-
Property, plant and equipment	(8,240)	3,742	1,129	(3,369)	-	(3,369)
Unearned renewal annuity	4,108	1,127	-	5,235	5,235	-
Provisions	15,610	(3,520)	-	12,090	12,090	-
Other	(1,452)	(202)	-	(1,654)	-	(1,654)
Tax assets/(liabilities) before set off	11,114	1,056	1,129	13,299	18,322	(5,023)
Set off DTL against DTA	-	-	-	-	(5,023)	5,023
Net Tax Assets	11,114	1,056	1,129	13,299	13,299	-

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

Note 5 Cash and cash equivalents

Accounting Policy

Cash and cash equivalents in the Statement of Financial Position include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

Risk exposure

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

	2018 \$'000	2017 \$'000
Cash at bank and on hand	11,480	4,789
Cash held as security	1,312	4,635
Deposits on call	13,091	45,431
Cash at bank and on deposit	25,883	54,855

Cash held as security is held in separate bank accounts and is subject to repayment on call by the customer subject to meeting the obligations under their respective agreements (refer note 13).

During 2018, the Group entered into an advance facility arrangement with Queensland Treasury Corporation and \$55.3m cash was advanced to the facility. It can be drawn down as required (refer note 27a).

Notes to the financial statements

for the year ended 30 June 2018

Note 5 Cash and cash equivalents (continued)

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

	2018 \$'000	2017 \$'000
Profit for the year	39,661	36,048
Depreciation and amortisation	37,703	37,954
Impairment of assets	17,267	25,763
Bad and doubtful debts	1,050	4
Net loss on disposal of non-current assets	40	532
Interest received	(1,524)	(4,772)
Interest paid	14,228	14,506
<i>Change in assets and liabilities:</i>		
(Increase) in inventories and intangible assets	(206)	(239)
Decrease in deferred tax assets	2,484	1,685
(Increase)/decrease in receivables	(3,534)	1,330
Decrease/(increase) in other current assets	11,689	(3,402)
(Decrease)/increase in trade and other payables	(29,619)	9,457
(Decrease) in deferred revenue	(3,557)	(5,576)
Increase/(decrease) in income taxes payable	4,972	(18,101)
(Decrease) in deferred tax liabilities	(4,669)	(497)
Net cash inflow from operating activities	85,985	94,692

Notes to the financial statements

for the year ended 30 June 2018

Note 6 Receivables

Accounting Policy

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

	2018 \$'000	2017 \$'000
<i>Current</i>		
Trade receivables	13,914	9,743
Accrued revenue	17,236	14,530
Prepaid income tax	-	2,254
	31,150	26,527
Allowance for impairment of receivables	(3,000)	(1,950)
	28,150	24,577

Trade receivables

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

Accrued revenue

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

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

Impaired trade receivables

All of the Group's trade receivables have been reviewed for indicators of impairment. Specific trade receivables with balances greater than six months were found to be impaired and an allowance has been recorded accordingly within corporate and administrative expenses (refer note 3).

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

	2018 \$'000	2017 \$'000
At 1 July	1,950	1,950
Allowances added	1,050	-
Carrying amount at 30 June	3,000	1,950

Foreign exchange and interest rate risk

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

Fair value and credit risk

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

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. For more information on the Group's risk management policies, refer to note 17.

Notes to the financial statements

for the year ended 30 June 2018

Note 7 Non-current assets held for distribution

	2018 \$'000	2017 \$'000
Theodore LME scheme assets	4,219	-
	4,219	-

On 6 April 2018, the State of Queensland authorised a transfer agreement for the transfer of assets and liabilities of Theodore irrigation scheme to a local management entity (LME), with transfer scheduled for 30 September 2018.

Note 8 Other current assets

	2018 \$'000	2017 \$'000
GST receivable	1,651	3,225
Prepayments	781	1,097
	2,432	4,322

Note 9 Property, plant and equipment

Accounting Policy

Property, plant and equipment

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

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

The cost of self-constructed items includes the direct cost of construction plus costs incidental to the construction, including all other costs incurred in preparing the assets ready for use, such as engineering design fees, an appropriate proportion of overheads and finance costs (refer note 27c). The cost also includes the initial estimate of the costs of decommissioning the items and restoring the site on which they are located where such estimate is relevant and reliable in the context of the very long design life of most of these assets.

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

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

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

Notes to the financial statements

for the year ended 30 June 2018

Note 9 Property, plant and equipment (continued)

Depreciation

Depreciation is calculated on a straight-line basis so as to write off the cost or deemed cost of each depreciable asset progressively over its estimated useful life to the entity.

Useful life to the entity is determined after considering a number of factors such as manufacturer's specifications, engineering life, climatic conditions, geographic conditions and contractual life. Many of the Group's water infrastructure assets have very long design lives.

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

ASSET CLASS	DEPRECIATION RATES
Land	Land is not depreciated
Buildings and land improvements	1.67% to 20% [5 – 60 years]
Plant and equipment	8% to 33.33% [3 – 12.5 years]
Water infrastructure	0.5% to 10% [10 – 200 years]

Impairment of property, plant and equipment

Items of property, plant and equipment are assessed on an annual basis for indicators of impairment.

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

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

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

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

Notes to the financial statements

for the year ended 30 June 2018

Note 9 Property, plant and equipment (continued)

	2018 \$'000	2017 \$'000
At cost or deemed cost		
Land	7,702	7,770
Buildings and land improvements	17,912	19,157
Accumulated depreciation	(5,664)	(5,700)
Total buildings and land improvements	12,248	13,457
Plant and equipment	20,190	19,870
Accumulated depreciation	(15,941)	(14,524)
Accumulated impairment	(522)	(522)
Total plant and equipment	3,727	4,824
Water infrastructure	1,383,875	1,324,224
Accumulated depreciation	(296,555)	(264,544)
Accumulated impairment	(306,278)	(260,823)
Total water infrastructure	781,042	798,857
Assets under construction	65,285	89,395
Accumulated impairment	(3,966)	(31,964)
Total assets under construction	61,319	57,431
Total property, plant and equipment	866,038	882,339

Notes to the financial statements

for the year ended 30 June 2018

Note 9 Property, plant and equipment (continued)

Key estimates and judgements

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

The sources for the key estimates and assumptions include:

- Water charges applied to irrigators are regulated by the Queensland Government which subsidises water prices by way of community service obligation payments for the forecast shortfall between revenue raised in accordance with the regulated charges and the estimated efficient costs of storage and distribution of water for irrigation purposes. As the regulated price does not provide for a commercial return on capital, the reduced cash flows substantially impact on the values assigned to the water infrastructure assets.
- The Queensland Competition Authority (QCA), appointed to conduct an independent review and make recommendations to government on future irrigation water pricing, handed down its final report *SunWater Irrigation Price Review: 2012-17* in May 2012. In June 2012, SunWater's shareholding Ministers directed the Group to charge its irrigation customers the final recommended prices as defined in this report for the period commencing 1 July 2012 and ending 30 June 2017. In June 2016 the shareholder Minister's provided another direction extending the price path until 30 June 2019. Tariffs increased by CPI only.
- The cash flow projections used in the Group's model are based on these approved irrigation pricing arrangements and likely future pricing trends.
- The discount rate used to discount the estimated future cash flows included in the value in use calculation is based on the Group's estimated weighted average cost of capital (WACC), provided by Queensland Treasury Corporation. This is considered to include a market-determined rate that reflects the risks associated with operating the business. The risk-free rate, used in the calculation of WACC, is based on a 20 day average of the 10 year Commonwealth Government bond security. The future cash flows have been discounted using a pre-tax discount rate of 8.3% (2017: 8.1%)
- The net present value of the discounted cash flows is reasonably sensitive to likely changes of the WACC rate applied.
- There is no open market for the sale of water infrastructure assets owned by the Group.
- The cash flow projections anticipate that business efficiencies will be achieved over time to meet QCA determined efficient costs and that future price paths will recover efficient costs.
- The regulated price path, which reduces the Group's ability for cost recovery, results in larger impairment. A significant increase or decrease in a CSO adjustment would result in a higher or lower value in use and a resulting impairment loss or reversal.

Notes to the financial statements

for the year ended 30 June 2018

Note 9 Property, plant and equipment (continued)

Movements

Movements of the carrying amounts of each class of property, plant and equipment from the beginning to the end of each year are set out below.

