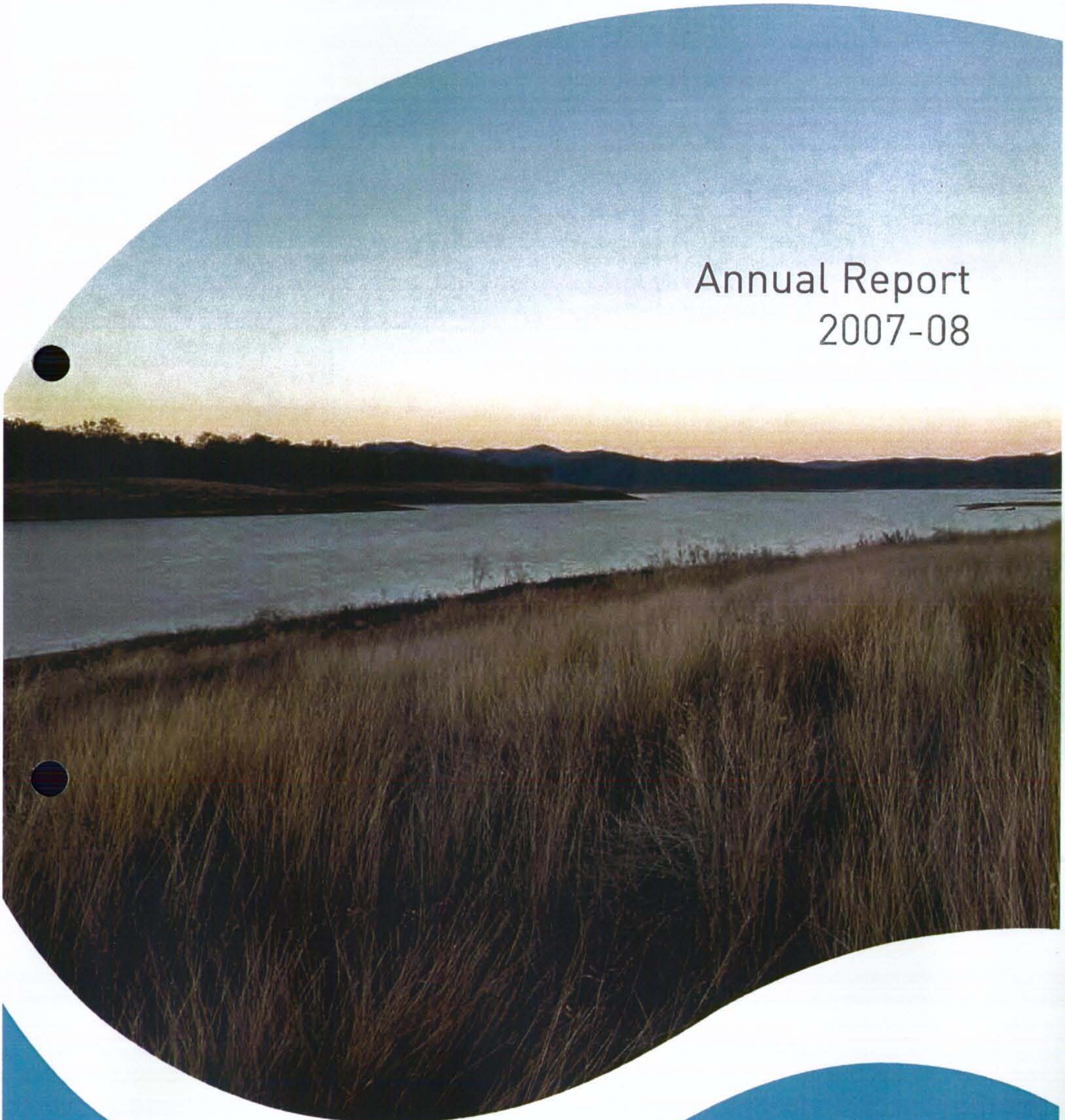
seqwater
WATER FOR LIFE



Annual Report 2007-08

Queensland Bulk Water Supply Authority (QBWSA) trading as Seqwater

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About this report

This Annual Report has been prepared to meet the dual reporting requirements of both the Queensland Bulk Water Supply Authority (QBWSA) trading as Seqwater and South East Queensland Water Corporation Limited for 2007/08.

It contains the QBWSA Financial Report for the period 16 November 2007 to 30 June 2008.

It also contains both the Financial Report and Directors' Report for South East Queensland Corporation Limited for the year ended 30 June 2008, in line with ASIC reporting requirements. This reflects the creation of QBWSA mid-way through the 2007/08 reporting period as part of the Queensland Government's water reform initiative.

It also acknowledges that whilst QBWSA subsequently became the sole shareholder of South East Queensland Water Corporation Limited during the year, the Corporation remained a public unlisted company for the duration of the 2007/08 financial year.

While written from a QBWSA perspective, supporting non-financial information has been presented in a way that describes establishment milestones and achievements based on the operational status of the transitioning entities during the 2007/08 reporting period.

The 2008/09 QBWSA Annual Report will reflect the organisation's achievements and performance as an integrated and fully operational Statutory Authority.

An overview of QBWSA

South East Queensland water reform

On 16 November 2007, the *South East Queensland Water (Restructuring) Act 2007* came into effect and this delivered major reform in the management of water services in South East Queensland.

Under the reform:

- Diversified water sources supplement existing dams, weirs and groundwater sources, and includes recycled water, desalination and increased regional diversification of dams and weirs
- a regional water grid is being established to improve the capacity to transport water amongst regional urban centres
- a new institutional framework has been established
- a market and pricing framework and regulatory environment is being implemented to encourage efficiency and to use market signals to moderate demand
- water efficiency measures, including new technologies, are being promoted to improve household and business water efficiency.

The path to QBWSA

The following milestones describe the establishment of the QBWSA under *South East Queensland Water (Restructuring) Act 2007* through to commencing operations as the single, integrated bulk water provider for the region.

16 November 2007

QBWSA is created under the *South East Queensland Water (Restructuring) Act 2007.*

Work commences to identify bulk water storage and water treatment plant assets and staff and transition them to QBWSA.

2007

2008

1 February 2008

QBWSA becomes the sole shareholder of South East Queensland Corporation Limited (Seqwater).

29 February 2008

Caloundra Maroochy Water Supply Board (Aquagen) assets and staff transfer to and commence operations as part of QBWSA.

14 March 2008

Bulk water storage and water treatment plant assets and staff transfer to QBWSA from the amalgamating councils of Caloundra, Maroochy, Noosa, Pine Rivers, Caboolture, Esk, Kilcoy, Beaudesert and Boonah and the Esk Gatton Laidley Water Board.

However, the transferring councils continue to operate the transferred assets under Interim Service Level Agreements until 30 June 2008. During this time, expenses continue to be met by and revenues flow to these transferring council entities.

2 May 2008

Redland City Council bulk water storage and water treatment plant assets and staff transfer to QBWSA, but continue to be operated by council under an Interim Service Level Agreement on a similar basis to that outlined above.

30 June 2008

Logan City Council water treatment plant assets transfer to QBWSA. Additional bulk water storage and water treatment plant assets from the now amalgamated councils and Redland City Council identified after the March and May transfer dates, transfer to QBWSA. Department of Natural Resources and Water weir assets transfer to QBWSA.

1 July 2008

Brisbane City Council and Gold Coast City Council bulk water storage and water treatment plant assets and staff transfer to and commence operations as part of QBWSA.

Identified Sunwater and all South East Queensland Water Corporation Limited assets and staff transfer to and commence operations as part of QBWSA.

QBWSA assumes operational responsibility for all transferred assets previously provided under Interim Service Level Agreements. Where any councils continue to provide any services to QBWSA, this is now done on a fee-for-service basis.

QBWSA adopts the trading name of Seqwater and a new logo and visual identity is created.