	Land \$'000	Buildings & land improvements \$'000	Plant & equipment \$'000	Water infrastructure \$'000	Work in progress \$'000	Total PP&E \$'000
<i>At 1 July 2016</i>						
Cost	7,848	19,167	19,807	1,314,419	55,492	1,416,733
Accumulated depreciation	-	(5,436)	(13,727)	(231,669)	-	(250,832)
Accumulated impairment	-	-	(522)	(264,071)	(3,740)	(268,333)
Net book amount	7,848	13,731	5,558	818,679	51,752	897,568
<i>Year ended 30 June 2017</i>						
Additions	3	248	1,093	10,682	46,004	58,030
Disposals	(81)	(101)	(61)	(458)	-	(701)
Transfer between classes	-	-	-	-	(12,101)	(12,101)
Depreciation expense	-	(421)	(1,766)	(33,280)	-	(35,467)
Impairment loss	-	-	-	3,234	(28,224)	(24,990)
<i>At 30 June 2017</i>						
Cost	7,770	19,157	19,870	1,324,238	89,395	1,460,430
Accumulated depreciation	-	(5,700)	(14,524)	(264,544)	-	(284,768)
Accumulated impairment	-	-	(522)	(260,837)	(31,964)	(293,323)
Net book amount	7,770	13,457	4,824	798,857	57,431	882,339
<i>Year ended 30 June 2018</i>						
Additions	-	284	852	37,684	46,674	85,494
Disposals	(35)	(570)	(41)	(5,293)	-	(5,939)
Transfer between classes	-	-	-	-	(38,820)	(38,820)
Assets held for distribution	(33)	(529)	(22)	(3,635)	-	(4,219)
Depreciation expense	-	(394)	(1,886)	(33,079)	-	(35,359)
Impairment (loss)	-	-	-	(13,492)	(3,966)	(17,458)
<i>At 30 June 2018</i>						
Cost	7,702	17,912	20,190	1,383,875	65,285	1,494,964
Accumulated depreciation	-	(5,664)	(15,941)	(296,555)	-	(318,160)
Accumulated impairment	-	-	(522)	(306,278)	(3,966)	(310,766)
Net book amount	7,702	12,248	3,727	781,042	61,319	866,038

Notes to the financial statements

for the year ended 30 June 2018

Note 9 Property, plant and equipment (continued)

Impairment

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

	2018 Loss/(Reversed) \$'000	2018 Recoverable amount \$'000
<i>Boyne Supply</i>	14,159	9,187
This CGU comprises all of the water infrastructure assets in the Boyne supply including Boondooma Dam and Tarong pipeline. The impairment loss is primarily the result of expensing current year capital costs incurred to address damage caused by the 2010 floods. The discount rate used was 8.3% (2017: 8.1%).		
<i>Nogoa Mackenzie Water Supply Scheme</i>	(10,731)	19,946
This CGU includes Fairbairn Dam, the Emerald irrigation area and Blackwater pipeline. The reversal of previous impairments is a result of progressing the dam improvement projects thus reducing future cash outflows as well as renegotiation of some existing commercial water supply contracts. The discount rate used was 8.3% (2017: 8.1%).		
<i>Other cash generating units</i>	10,064	3,933
The main factors affecting impairment is the expensing of current year capital expenditure in addition to reduced CSOs in recognition of the lower amounts approved by government. Recoverable amount is determined as value in use. The discount rate used was 8.3% (2017: 8.1%).		
Total	13,492	33,066
	2017 Loss/(Reversed) \$'000	2017 Recoverable amount \$'000
<i>Tinaroo Hydro</i>	2,792	-
This CGU comprises all of the water infrastructure assets in the Tinaroo Hydro Electric Power. The impairment loss mainly arises because of an increase in future operating costs. The discount rate used was 8.1% (2016: 8.4%).		
<i>Nogoa Mackenzie Water Supply Scheme</i>	(6,505)	7,899
This CGU comprises all of the water infrastructure assets in the Nogoa Mackenzie Water Supply Scheme. The impairment reversal mainly arises because of revised cash outflows required to carry out dam improvements on Fairbairn Dam. Recoverable amount is determined as value in use. The discount rate used was 8.1% (2016: 8.4%).		
Other cash generating units – individually were not significant. Recoverable amount is determined as value in use. The discount rate used was 8.1 % (2016: 8.4%).	479	15,889
Total	(3,234)	23,788

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

Notes to the financial statements

for the year ended 30 June 2018

Note 9 Property, plant and equipment (continued)

Work in progress

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

	Loss/(Reversed) \$'000	Recoverable amount \$'000
<i>At 30 June 2018</i>		
Burdekin Dam improvements	3,966	-
Total	3,966	-
<i>At 30 June 2017</i>		
Paradise Dam improvements	24,264	-
Burdekin Dam improvements	3,960	-
Total	28,224	-

In accordance with the Dam Improvement Program (DIP) (refer note 20), the Group is in the process of undertaking options for the upgrade of the saddle dam and monoliths at Burdekin Falls Dam. As the dam improvement will not generate any additional revenue, the DIP costs are considered to be impaired at the time incurred. Other Work in Progress projects are not assessed for impairment until project completion or more certainty of cost recoverability is known. This is assessed on a project by project basis.

Note 10 Intangible assets

Accounting Policy

Software

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

Water allocations

Water allocations are intangible assets that are valued at cost or deemed cost. The Group elected to exercise the option allowed under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to adopt the fair value of an intangible asset as its deemed cost. This means that all water allocations that had been revalued to fair value on or prior to 1 July 2005, the date of transition to AIFRS, were measured on the basis of deemed cost at that date. Subsequent acquisitions are recognised at cost which is a nominal amount (\$1) when water allocations are granted free of charge. After initial recognition, all water allocations are carried at cost less accumulated impairment. Water allocations have an indefinite life and are not amortised but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired, by comparing their carrying amounts with their recoverable amounts. No recognition threshold is applied.

	2018 \$'000	2017 \$'000
<i>At cost or deemed cost</i>		
Software	30,344	30,344
Accumulated amortisation	(24,606)	(22,262)
Accumulated impairment	(359)	(359)
Total software	5,379	7,723
Trade names	8	8
Water allocations	58,147	58,147
Accumulated impairment	(48,747)	(48,938)
Total water allocations	9,400	9,209
Total intangible assets	14,787	16,940

Impairment

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

Notes to the financial statements

for the year ended 30 June 2018

Note 10 Intangible assets (continued)

Key estimates and judgements

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

Movements

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

	Software \$'000	Trade names \$'000	Water allocations \$'000	Total Intangible Assets \$'000
<i>At 1 July 2016</i>				
Cost	30,411	8	58,147	88,566
Accumulated amortisation	(19,876)	-	-	(19,876)
Accumulated impairment	(359)	-	(48,165)	(48,524)
Net book amount	10,176	8	9,982	20,166
<i>Year ended 30 June 2017</i>				
Additions – at cost	139	-	-	139
Disposals/retirements	(106)	-	-	(106)
Amortisation expense	(2,486)	-	-	(2,486)
Impairment loss	-	-	(773)	(773)
<i>At 30 June 2017</i>				
Cost	30,344	8	58,147	88,499
Accumulated amortisation	(22,262)	-	-	(22,262)
Accumulated impairment	(359)	-	(48,938)	(49,297)
Net book amount	7,723	8	9,209	16,940
<i>Year ended 30 June 2018</i>				
Amortisation expense	(2,344)	-	-	(2,344)
Impairment reversal	-	-	191	191
<i>At 30 June 2018</i>				
Cost	30,344	8	58,147	88,499
Accumulated amortisation	(24,606)	-	-	(24,606)
Accumulated impairment	(359)	-	(48,747)	(49,106)
Net book amount	5,379	8	9,400	14,787

Note 11 Trade and other payables

Accounting Policy

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

	2018 \$'000	2017 \$'000
Trade creditors	6,020	6,749
Other creditors and accruals	14,658	15,601
	20,678	22,350

Notes to the financial statements

for the year ended 30 June 2018

Note 12 Provisions

Accounting Policy

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

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

Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions for dam improvements are measured following Board Approval and the scope of works have progressed to contractual arrangements from which a reliable measure can be derived. Where there is still uncertainty around the timing or amount, it will be disclosed as a contingent liability.

	Notes	2018 \$'000	2017 \$'000
<i>Current</i>			
Employee benefits		3,326	3,628
Dam improvements		32,601	47,078
Restructuring costs		3,445	1,757
Income tax		2,809	-
Dividends	14	39,661	-
		81,842	52,463
<i>Non-current</i>			
Land commitment		1,254	1,246
		1,254	1,246

Employee benefits

Refer to note 3b on employee expenses for accrued annual leave, banked time and time off in lieu (TOIL).

Superannuation

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

Dam improvements

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

Land commitment

By way of an agreement between the former State Water Projects and the Department of Natural Resources, Mines and Energy, SunWater is required to settle with the department, the disposition of certain surplus land.

Key estimates and judgements

Restructuring

The provision represents management's best estimate of the present constructive obligation for costs associated with the transfer of the Group's channel schemes to local management. The transfer is a government policy decision and is subject to approval by each scheme.