An overview of QBWSA

Who we are today

The Queensland Bulk Water Supply Authority (QBWSA) commenced the majority of its operations on July 1 2008, and is now the single treated and bulk water service provider for the South East Queensland region.

QBWSA has responsibility for managing 24 water storages and 49 weirs across the South East including the Wivenhoe, Somerset and North Pine Dams, Hinze Dam on the Gold Coast and Baroon Pocket Dam on the Sunshine Coast.

QBWSA currently operates 46 water treatment plant facilities and 14 groundwater bore fields.

QBWSA has responsibility for catchment, storage and treatment of bulk water to the new South East Queensland Water Grid.

QBWSA also provides services to 1,010 rural irrigator customers in the Upper Mary, Logan River, Warrill Valley, Central Lockyer, Lower Lockyer and Central Brisbane schemes.

QBWSA incorporates the expertise and water assets previously managed by the following entities.

- Caloundra Maroochy Water Supply Board (Aquagen)
- South East Queensland Water Corporation Limited
- Caboolture Shire Council and Pine Rivers Shire Council (now the amalgamated Moreton Bay Regional Council, which also includes Redcliffe City Council)
- Caloundra City Council, Maroochy Shire Council, Noosa Shire Council (now the amalgamated Sunshine Regional Council)
- Esk Shire Council and Kilcoy Shire Council and Esk Gatton Laidley Water Board (now the amalgamated Somerset Regional Council)
- Beaudesert Shire Council and Boonah Shire Council (the amalgamated Scenic Rim Regional Council)
- Redland City Council
- Logan City Council
- Gold Coast City Council
- Brisbane City Council
- SunWater
- The Department of Natural Resources and Water

Message from the Chair and CEO of QBWSA

Annabelle Chaplain

Peter Borrows

This year marks an historic turning point in the supply of drinking-quality water to the rapidly growing South East Queensland region.

South East Queensland is one of the fastest growing regions in Australia, with its population expected to grow from 2.7 million to at least 4 million by 2026.

Sustainable and reliable water supply is critical to support the strong and dynamic economy that underpins this growth.

Yet record-breaking drought conditions continue an unrelenting grip on urban and rural communities alike, and our precious water resources face increasing demands from community, industry and agriculture.

At the same time, we recognise the importance of protecting our natural resources, ensuring appropriate flows to support environmental values, and further strengthening our commitment to sustainability based on a whole-of-catchment approach, from source to supply.

This involves looking to achieve long-term water security through integrated catchment management that supports energy, industry, environment and social outcomes that maximise water quality and yield.

In 2007/08 combined storages for the three major storages of Wivenhoe, Somerset and North Pine reached record low levels – 16.8 per cent – and communities and businesses in South East Queensland set national benchmarks for reducing water consumption – down to less than 130 litres per person per day.

This reduction affected our short-term financial reward in a transitional year, with a net loss after tax for QBWSA of $8.2 million.

However, in terms of long term sustainability, this was an excellent community result, a great environmental result and a very good economic result in that the regional economy has continued to grow, and even strengthen through the drought.

Throughout the year, we maintained supply of bulk water through continued drought conditions, managed our catchments to build on our goals of sustainability, built relationships with land managers, research organisations and other stakeholders, and supported efforts to conserve precious water supplies.

As part of the State's institutional reform of water delivery services we worked closely with Local Governments across the region as well as Aquagen, Sunwater and South East Queensland Water Corporation Limited to prepare for our new role as the entity responsible for bulk water storage and water treatment in South East Queensland.

This activity took place while continuing to achieve our goals of delivering excellent service to the community, maintaining the condition and value of the assets, and positioning the business to function efficiently and effectively under the new arrangements which took effect from 1 July 2008.

The transition was complex in many respects, involving share and a range of negotiated asset and staff transfers to form an integrated organisation moving forward.

Message from the Chair and CEO of QBWSA

The transfer of assets and staff was completed on time, and QBWSA, trading as Seqwater, began its full operations on 1 July 2008.