The Group has received a direction under the *Water Act 2000* under which it has the obligation to co-operate in the transition to a local management arrangement. Transfer notices directed the Group to transition St George at 30 June 2018 and Theodore at 30 September 2018 to local management.

Two of the channel irrigation schemes, Eton and Emerald have commenced the transition to local management with the establishment of special purpose vehicle companies and finalising due diligence. The transition is subject to reaching final agreement on the terms and conditions of that transfer with the Government and subject to a positive customer vote.

Notes to the financial statements

for the year ended 30 June 2018

Note 12 Provisions (continued)

Movements in provisions

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

	Dam improvements \$'000	Restructuring \$'000	Income tax \$'000	Land commitment \$'000
Carrying amount at 1 July 2017	47,078	1,757	-	1,246
Provisions added	17,342	2,940	18,982	8
Payments made during the year	(31,819)	(1,252)	(16,173)	-
Carrying amount at 30 June 2018	32,601	3,445	2,809	1,254

Note 13 Other liabilities

	2018 \$'000	2017 \$'000
<i>Current</i>		
Deposits payable	2,483	5,740
Unearned annuity	17,452	13,693
Deferred income	8,784	8,582
Rent incentive	158	310
Other	16	14
	28,893	28,339
<i>Non-current</i>		
Deferred income	145,613	152,823
Rent incentive	-	156
	145,613	152,979

Deposits Payable

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

Unearned Annuity

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

The level of expenditure required to maintain the serviceability and integrity of the asset portfolio can vary significantly from year to year. To even out the effect of expenditure peaks and troughs in irrigation prices, the Group utilises an annuity approach for the irrigation sector.

Deferred Income

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

Notes to the financial statements

for the year ended 30 June 2018

Note 14 Capital management

Risk management

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

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

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

	2018 \$'000	2017 \$'000
Total borrowings	284,146	284,162
Total equity	450,295	455,012
Total capital	734,441	739,174
Market gearing ratio	39%	38%

The Group's current ratio at 30 June 2018 is 0.90 (2017: 0.83).

Loan covenant

Under the terms of the major borrowing facility with Queensland Treasury Corporation, the Group is required to comply with financial covenants. All covenants were met during 2017-18.

Dividends

Accounting Policy

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

	2018 \$'000	2017 \$'000
<i>Ordinary shares</i>		
2018 first and final dividend of \$19.83m per share declared and provided for but not paid as at 30 June 2018	39,661	-
	39,661	-

(a) Dividends Paid

In the prior year, the shareholding Ministers directed SunWater to not pay a dividend for the 2016-17 financial year.

(b) Dividends Declared

In June 2018, the directors recommended a dividend of 100% of the Group's adjusted audited net profit after tax which has been accepted by shareholding Ministers. The dividend has been provided for but not paid.

Notes to the financial statements

for the year ended 30 June 2018

Note 15 Contributed equity

Accounting Policy

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

	2018 \$'000	2017 \$'000
Share capital		
Issued and paid up capital:		
2 ordinary shares of \$122.776m each	245,552	-
2 ordinary shares of \$125.1345m each	-	250,269

	Number of shares \$'000	Contribution per share \$'000	Total \$'000
Movements in ordinary share capital			
Closing balance 30 June 2017	2	125,134	250,269
Closing balance 30 June 2018	2	122,776	245,552

At 30 June 2018, SunWater transferred ownership of the St George channel water infrastructure assets and liabilities. Liabilities owing at the transfer date were settled via a cash transaction. The assets of the scheme were transferred through SunWater's ultimate controlling entity the State of Queensland by way of a transfer notice which recognised the transfer to be a distribution to owners and a redemption of contributed equity.

Note 16 Borrowings

Accounting Policy

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

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

	2018 \$'000	2017 \$'000
<i>Unsecured</i>		
Queensland Treasury Corporation (QTC) loan	284,146	284,162
	284,146	284,162
Represented by:		
Current	-	1,015
Non-current	284,146	283,147
	284,146	284,162

Notes to the financial statements

for the year ended 30 June 2018

Note 16 Borrowings (continued)

Financing arrangements

The loans from QTC are interest bearing. Parent entity non-current borrowings have no fixed repayment date. The terms of the facilities are reviewed with QTC annually. Borrowings are subject to the annual approval of the Queensland Treasurer and have previously been sourced from the SunWater Client Specific - Pool Portfolio Linked Loan. An approved borrowing program of nil was in place for 2017-18 (2016-17: \$100m).

The Group has maintained the financial covenants as required under its borrowing facilities during the 2018 and 2017 reporting period (refer note 14).

The Group has a rolling \$50.0 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 2018 (2017: undrawn).

Fair Value

	2018		2017	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
The carrying amounts and fair values of interest bearing liabilities at balance date are:				
Borrowings	284,146	301,885	284,162	304,758

The difference between carrying amount and fair value represents the market realisation adjustment on borrowings from QTC. Generally, the Group repays borrowings in accordance with the requirements of the relevant agreement, hence no adjustment to fair value is appropriate. Where a market realisation charge has been incurred, it has been included in finance costs in the Consolidated Statement of Comprehensive Income.

Note 17 Financial risk management

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

Market risk

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Although the Group does not operate internationally, on occasion, the Group may source plant and equipment or components of water infrastructure assets internationally and become exposed to foreign exchange risk. The Board has approved policies to manage foreign exchange risk. The Group may elect to hedge foreign exchange risk on exposures arising from future commercial transactions and recognised assets and liabilities using approved derivative risk instruments on advice from, and transacted by, QTC.

During 2018, the Group had no significant exposure to foreign exchange risk and did not enter into any derivative contracts to hedge its foreign exchange risk exposure.

Price risk

During 2018, the Group had no significant exposure to price risk.

Notes to the financial statements

for the year ended 30 June 2018

Note 17 Financial risk management (continued)

Cash flow and fair value interest rate risk

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

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

Financial Instruments	Carrying amount \$'000	2018 INTEREST RATE RISK			
		-1% Profit \$'000	Equity \$'000	+1% Profit \$'000	Equity \$'000
Cash and advance facility*	79,871	(688)	(688)	688	688
QTC borrowings	284,146	2,758	2,758	(2,758)	(2,758)
Overall effect on profit and equity		2,070	2,070	(2,070)	(2,070)

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

* There was no advance facility in 2017.

Credit risk

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

During 2018, the Group had no transactions involving derivative financial instruments.

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

Maximum exposure to credit risk		2018	2017
Category	Note	\$'000	\$'000
Cash at bank and at call invested in Australian institutions rated AA- or higher *	5	25,880	54,851
Other cash and cash equivalents	5	3	4
Receivables – current	6	28,150	24,577
		54,033	79,432

* Inclusive of accrued interest.

Notes to the financial statements

for the year ended 30 June 2018

Note 17 Financial risk management (continued)

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

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

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

Liquidity risk

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

The Group had an approved borrowing program of \$nil during 2018. The Group has a rolling \$50m working capital facility with QTC. This facility (undrawn during 2018) operates as an overdraft arrangement which is used to cover temporary funding shortfalls, and is repayable on demand. The Group also has potential to drawdown further on its Portfolio Linked Loan that is in place.

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

	Carrying amount \$'000	Less than 1 year \$'000	1 – 5 years \$'000	Over 5 years \$'000	Total cash flows (contractual) \$'000
2018					
Payables	20,678	20,678	-	-	20,678
Dividends payable	39,661	39,661	-	-	39,661
Borrowings – QTC *	284,146	11,958	47,672	283,147	342,777
Deposits payable	2,483	2,479	4	-	2,483
	346,968	74,776	47,676	283,147	405,559
2017					
Payables	22,350	22,350	-	-	22,350
Borrowings – QTC *	284,162	12,416	49,597	283,147	345,160
Deposits payable	5,740	5,708	32	-	5,740
	312,252	40,474	49,629	283,147	373,250

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

Note 18 Investment in subsidiaries

The Group's principal subsidiaries are set out below:

Name of entity	Country of incorporation	Class of shares	EQUITY HOLDING	
			2018 %	2017 %
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

On 22 May 2018, these wholly owned subsidiaries entered into a deed of cross guarantee with SunWater Limited pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 and are relieved from the requirement to prepare and lodge an audited financial report.

Notes to the financial statements

for the year ended 30 June 2018

Note 19 Commitments

(a) Capital commitments

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

	2018 \$'000	2017 \$'000
ICT projects	81	378
Water infrastructure projects	2,494	23,209
	2,575	23,587
Payable:		
Within one year	2,575	23,587

(b) Non-cancellable operating leases

	2018 \$'000	2017 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	2,667	3,812
Later than one year but not later than five years	169	2,842
	2,836	6,654

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

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

The Group has entered into agreements to take out a new ten-year lease at new premises for the Brisbane office. The Group will take occupation of the premises 8 August 2018 with the rent commencing 1 May 2019. The lease on the existing premises ends on 12 February 2019.