Throughout the transition we have focused on sustainability as the cornerstone of future success for Seqwater.

We have and will continue to build upon the expertise and achievements brought together under the Seqwater banner in areas such as water treatment, biodiversity, water quality monitoring, improved land management practices, responsible water use, co-operative relationships with land managers and other stakeholders.

Looking to the immediate future, our task will be to ensure our new water grid operating arrangements work smoothly and efficiently in collaboration with water grid participants.

Our strategic approach will be to:

- Ensure effective integration and development of all staff, assets, systems and processes within Seqwater
- Collaborate with all water grid entities to guarantee levels of service and improve water delivery to the community
- Respond decisively to the challenge of sustainability
- Establish the knowledge and technologies for efficient, effective and integrated whole-of-catchment management
- Diversify products and services to maximise the whole-of-water-use cycle performance of catchment assets and capabilities.

Our success in contributing to the foundation for this substantial institutional reform of water supply arrangements in the history of Queensland is due in many ways to the professionalism, dedication and innovation of our staff.

We have embraced the future and stand ready to carry out necessary steps to meet the challenges of unprecedented population growth and potential climate change in the South East Queensland region.

We look forward to working to manage the region's natural resources, storages and treatment infrastructure to deliver high quality, and adequate water for communities, businesses and the environment.

Annabelle Chaplain
Chair

Peter Borrows
CEO

QBWSA at a glance

Financial facts
(from the QBWSA consolidated accounts)

- Total Sales Revenue → $37.6 million
- Net Loss (before tax) → $12.4 million
- Net Loss (after tax) → $8.2 million

Key financial ratios

- Return on Assets (before tax) → -1.43%
- Return on Assets (after tax) → -0.95%
- Interest Coverage → 1.97 times
- Debt/Total Assets → 85 %

Physical assets
(as of 1 July 2008)

QBWSA manages physical assets worth an estimated $ 1.8 billion - comprising 24 dams, 49 weirs, 46 operational water treatment plant (WTP) facilities and 14 groundwater bore fields.

To the North

Ewen Maddock Dam near Landsborough.

Baroon Pocket Dam (also known as Lake Baroon) near Maleny.

Poona Dam, **Cooloolabin Dam** and **Wappa Dam** near Yandina.

Lake McDonald (also known as Six Mile Creek Dam) near Cooroy.

Cedar Pocket Dam and **Borumba Dam** west of Gympie.

Sidling Creek Dam (also known as Lake Kurwongbah) and **North Pine Dam** (also known as Lake Samsonvale) near Petrie.

Lake MacDonald, Mary Valley - Borumba Downs, Kenilworth, Image Flat, Landers Shute, Maleny and **Woodford WTPs** on the Sunshine Coast.

Banksia Beach and **Woorim WTPs** on Bribie Island.

Caboolture, Petrie, Dayboro and **North Pine WTPs** north of Brisbane.

Brisbane and to the West

Gold Creek Dam, Enoggera Dam, Lake Manchester Dam.

Wivenhoe Dam and **Somerset Dam** (also known as Lake Wivenhoe and Lake Somerset) in the Brisbane Valley.

Atkinson Dam (known as Lake Atkinson),
Bill Gunn Dam (known as Lake Dyer) near Laidley and the **Clarendon Dam** (known as Lake Clarendon) near Gatton in the Lockyer Valley.

Forest Lake, Algester, Chandler, Runcorn, Sunnybank WTPs in Brisbane's south.

Enoggera WTP, Mt Crosby East Bank and **West Bank WTPs** in Brisbane's west.

Jimna, Linville, Kilcoy, Somerset Dam (Recreation Area & Township), **Esk** and **Lowood WTPs** in the Brisbane Valley. **Lower Lockyer - Atkinson Dam WTP** in the Lockyer Valley.

To the South

Leslie Harrison Dam (also known as the Tingalpa Reservoir) near Capalaba.

Hinze Dam (also known as Advancetown Lake) and **Little Nerang Dam.**

Maroon Dam near Beaudesert.

Moogerah Dam near Booonah.

Capalaba WTP in Redlands. **Amity Point, Point Lookout, Dunwich** and **North Stradbroke Island WTPs.**

South Maclean WTP in Logan.

Molendinar, Mudgeerba and **Canungra WTPs** on the Gold Coast and hinterland.

Beaudesert, Kooralbyn, Boonah-Kalbah, Logan - Maroon Dam, Waririll Valley - Moogerah Dam and **Rathdowney WTPs** in the Scenic Rim.

QBWSA at a glance

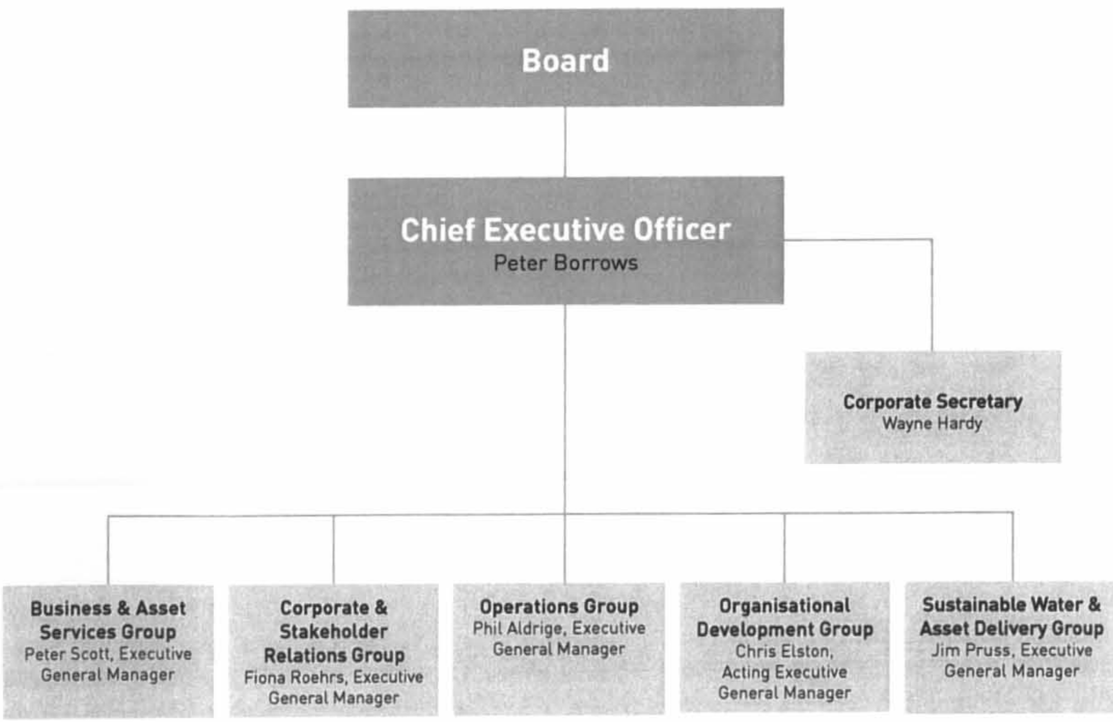
Organisational structure and presence

QBWSA's main office is located at 240 Margaret Street, Brisbane.

The organisation has an administrative office at Ipswich (Karalee) providing services for rural irrigator customers.

QBWSA also has an administration presence in several regional locations including Mt Crosby (Chuwar) and Wivenhoe Dam (Fernvale) west of Brisbane; North Pine (Joyner); Landers Shute (Palmwoods) on the Sunshine Coast; and Molendinar on the Gold Coast.

QBWSA's organisational structure is outlined as follows.



Our people and culture

QBWSA is the result of bringing together staff from 15 separate entities under the one organisational structure established on 1 July 2008.