Future projects and acquisitions

Paradise Dam Improvement Project

Improvement works at Paradise Dam were completed in late 2017. Stage 1 of these works included:

- Strengthening and additional concrete protection to the base of the primary spillway
- Downstream protection of the left-hand side dam wall
- Construction of an access and drainage culvert

Planning is underway for the next stage works, which is proposed to carry out more significant improvements to the primary and secondary spillways. It is anticipated that Stage 2 will not be completed until 2025, allowing for optimisation and scoping of preferred options, a detailed Business Case approval (by late 2019), planning and design, project approvals, and staged construction over several wet seasons.

Fairbairn Dam Spillway Improvement Project

Following the successful completion of Stage 1, works commenced at Fairbairn Dam in April 2017 for Stage 2. The second stage is now scheduled for completion by end 2020, allowing for precautionary safety measures for temporary works. The improvement project involves work on the spillway chute to ensure the dam continues to function as designed to meet current design standards.

The improvement works involve:

- Modification of drain outlets
- Repair and replacement of blocked drains
- Replacement of steel anchors and installation of additional anchors (increased protection)
- Filling any voids under the concrete slabs of the spillway
- Construction of a mass reinforced concrete overlay

Notes to the financial statements

for the year ended 30 June 2018

Note 19 Commitments (continued)

Burdekin Falls Dam Raising

The Group is developing a preliminary business case to investigate long-term water supply requirements and options for raising the dam wall at Burdekin Falls Dam. Should demand for water exceed the current capacity of the dam, the viability of 2 metres, 6 metres or 14.6 metres raising height is being assessed.

Completion of the preliminary business case will position SunWater closer to construction readiness, should future demand for water necessitate raising the dam. Dependant on the outcome of the preliminary business case, SunWater would then work with Building Queensland on a detailed business case under the Queensland Government's Project Assurance Framework, and the preparation of an environmental impact statement (EIS). This process is likely to commence in 2019 and the EIS is expected to take two years to complete.

Burdekin Falls Dam Hydro-electricity

Over the years, SunWater has supported several investigations into harnessing the significant energy potential stored in Burdekin Falls Dam.

A detailed business case is assessing the most appropriate location, size and form of power generation. The detailed business case is being led by Building Queensland under the Queensland Government's Project Assurance Framework with Stanwell as the proponent for the Hydro. A 30-50 megawatt hydro power station is being considered, however through the Burdekin Falls Dam Raising business case, SunWater and Stanwell are also looking at the ability of the dam to accommodate larger hydro options, particularly if the dam were to be raised and storage capacity increased. The detailed business case is being undertaken in consultation with Building Queensland under the Queensland Government's Project Assurance Framework.

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

Note 20 Dam Improvement Program

The safety and general maintenance to current design standards of the Group's dams continues to be a major focus for the organisation. The Dam Improvement Program is essential to ensure that our dams continue to function as intended, in-line with best management practices and current design standards are able to hold and safely release excess volumes of water during periods of extreme rainfall.

Our dams are managed to achieve the requirements of Queensland's Dam Safety Regulator and relevant national and international guidelines. The Group's dam safety management program includes annual and comprehensive risk assessments for each of our 19 dams.

Between 2006 and 2016, the Group completed six dam safety improvement projects at Fred Haigh Dam, Bjelke Petersen Dam, Tinaroo Falls Dam, Kinchant Dam, Eungella Dam and the first stage of works at Fairbairn Dam.

In 2017-18, the Group completed dam safety improvement works at Paradise Dam (strengthening the base of the concrete spillway), Burdekin Falls Dam (improving foundation drainage), and continued work on Fairbairn Dam Stage 2 (anchoring and strengthening the spillway base and crest, and improving spillway under-slab drainage). In addition, we completed the flood repair works at Boondooma Dam.

The dam improvement program is continually reviewed and annually the Portfolio Risk Assessment assesses project priorities as they align to our Dam Safety Policy, timeframes and estimated costs.

The Group's dam improvement program is estimated to cost \$1.3 billion over the next 10 years.

Notes to the financial statements

for the year ended 30 June 2018

Note 21 Contingencies

The Group had contingent assets and liabilities at 30 June 2018 in respect of:

Contingent Liabilities

- (a) Fred Haigh Dam suffered flood damage during 2013. Since the damage, the Group has carried out engineering assessments to ascertain the damage and the scale of works required to rectify it. Insurers have conducted site visits and their assessment concluded that the damaged area will not be insured until the damage is repaired. As at 30 June there was no present obligation to finalise the works.
- (b) Since the finalisation of the Commission of Inquiry into the 2010/11 flood event and the release of the final report, landowners whose properties were inundated during the floods are seeking compensation through a class action which has been commenced against another Government entity, SunWater and the State Government. SunWater, which provided assistance to the dam operator under a contract to provide flood operations support, is named as second defendant. SunWater is working closely with its insurers, and is defending the claim.
- (c) The Group has issued bank guarantees of \$0.4m as security against operations and maintenance service agreements. At the date of this report, there are no known claims or circumstances which would give rise to a claim under the guarantee.
- (d) The Group remains in discussions with its insurers regarding the coverage provided by the Group's industrial and special risks insurance policy over the costs associated with the following events:
- During the 2010/11 and 2013 Queensland floods, Boondooma Dam located near Proston in southern Queensland suffered damage to the spillway channel from large volumes of water being discharged through the spillway; and
 - During the flood event in the Burnett River System in early 2013, Paradise Dam located near Childers in South East Queensland suffered significant damage to the spillway dissipator and the river bed downstream of the dissipator.

The policy has a number of exclusions and it is expected that these, together with the event deductibles, will be relevant to the policy responses.

In the event that the Group's insurance policy does respond, but is scaled back due to exclusions and deductibles, it is likely that there will be under-recoveries against the final costs. If under-recoveries do occur, SunWater will seek to protect its interests by pursuing other commercial remedies available to it. At this stage, any ultimate under-recoveries cannot be reliably estimated.

- (e) At 30 June 2018, the Group was engaged in commercial and legal disputes under various contracts. At the date of this report, it is not possible to reliably estimate the eventual outcome of these disputes or the financial consequences thereof.

Contingent Assets

- (a) SunWater has made a claim under its insurance policies for losses attributable to the flood event in 2013 (in addition to Paradise Dam). No insurance proceeds have been taken up in the Statement of Comprehensive Income for the year ended 30 June 2018 (2017: \$1m, 2016: \$13m, 2015: \$3m). The remainder of the claim is under negotiation.
- (b) Eungella Water Pipeline Pty Ltd terminated a contract resulting in a termination payment becoming due and payable to Eungella Water Pipeline Pty Ltd. At 30 June 2018, there was not sufficient certainty that the income would be realised as the customer has commenced legal proceedings against Eungella Water Pipeline Pty Ltd and there are pending legal discussions.
- (c) SunWater holds a number of bank guarantees in the event of non-payment of services.

Note 22 Subsequent Events

During July 2018 the Queensland Government announced SunWater as being responsible for the construction of the Rookwood Weir project. Further details of the project are being progressed.

Other than the matter noted above and except as detailed elsewhere in the financial statements, no other events have occurred subsequent to balance date that materially impact on these financial statements.

Note 23 Remuneration of auditors

During the year, fees of \$180,000 (2017: \$170,000) were paid or payable for services provided by the auditor of the consolidated entity in relation to the audit of the financial report of the parent entity and its subsidiaries.

No other services were provided.

Notes to the financial statements

for the year ended 30 June 2018

Note 24 Related party transactions

(a) Parent entities

The parent entity within the Group is SunWater Limited. The ultimate Australian controlling entity is the State of Queensland which at 30 June 2018 owned 100% (2017: 100%) of the issued ordinary shares of SunWater Limited.

(b) Transactions with related parties

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

During 2018 the Group finalised the transition of St George channel water infrastructure assets and liabilities. This transaction was done through a transfer notice from the State of Queensland and the assets and liabilities were transferred to the Department of Natural Resources, Mines and Energy before being passed on to the new local management entity.

During the year ended 30 June 2018, the following significant transactions occurred between the Group and other State of Queensland controlled entities.