A staffing plan has been developed to meet the immediate operational resourcing requirements. This plan has been the foundation for the recruitment of a skilled and competent workforce necessary to meet service demands. This staffing plan will evolve into a workforce plan.

QBWSA is seeking to develop a unique, performance based,culture based on the values and objectives of the new organisation and not the amalgamation of several different cultures.

A number of key initiatives are underway to provide the platform for this cultural shift, including management development activity and an emphasis on building high performing teams.

Combined with this activity is the negotiation of a new Enterprise Agreement. This will provide a greater degree of consistency in relation to terms and conditions of employment.

QBWSA Board and governance

Board members

QBWSA Board Members are outlined as follows. Pursuant to the provisions of the South East Queensland Water (Restructuring) Act 2007 Board members are appointed for a period of three years.

From left to right: Ian Harley Fraser, Sally Annabelle Chaplain, Thomas David Fenwick, Mary Stuart Boydell, Leeanne Kay Bond.

Sally Annabelle Chaplain
B.A., M.B.A., FAICD. - Chair

Appointed as the Chair of the Board on 4 February 2008, Ms Chaplain has had extensive experience as a company director and currently holds a number of directorships including Downer-Edi Ltd, Cannex (Aust) Pty Limited, George Street Finance Pty Limited, and the Australian Youth Orchestra. She is Chairman of South East Queensland Water Corporation Limited and also Chairman of Honeycombes Property Group Pty Ltd. Previously, Annabelle has held management positions as Head of Public Sector Client Management at ABN AMRO, Director Corporate and Project Finance at AIDC Limited and Vice President for Citibank Limited.

Leeanne Kay Bond
GAICD, B.E. (Chem), FIEAust, RPEQ

Appointed as a Member of the Board on 4 February 2008, Ms Leeanne Bond is a chemical engineer with extensive experience in business management, projects, design and proposals for a number of international engineering and project management organisations on projects across the hydrocarbons, minerals processing, infrastructure, water and power industry sectors. She consults to industry through her company Breakthrough Energy Pty Ltd.

Ms Bond is an experienced company director and board member of public sector and professional membership organisations. She is currently a Director of South East Queensland Water Corporation Limited and Tarong Energy Corporation (a government owned power generator), and a member of the Queensland Government Smart Women Smart State Taskforce. She has previously served as Chairperson of the Brisbane Water Advisory Board for the Brisbane City Council, Deputy Chairperson of the Board of Professional Engineers in Queensland and President of Engineers Australia (Queensland Division).

Mary Stuart Boydell
B.Comm., FCA, MAICD

Appointed as a Member of the Board on 4 February 2008, Ms Boydell is a Chartered Accountant with over thirty years experience in professional services firms and business. Currently, she is Chairperson of Gladstone Area Water Board, Chairperson of Rural Industries Research and Development Corporation, a Director of South East Queensland Water Corporation Limited, a Director of Energex Limited, a Director of BSES Limited and an external member of the audit committee of the Australian Government Department of Agriculture, Fisheries and Forestry. She is a former Director of Burnett Water Pty Ltd and the Australian Trade Commission.

Thomas David Fenwick
B.E. (HONS) F.I.E. Aust.

Appointed as a Member of the Board on 4 February 2008, Mr. Fenwick is also a Director of Queensland Water Infrastructure P/L, and South East Queensland Water Corporation Limited, and a Member of the Dispute Resolution Board for the Gateway Motorway Upgrade. He is also Managing Director of a private company. He is a former Director-General of the Queensland Department of Natural Resources, and the Department of Primary Industries. Among his past appointments has been as a Commissioner for Queensland on the Murray Darling Basin Commission.

Ian Harley Fraser
B.Comm., FCA, MAICD

Appointed as a Member of the Board on 4 February 2008, Mr Fraser has over 40 years' business experience, particularly as a senior audit and corporate advisory partner of KPMG. He retired on 30 June 2007 after 27 years as a partner. Mr Fraser is a Director of South East Queensland Water Corporation Limited, a non-executive director of RP Data Ltd and Wilson HTM Investment Group Ltd and Chairman of Property IQ NZ Limited.

QBWSA Board and governance

Board responsibilities

The Board is responsible for the overall strategic direction of QBWSA. Board Members have specific accountabilities and duties and the prime responsibility of the Board is the setting of business directions for Queensland Bulk Water Supply Authority.

The Board must also ensure that it meets its obligations to the responsible Ministers as prescribed in the *South East Queensland Water (Restructuring) Act 2007*.

The Board is establishing the framework for the governance of the organisation. This framework includes the development a risk management system and systems for internal control, including a Board Charter, a code of conduct and other policies and procedures to establish the ethical and practice standards within the Authority.

Also, as part of its governance, the Board has adopted a standing procedure that, at each meeting of the Board, members must declare if they have a conflict or potential conflict of interest in terms of any QBWSA business.

Board committees

The Board has established an Audit and Risk Committee. The Board has also formed a special purpose project Taskforce to oversee Queensland Bulk Water Supply Authority's obligations under the *Water Fluoridation Act 2008* for the fluoridation of water supplies.

Audit and Risk Committee

The Audit and Risk Committee is responsible for providing reasonable assurance to the Board that QBWSA's core business goals and objectives are being achieved in an efficient and economical manner, within an appropriate framework of internal control and risk management. The discharge of this responsibility principally involves the consideration and reporting of audit and audit-related findings, including in respect of performance management.

Specifically, the Audit and Risk Committee assists the Board to:

- Assess and contribute to the audit planning processes relating to the risks and threats to QBWSA, taking into account the financial and operational environment in which it operates and its performance management framework;
- Assess, oversee and enhance QBWSA's corporate governance, including its systems of internal control;
- Review the QBWSA's financial statements and the external audit thereof;
- Evaluate the quality and facilitate the practical discharge of the internal audit function particularly in the areas of planning, monitoring and reporting;
- Oversee and appraise QBWSA's financial and operational reporting processes; and
- Oversee the identification of QBWSA's risks and the processes by which those risks are managed.
- A draft charter for the Audit and Risk Committee has been developed for consideration at the October 2008 QBWSA Board meeting.

Fluoridation Taskforce

The Fluoridation Taskforce provides strategic advice to the Board on the implementation of the Authority's obligations under the *Water Fluoridation Act 2008*.

The Taskforce's role is to identify risks to the successful implementation of the fluoridation project and to recommend mitigation strategies to the Board.

The Taskforce reports to the Board on the measures and activities being undertaken to comply with the Authority's obligations under the *Water Fluoridation Act 2008*.

Board attendance

The number of meetings of the Board, the Audit and Risk Management Committee, and the Fluoridation Taskforce attended by each Board Member during the period 29 February 2008 and 30 June 2008 is outlined in the following table.

	Board Meetings		**Audit & Risk Committee Meetings**		**Fluoridation Taskforce Meetings**	
Director	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held
Ms A Chaplain	5	5	1	1	-	-
Ms L Bond	5	5	-	1	-	-
Ms M Boydell	5	5	1	1	3	3
Mr I Fraser	5	5	1	1	-	-
Mr T Fenwick	4	5	1	1	-	-

Other reporting requirements

The following section outlines several governance and compliance requirements of *Financial Administration and Audit Act 1977* and the *Financial Management Standard 1997* that are not covered in other sections of this report. Some requirements are unable to be reported due to the transitional nature of the 2007/08 reporting period.

Strategic planning

A comprehensive strategic planning process for QBWSA has commenced. An extension has been obtained from the treasury and this information will be presented in the 2008/09 Annual Report.

An exemption has been gained acknowledging the complex process of transitioning assets and staff from local governments and other entities.

Financial and operational performance systems

A number of existing systems have, and will continue to be used on an interim basis.

Action is progressing towards obtaining an integrated suite of applications to address future systems and reporting needs. An ICT governance framework is also being implemented.

Record keeping

QBWSA currently operates a manual record management system.