	2018 \$'000	2017 \$'000
Distribution of St George assets	5,846	-
Interest received from QTC	1,378	2,693
Water sales, CSO, grants received	38,531	38,245
Consultancies paid	2,318	2,454
Interest/market realisation fee paid to QTC	14,616	15,005

(c) Transactions with subsidiaries

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

(d) Key management personnel

i. Directors

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

Chairman

Ms Leith Bouilly

Non-executive Directors

Mr Neville Ide

Ms Patrice Sherrie

Ms Moya Steele

Mr David Stewart

Ms Vanessa Sullivan

ii. Directors' contracts

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

Terms of appointment are as follows:

Directors as at 30 June 2018	Term of appointment	Appointment expiry date
Leith Bouilly, Chair	3 years	30 September 2018
Neville Ide	3 years	30 September 2018
Patrice Sherrie	3 years	30 September 2018
Moya Steele	2 years 7 months	30 September 2018
David Stewart	2 years 7 months	30 September 2018
Vanessa Sullivan	2 years 6 months	30 September 2019

Notes to the financial statements

for the year ended 30 June 2018

Note 24 Related party transactions (continued)

iii. Other key management personnel

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

Name	Position
Nicole Hollows	Chief Executive Officer
Colin Bendall	Executive General Manager, Operations and Services
John Stubbs ⁽¹⁾	Interim Chief Financial Officer
Alex Fisher ⁽²⁾	Executive General Manager, Asset Strategy and Delivery
Frank McClymont ⁽³⁾	Chief Financial Officer
Olivia Newman ⁽⁴⁾	General Manager, Major Projects and Technical Services
Kellie Breen ⁽⁵⁾	Executive General Manager, People and Stakeholder Relations
James Stuart ⁽⁶⁾	General Manager, Water Resources and Dam Safety
Peter MacTaggart	Executive General Manager, Corporate Development
Tim Murphy ⁽⁷⁾	Chief Financial Officer

(1) Mr John Stubbs resigned as Interim Chief Financial Officer on 24 November 2017.

(2) Ms Alex Fisher resigned as Executive General Manager Asset Strategy and Delivery on 22 December 2017.

(3) Mr Frank McClymont was appointed as Chief Financial Officer on 6 November 2017 and resigned on 29 January 2018.

(4) Ms Olivia Newman was appointed as General Manager, Major Projects and Technical Services on 22 January 2018.

(5) Ms Kellie Breen was appointed as Executive General Manager, People and Stakeholder Relations on 29 January 2018.

(6) Mr James Stuart was appointed as General Manager, Water Resources and Dam Safety on 1 March 2018.

(7) Mr Tim Murphy was appointed as Chief Financial Officer on 21 May 2018.

iv. Shareholding Ministers

The GOC's shareholding Ministers are identified as part of the GOC's key management personnel and as at the date of the Financial Report these Ministers are The Honourable Jacklyn Trad Deputy Premier, Treasurer and Minister for Aboriginal and Torres Strait Islanders Partnerships; and The Honourable Dr Anthony Lynham Minister for Natural Resources, Mines and Energy.

Key management personnel compensation

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

v. Key management personnel compensation disclosures by category

Category	2018 \$'000	2017 \$'000
Short-term employee benefits – cash salary	2,144	1,825
Short-term employee benefits – cash bonus	-	89
Post-employment benefits – superannuation	151	110
Termination benefits	82	123
Total	2,377	2,147

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

Notes to the financial statements

for the year ended 30 June 2018

Note 24 Related party transactions (continued)

vi. Compensation – Directors

Name of Director	Short-term employee benefits		Post-employment benefits	Total
	Cash salary \$'000	Cash bonus \$'000	Superannuation \$'000	
<i>2018</i>				
Leith Bouilly, Chair	103	-	10	113
Neville Ide	50	-	5	55
Patrice Sherrie	52	-	5	57
Moya Steele	42	-	4	46
David Stewart	46	-	4	50
Vanessa Sullivan	38	-	3	41
<i>2017</i>				
Leith Bouilly, Chair*	113	-	12	125
Neville Ide	44	-	4	48
Patrice Sherrie	48	-	4	52
Moya Steele	38	-	4	42
David Stewart	40	-	4	44
Vanessa Sullivan (appointed 15 December 2016)	20	-	2	22

* Cash salary includes fees paid for taking on the role of Executive Chairman for the period November 2016 to February 2017.

Directors' remuneration excludes insurance premiums (exclusive of GST) of \$163,212 (2017 – \$163,275) 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.

Notes to the financial statements

for the year ended 30 June 2018

Note 24 Related party transactions (continued)

vii. Compensation – Executives

Name and Title of Executive	Short-term employee benefits		Post-employment benefits	Termination	Total
	Cash salary \$'000	Cash bonus \$'000	Superannuation \$'000	Benefits \$'000	
<i>2018*</i>					
Nicole Hollows, Chief Executive	665	-	20	-	685
Colin Bendall, Executive General Manager, Operations and Services	268	-	20	-	288
John Stubbs ⁽¹⁾ , Interim Chief Financial Officer	121	-	10	-	131
Alex Fisher ⁽²⁾ , Executive General Manager, Asset Strategy and Delivery	144	-	10	-	154
Frank McClymont ⁽³⁾ , Chief Financial Officer	74	-	13	82	169
Olivia Newman ⁽⁴⁾ , General Manager, Major Projects and Technical Services	111	-	9	-	120
Kellie Breen ⁽⁵⁾ , Executive General Manager, People and Stakeholder Relations	125	-	9	-	134
James Stuart ⁽⁶⁾ , General Manager, Water Resources and Dam Safety	69	-	6	-	75
Peter MacTaggart, Executive General Manager, Corporate Development	202	-	21	-	223
Tim Murphy ⁽⁷⁾ , Chief Financial Officer	34	-	2	-	36

(1) Mr John Stubbs resigned as Interim Chief Financial Officer on 24 November 2017.

(2) Ms Alex Fisher resigned as Executive General Manager, Asset Strategy and Delivery on 22 December 2017.

(3) Mr Frank McClymont was appointed as Chief Financial Officer on 6 November 2017 and resigned on 29 January 2018.

(4) Ms Olivia Newman was appointed as General Manager, Major Projects and Technical Services on 22 January 2018.

(5) Ms Kellie Breen was appointed as Executive General Manager, People and Stakeholder Relations on 29 January 2018.

(6) Mr James Stuart was appointed as General Manager, Water Resources and Dam Safety on 1 March 2018.

(7) Mr Tim Murphy was appointed as Chief Financial Officer on 21 May 2018.

*The figures in the table above are on an accrual basis, including leave, rather than cash payment basis

Notes to the financial statements

for the year ended 30 June 2018

Note 24 Related party transactions (continued)

Name and Title of Executive	Short-term employee benefits		Post-employment benefits	Termination	Total
	Cash salary	Cash bonus ⁽¹⁾	Superannuation	Benefits	
	\$'000	\$'000	\$'000	\$'000	\$'000
<i>2017*</i>					
Nicole Hollows, Chief Executive	573	-	20	-	593
John Hooper ⁽²⁾ , Executive General Manager, Customers and Corporate Services	282	-	21	123	426
Colin Bendall ⁽³⁾ , Executive General Manager, Operations and Services	140	-	10	-	150
Alex Fisher, Executive General Manager, Asset Strategy and Delivery	313	21	20	-	354
John Stubbs ⁽⁴⁾ , Interim Chief Financial Officer	29	-	2	-	31
Geoff White ⁽⁵⁾ , General Manager, Corporate	91	38	1	-	130
Tom Vanderbyl ⁽⁶⁾ , General Manager, Bulk Water and Irrigation Systems	94	30	6	-	130

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

(2) Mr Hooper was appointed as General Manager, Customers and Corporate Services on 18 July 2016 and resigned on 5 May 2017. Cash salary includes leave entitlement payout.

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

(4) Mr John Stubbs was appointed as Interim Chief Financial Officer on 29 May 2018.

(5) Mr White resigned as General Manager, Corporate on 1 July 2016. Cash salary includes leave entitlements payout.

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

*The 2017 figures have been restated on an accrual basis, including leave, rather than cash payment basis

viii. Executive employment contracts

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

All Senior Executives are engaged on tenured employment contracts that provide for three months' notice or equivalent payment upon termination. Where a redundancy applies, the payment is made in accordance with the *Fair Work Act 2009 (Cth)*.

Remuneration and other terms of employment are formalised in each executive's Senior Executive Employment Agreement. SunWater executives receive a Total Fixed Remuneration (TFR) inclusive of all rewards including base salary and superannuation for 2018 financial year. Input is sought annually from an independent remuneration expert on market and industry movements for each role. Based upon the market median, the performance of SunWater and the executive, a new TFR is determined annually for effect from 1 July and consideration by the Board at its discretion, on whether eligibility applies for an incentive bonus of up to 15% of TFR from 1 July.

ix. Compensation – Shareholder ministers

Ministerial remuneration entitlements are outlined in the Legislative Assembly of Queensland's Members' Remuneration Handbook. The GOC does not bear any cost of remuneration of Ministers. The majority of Ministerial entitlements are paid by the Legislative Assembly, with the remaining entitlements being provided by Ministerial Services Branch within the Department of the Premier and Cabinet. As all Ministers are reported as KMP (Key Management Personnel) of the Queensland Government, aggregate remuneration expenses for all Ministers is disclosed in the Queensland General Government and Whole of Government Consolidated Financial Statements as from 2017-18, which are published as part of Queensland Treasury's Report on State Finances.

(e) Other transactions with key management personnel

A Director of the Group was also a Director of another organisation which had transactions with the Group. All transactions in the year ended 30 June 2018 between the Group and the organisation were on normal commercial terms and conditions.

Notes to the financial statements

for the year ended 30 June 2018

Note 25 Deed of cross guarantee

SunWater Limited and its subsidiaries (note 18) are parties to a deed of cross guarantee which each entity guarantees the debts of the others. By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and director's report under ASIC Corporations (*Wholly owned Companies*) Instrument 2016/785.

The consolidated statement of comprehensive income and consolidated of financial position of the entities party to the deed of cross guarantee are the same as the consolidated Financial Statements of the Group.

Note 26 New or amended accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

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

AASB 9 *Financial Instruments* addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 but is available for early adoption.

The Group's assessment of the standard is not expected to significantly affect the Group's accounting for its financial assets and liabilities.

(ii) AASB 15 *Revenue from Contracts with Customers* (effective from first full reporting period after 1 January 2018)

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

Overview of assessment activities

SunWater has focused on segregating revenue streams into major components to further understand the nature of contractual arrangements with each of these customer groups. These revenue streams include:

Industrial water (61%) – Mining and power generation customers

Irrigation water (21%) – Agricultural customers

Urban water (5%) – Regional councils

Water allocations (5%) – Mining customers, regional councils

Consulting and facilities services (3%) – Government water facilities

CSO irrigation and urban (3%) – Government

Other revenue (2%)

The assessment has shown that there are similarities across the revenue streams where the ultimate performance obligation is the delivery of water or the entitlement to have water delivered through the Group's water infrastructure and is being recognised over time using a method that depicts its performance whereby the customer receives and consumes the benefits as water is delivered. Therefore, the Group assesses that the majority of its revenue streams will not be affected by the new revenue standard.

Impact on the Group's financial report

The Group currently accounts for an annuity liability by deferring revenue to match against future refurbishment and renewal costs on irrigation water supply schemes (note 13). The deferral of revenue does not meet the new revenue standard as the performance obligation in customer contracts is the delivery of water; SunWater carries out ongoing refurbishment of water infrastructure across the irrigation price path. The amount of deferred revenue in the annuity liability at 30 June 2018 is \$17.45m which will be adjusted against opening retained earnings on 1 July 2018.

Notes to the financial statements

for the year ended 30 June 2018

Note 25 Deed of cross guarantee (continued)

Application date and transition approach

The Group will apply the standard from the annual reporting period commencing 1 July 2018 and retrospectively to the prior reporting period with the cumulative effect of initially applying the standard as an adjustment to opening retained earnings in 2018–19 financial year.

(iii) AASB 16 *Leases* (effective from first full reporting period after 1 January 2019)

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

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

The Group has non-cancellable operating leases (refer note 19) which, upon adoption of AASB 16, are expected to be included on the Statement of Financial Position. The Group is yet to assess the full impact and has not yet decided when to adopt AASB 16. However, based on the materiality of existing leases, the standard is not expected to impact significantly on the group's assets and liabilities.

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

Note 27 Summary of other accounting policies and activities

(a) Advance Facility

Under the Queensland Government's cash pooling arrangement, Government Owned Corporations (GOC's) advance surplus cash to Queensland Treasury. Queensland Treasury Corporation (QTC) pays interest on these advances at the QTC Cash Fund rate which averaged 2.48% in 2017–18.

Access to the advances is generally subject to notification periods of 24 to 48 hours.

Due to the short-term nature of the advances, the carrying value is assumed to represent fair value.

(b) Changes in liabilities arising from financing activities

The amounts disclosed in the Consolidated Statement of Cash Flows under Financing Activities all relate to cash transactions arising from the Group's long term borrowing with Queensland Treasury Corporation.

(c) Interest and Finance Charges

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

(d) 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.

(e) Goods and Services Tax (GST)

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

Receivables and payables are stated inclusive of GST receivable or payable. The net GST recoverable from, or payable to, the ATO is included with other receivables or payables in the consolidated Statement of Financial Position.

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

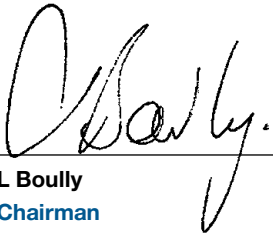
Directors' declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 41 to 79 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in the corporate structure.

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

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



L Bouly
Chairman



P Sherrie
Director

Brisbane
21 August 2018

Independent auditor's report

To the Members of SunWater Limited

Report on the audit of the financial report

Opinion

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

In my opinion, the financial report:

- gives a true and fair view of the group's financial position as at 30 June 2018, and its financial performance and cash flows for the year then ended
- complies with the *Corporations Act 2001*, the *Corporations Regulations 2001* and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the directors' declaration.

Basis for opinion

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

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

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

Key audit matters

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

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

Refer to note 9 of the financial statements

Key audit matter	How my audit addressed the key audit matter
<p>Significant judgement is required by management in the determination of the carrying value of property, plant and equipment (water infrastructure assets), which due to prior impairments, is highly sensitive to changes in inputs.</p> <p>The key assumptions used in the financial model include:</p> <ul style="list-style-type: none"> Allocating assets to cash generating units that are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash flows from other assets or group of assets. Irrigation pricing arrangements including likely future pricing trends. Estimating future capital expenditure and operating costs. The discount rate applied to forecast cash flows. 	<p>My procedures in relation to management's assessment of the carrying value of property, plant and equipment (water infrastructure assets) included, but were not limited to:</p> <ul style="list-style-type: none"> Obtaining an understanding of the discounted cash flow model, and assessing its design, integrity and appropriateness with reference to common industry practices. Evaluating whether the cash generating units used by management are consistent with the entity's internal reporting and our understanding of the business. Checking, on a sample basis, the accuracy and relevance of the input and data used, including reconciling input data to supporting evidence such as approved budgets. Assessing the reasonableness of cash flow forecasts by corroborating the key market related assumptions to relevant internal and external data. The reasonableness of board approved budgets was assessed with reference to their historical accuracy and the budget preparation process. Evaluating whether the discount rate applied was within a reasonable range, with reference to market data and industry research. Challenging the reasonableness of key assumptions based on our knowledge of the entity and industry. Performing a sensitivity analysis to assist in considering the potential impact of reasonably possible changes (downside/upside) in these key assumptions. Verifying the mathematical accuracy of the net present value calculations.

Independent auditor's report (continued)

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

Refer to note 9 of the financial statements

Key audit matter	How my audit addressed the key audit matter
<p>The straight-line depreciation method required significant judgements for:</p> <ul style="list-style-type: none"> Identifying the significant parts of infrastructure that have different useful lives. Forecasting the remaining useful lives of those significant parts. 	<p>My procedure included, but were not limited to:</p> <ul style="list-style-type: none"> Evaluating management's approach for identifying the parts of water infrastructure that have different useful lives, having regard to recent replacement projects and long-term asset management plans. Evaluating remaining useful life estimates for reasonableness with reference to management's documented assessments, historical disposal rates, condition assessments for older assets, and long-term asset management plans and budgets.

Other information

Other information comprises the information included in the group's annual report for the year ended 30 June 2018, but does not include the financial report and my auditor's report thereon.

Those charged with governance are responsible for the other information.

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

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

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

Responsibilities of the company for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

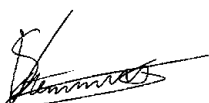
My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an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

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

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

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

From the matters communicated with the company's directors, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Vaughan Stemmett
as delegate of the Auditor-General

28 August 2018
Queensland Audit Office
Brisbane

Dam statistics

Dam name	Stream name	Lake name	Nearest town	Structure description	Maximum height of dam above foundation (metres)	Storage capacity (ML)	Surface area at full supply level (ha)	Year completed
E J Beardmore	Balonne River	Lake Kajarabie	St George	Earthfill embankment and mass concrete (vertical lift gates)	15.2	81,700	2850	1972
Bjelke-Petersen	Barker Creek	Lake Barambah	Murgon	Earth and rockfill embankment	46	134,900	2250	1988
Boondooma	Boyne River	Lake Boondooma	Proston	Concrete-faced rockfill	63	204,200	1815	1983
Burdekin Falls	Burdekin River	Lake Dalrymple	Ravenswood	Mass concrete gravity	55	1,860,000	22,000	1987
Callide	Callide Creek	Callide Reservoir	Biloela	Earthfill embankment and mass concrete (radial gates)	37	136,300	1240	1965–88
Cania	Three Moon Creek	Lake Cania	Monto	Earth and rockfill embankment	47	88,500	760	1982
Coolmunda	Macintyre Brook	Lake Coolmunda	Inglewood	Earthfill embankment and mass concrete spillway (radial gates)	18.8	69,000	1645	1968
Eungella	Broken River	Eungella Reservoir	Eungella	Earth and rockfill embankment	49	112,400	848	1968
Fairbairn	Nogoa River	Lake Maraboon	Emerald	Earthfill embankment	46.3	1,301,000	15,000	1972
Fred Haigh	Kolan River	Lake Monduran	Gin Gin	Earth and rockfill embankment	52	562,000	5345	1975
Julius	Leichhardt River	Lake Julius	Mount Isa	Multiple arch concrete buttress	35.6	107,500	1255	1976
Kinchant	Sandy Creek (North Branch) – water harvested from Pioneer River	Lake Kinchant	North Eton	Earthfill embankment	22.3	62,800 ⁽¹⁾	920 ⁽¹⁾	1974–86
Kroombit	Kroombit Creek	-	Biloela	Earth and rockfill embankment and roller compacted concrete spillway	25	14,600	289	1992
Leslie	Sandy Creek	Lake Leslie	Warwick	Mass concrete (radial gates)	31.1	106,200	1288	1965–86
Paradise ⁽²⁾	Burnett River	Lake Paradise	Biggenden	Roller compacted concrete	52	300,560	2950	2005
Peter Faust	Proserpine River	Lake Proserpine	Proserpine	Earth and rockfill embankment	51	491,400	4325	1990
Teemburra	Teemburra Creek	-	Finch Hatton	Concrete-faced rockfill	57	147,500	1107	1997
Tinaroo Falls	Barron River	Lake Tinaroo	Atherton	Mass concrete	45.5	438,900	3500	1958
Wuruma	Nogo River	-	Eidsvold	Mass concrete	44	165,400	1639	1968

1. Maximum operating capacity

2. Owned by Burnett Water Pty Ltd – a subsidiary of SunWater Limited

Scheme statistics

Scheme	Customer Segment	No. of Customers	Water Entitlements (ML)	Available Water (ML)	Available Water (%)	Water Deliveries (ML)	Water Deliveries (%)	TT Purchase Volume (ML)
Awoonga Callide Pipeline	Industrial		0	18,552		18,552		0
	Other		0	35		35		0
	Total	29	0	18,587	0	18,587	0	0
Barker Barambah	Irrigation		31,361	25,576		10,165		2,405
	Urban		2,115	2,010		476		0
	SunWater		839	236		0		0
Total	173	34,315	27,821	81	10,641	31	2,405	
Bowen Broken Rivers	Industrial		30,289	30,305		11,963		238
	Irrigation		5,676	5,676		168		0
	Urban		1,785	1,785		863		0
	Other		290	360		242		0
	SunWater		890	804		863		56
Total	50	38,930	38,930	100	14,099	36	294	
Boyne River and Tarong	Industrial		30,333	30,333		27,443		0
	Irrigation		9,142	9,142		3,765		426
	Urban		1,825	1,825		1,321		0
	Other		480	481		112		4
	SunWater		1,625	1,625		1,489		0
Total	166	43,405	43,405	100	34,129	79	430	
Bundaberg	Industrial		386	886		95		34
	Irrigation		199,310	233,807		90,436		10,326
	Urban		9,571	9,571		4,375		137
	Other		46	46		16		0
	SunWater		171,016	140,351		17,113		0
Total	1,091	380,329	384,662	101	112,034	29	10,497	
Burdekin Haughton	Industrial		20,820	21,141		1,270		485
	Irrigation		635,212	716,783		560,033		47,764
	Urban		10,537	12,604		13,235		480
	Other		6	77		71		0
	SunWater		413,017	388,692		61,438		185
Total	413	1,079,593	1,139,297	106	636,047	59	48,914	
Callide Valley	Industrial		3,772	3,772		3,445		0
	Irrigation		13,463	14,138		10,138		1,250
	Urban		2,207	2,207		1,325		0
	SunWater		7	7		0		0
Total	141	19,449	20,124	103	14,907	77	1,250	
Chinchilla Weir	Industrial		350	219		5		0
	Irrigation		2,534	2,665		1,870		976
	Urban		1,160	1,160		332		0
	SunWater		5	5		0		0
Total	42	4,049	4,049	100	2,207	55	976	
Cunnamulla	Irrigation		2,412	2,412		1,683		1,000
	Urban		80	80		63		0
	SunWater		120	120		0		0
Total	24	2,612	2,612	100	1,746	67	1,000	

Scheme statistics (continued)

Scheme	Customer Segment	No. of Customers	Water Entitlements (ML)	Available Water (ML)	Available Water (%)	Water Deliveries (ML)	Water Deliveries (%)	TT Purchase Volume (ML)
Dawson Valley	Industrial		3,918	3,077		2,676		295
	Irrigation		51,394	52,430		48,609		14,943
	Urban		2,283	1,948		1,226		0
	SunWater		4,142	4,282		2,693		0
	Total	172	61,737	61,737	100	55,204	89	15,238
Eton	Industrial		100	100		0		0
	Irrigation		52,817	52,339		19,033		887
	Urban		176	176		40		0
	Other		81	81		13		0
	SunWater		9,389	9,389		5,334		0
	Total	327	62,563	62,084	99	24,420	39	887
Julius Dam	Industrial		30,100	30,100		5,953		0
	Urban		7,900	7,900		0		0
	SunWater		10,850	10,850		5		0
	Total	5	48,850	48,850	100	5,958	12	0
Lower Fitzroy	Industrial		24,009	24,012		19,299		3
	Irrigation		3,101	3,241		369		0
	Other		41	88		71		51
	SunWater		1,470	1,280		0		0
	Total	27	28,621	28,621	100	19,740	69	54
Lower Mary River	Industrial		70	70		1		0
	Irrigation		19,327	21,377		5,889		413
	Urban		120	120		52		0
	SunWater		10,892	8,892		1,522		0
	Total	164	30,409	30,459	100	7,464	25	413
Macintyre Brook	Industrial		217	217		0		0
	Irrigation		17,112	11,571		9,578		2,142
	Urban		446	328		318		0
	Other		6,400	6,400		6,120		0
	SunWater		822	5,662		2,322		2,296
	Total	99	24,997	24,178	96	18,337	73	4,438
Maranoa River	Irrigation		800	800		14		0
	SunWater		5	5		0		0
	Total	4	805	805	100	14	2	0
Mareeba Dimbulah	Industrial		1,561	1,607		690		211
	Irrigation		151,202	151,983		89,093		27,286
	Urban		6,657	5,958		3,513		270
	SunWater		45,004	45,004		24,615		0
	Total	1,084	204,424	204,551	100	117,912	58	27,767
Nogoa Mackenzie	Industrial		27,807	27,570		12,671		300
	Irrigation		163,083	219,220		145,700		70,426
	Urban		8,548	8,412		6,137		1,048
	Other		339	407		251		3
	SunWater		32,081	29,638		14,152		0
	Total	398	231,859	285,247	123	178,911	77	71,776

Scheme	Customer Segment	No. of Customers	Water Entitlements (ML)	Available Water (ML)	Available Water (%)	Water Deliveries (ML)	Water Deliveries (%)	TT Purchase Volume (ML)
Pioneer River	Industrial		1,920	1,970		1,285		254
	Irrigation		47,390	57,322		11,840		690
	Urban		16,520	16,520		11,817		30
	SunWater		12,280	2,319		43		0
	Total	24	78,110	78,132	100	24,984	32	974
Proserpine River	Industrial		550	644		382		0
	Irrigation		40,817	54,910		19,346		1,779
	Urban		10,992	11,031		4,652		0
	SunWater		10,517	517		0		0
	Total	91	62,876	67,101	107	24,380	39	1,779
St George	Industrial		60	266		1		0
	Irrigation		71,770	81,024		70,530		14,403
	Urban		3,024	1,754		1,499		0
	SunWater		9,721	12,910		10,124		813
	Total	180	84,575	95,954	113	82,154	97	15,216
Three Moon Creek	Irrigation		14,124	14,124		4,606		1,158
	Urban		410	410		227		0
	Government		200	200		0		0
	Total	92	14,734	14,734	100	4,833	33	1,158
Upper Burnett	Industrial		119	119		45		0
	Irrigation		28,319	31,718		15,290		1,126
	Urban		2,080	1,911		823		0
	SunWater		18,032	4,841		0		51
	Total	152	48,550	38,589	79	16,158	33	1,178
Upper Condamine	Irrigation		30,363	2,205		1,934		274
	Urban		3,332	3,332		2,344		0
	Other		4	4		2		0
	SunWater		261	79		11		11
	Total	92	33,960	5,620	17	4,291	13	286
Total		5,040	2,619,751	2,688,975	103	1,429,156	55	206,931

1. Water entitlements are as at 30 June 2018

2. All reporting is preliminary with final reporting being provided to DNRME

3. Available Water, Water Deliveries and Temporary Transfers are for the most recently completed water year. This is the year ending 30 September 2017 for Dawson Valley WSS, 31 March 2018 for Eton WSS and 30 June 2018 for all other water supply schemes

4. Riparian allowance, channel harvesting, river harvesting etc are excluded from all figures

5. Water deliveries include Risk-A water in Upper Condamine WSS

6. Available water % scheme totals are consolidated from all scheme sectors and may include products available for that scheme including carry-over water

7. Water deliveries % scheme totals are consolidated from all scheme sectors

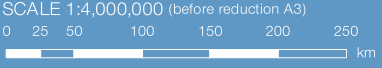
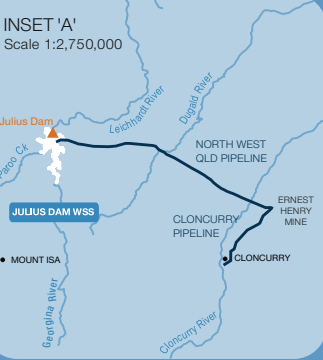
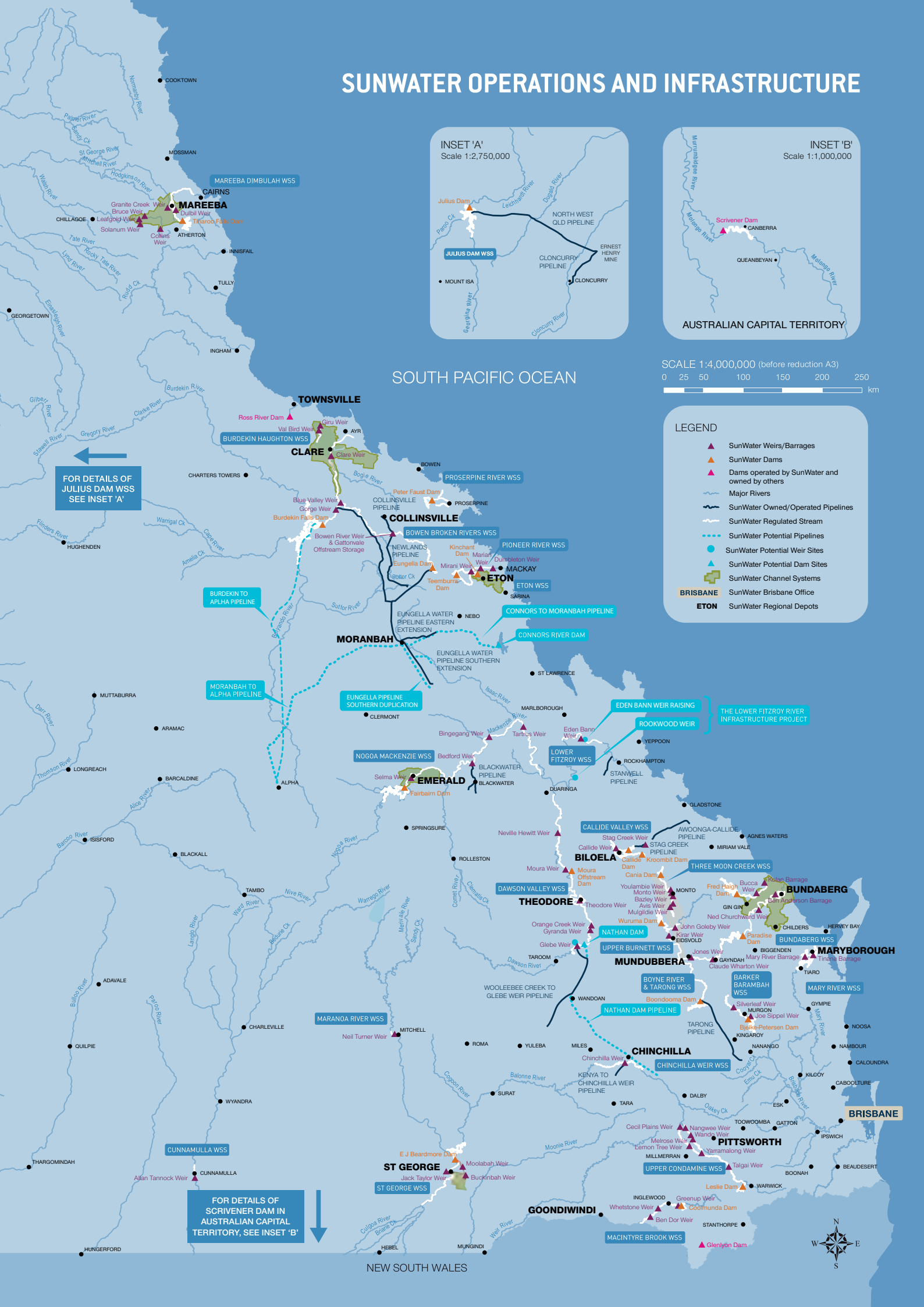
8. Water entitlements for Eton WSS include water entitlements with a priority type of "Risk"

Glossary

AASB	Australian Accounting Standards Board	GST	Goods and Services Tax
AC	Companion of the Order of Australia	IAC	Irrigator Advisory Committee
ACN	Australian Company Number	ICRG	Irrigator Customer Reference Groups
AEIS	Additional information to the environmental impact statement report	IASB	International Accounting Standards Board
ANCOLD	Australian National Committee on Large Dams	IFRS	International Financial Reporting Standards
ANN	Australian National Norm	IGEM	Inspector-General Emergency Management
AIFRS	Australian equivalents to International Financial Reporting Standards	kg	Kilograms
ATO	Australian Taxation Office	km	Kilometre
BOM	The Bureau of Meteorology	KPI	Key Performance Indicator
BHWSS	Burdekin Haughton Water Supply Scheme	LDMG	Local Disaster Management Group
BSC	Banana Shire Council	LMA	Local Management Arrangements
BW	Burnett Water Pty Ltd	LTI	Lost Time Injury
CEO	Chief Executive Officer	LTIFR	Lost Time Injury Frequency Rate
CGU	Cash Generating Units	M	Million
CRA	Comprehensive Risk Assessment	ML	Megalitre (1,000,000 litres)
CSO	Community Service Obligation	MTI	Medical Treatment Injury
DIP	Dam Improvement Program	NPAT	Net Profit After Tax
DNRME	Department of Natural Resources, Mines and Energy	NWIDF	National Water Infrastructure Development Fund
DSD	Department of State Development	NWQWP	North West Queensland Water Pipeline Pty Ltd
DTA	Deferred Tax Asset	PAYG	Pay As You Go
DTL	Deferred Tax Liability	PMO	Project Managed Organisation
EAP	Emergency Action Plan	QCA	Queensland Competition Authority
EBIT	Earnings Before Interest and Tax	QTC	Queensland Treasury Corporation
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation	R&E	Refurbishment and Enhancement
EIP	Efficiency improvement project	SCI	Statement of Corporate Intent
EIS	Environmental impact statement	SDCC	State Disaster Coordination Centre
ELT	Executive Leadership Team	SHE	Safety, Health and Environment (Committee)
EWP	Eungella Water Pipeline Pty Ltd	SLAM	Stop Look Assess Manage
FTE	Full Time Equivalent	TFR	Total Fixed Remuneration
GAWB	Gladstone Area Water Board	TRIFR	Total Recordable Injury Frequency Rate
GOC	Government Owned Corporation	TOIL	Time Off In Lieu
		TT	Temporary Transfer
		WACC	Weighted Average Cost of Capital



SUNWATER OPERATIONS AND INFRASTRUCTURE



LEGEND

- ▲ SunWater Weirs/Barrages
- ▲ SunWater Dams
- ▲ Dams operated by SunWater and owned by others
- Major Rivers
- SunWater Owned/Operated Pipelines
- SunWater Regulated Stream
- - - SunWater Potential Pipelines
- SunWater Potential Weir Sites
- ▲ SunWater Potential Dam Sites
- SunWater Channel Systems
- BRISBANE** SunWater Brisbane Office
- ETON** SunWater Regional Depots

FOR DETAILS OF JULIUS DAM WSS SEE INSET 'A'

BURDEKIN TO ALPHA PIPELINE

MORANBAH TO ALPHA PIPELINE

FOR DETAILS OF SCRIVENER DAM IN AUSTRALIAN CAPITAL TERRITORY, SEE INSET 'B'

NEW SOUTH WALES





Level 10, 179 Turbot Street
PO Box 15536 City East
Brisbane Qld 4002
Head Office: (07) 3120 0000
Customer service: 13 15 89

www.sunwater.com.au