A future electronic document and records management system will be introduced as part of the integrated systems solution outlined above.

Conduct and ethics

All Board members and staff are expected to act lawfully and in a professional manner, striving at all times to enhance QBWSA's performance and reputation.

This is outlined in Seqwater's code of conduct which applies to all dealings with each other, customers and suppliers and other external stakeholders.

Executive finances and accountabilities

Due to the transitional nature of the Workforce Framework 2007, contracts for the senior executives are yet to be finalised.

Whistleblowers Protection Act 1994

QBWSA received no public interest disclosures during the 2007/08 reporting period.

Overseas travel

No overseas travel was undertaken by QBWSA staff during the 2007/08 reporting period.

Consultancy

QBWSA expenditure on consultancy services for the 2007/8 reporting period is outlined in the following table.

Management	
Engineering	843 000
Legal	307 000
General Management	470 000
Finance/Accounting/Economics	
Taxation	13 000
Accounting	1,456,000
Pricing	71 000
Information Technology	138 000
Total Expenditure	**3,298 000**

Availability of this report

This report has been printed to meet parliamentary tabling purposes and recommended distribution. Additional copies are available from Seqwater, Level 3, 240 Margaret Street, Brisbane.

Business performance overview

While the Queensland Bulk Water Supply Authority was established on a 16 November 2007, the organisation did not commence full operations until 1 July 2008.

During this transitional period, QBWSA assumed operational responsibility for the assets of two transitioning entities – the Caloundra Maroochy Water Supply Board (Aquagen) and South East Queensland Water Corporation Limited.

Business performance for Aquagen can be found in the Sunshine Coast Regional Council Annual Report.

Business performance for South East Queensland Water Corporation Limited is outlined as follows.

Business performance reporting relating to the other transitioning assets may be found in the reports of their respective local councils to 30 June 2008. This reflects the fact these councils continued to operate the transferred assets, meeting expenses and receiving the revenues under Interim Service Level Agreements up until 30 June 2008 when QBWSA assumed operational responsibility.

South East Queensland Water Corporation Limited

Up until 30 June 2008, South East Queensland Water Corporation Limited was responsible for managing the bulk drinking water storages of Wivenhoe, Somerset and North Pine.

Water from these storages is the primary supply of raw drinking water for South East Queensland. Water from these storages is also supplied to agriculture, industry and major utilities in the region.

The catchment areas of these storages include several Local Government areas with diverse land uses ranging from urban and industry to rural and environmental.

Intensification of land usage, and development activities associated with new and expanding land uses have the potential to impact on water quality in the storages.

From 1 July 2008 South East Queensland Water Corporation Limited ceased operations when assets and staff transferred to QBWSA.

Health and safety

The annual South East Queensland Water Corporation Limited Occupational Health and Safety audit was conducted by independent assessors Echelon in June 2008.

The overall performance rating for 2008 was 89 per cent, demonstrating the company continued to operate an "above excellent" Occupational Health and Safety Management System when compared against criteria established by Workplace Health and Safety Queensland.

This audit process will be expanded across QBWSA in 2008/09.

Dam Operations

Although drought conditions continue, inflows to storages had boosted levels to just under 40 per cent at June 30 2008, up from a low of 16.8 per cent in August.

Total inflows for Wivenhoe, Somerset and North Pine Dams for 2007/08 were 564,182 megalitres, with average rainfall across the three dams of 726mm. This compares with just 43,259 megalitres in 2006/07 and average rainfall of 471mm.

The combined dam levels on 1 July 2007 was 18.1 per cent (318,819 ML). By 30 June 2008 levels had risen to 39.4 per cent (693,216 ML), an increase of 21.3 per cent.

Due to extremely low levels from June through to March, the dams were subjected to increased monitoring to ensure best quality water was available, with water transfers between Somerset and Wivenhoe designed to minimise evaporation, and to ensure no loss of water over Crosby Weir.

Development and deployment of the new Asset Management System continued, with data input from the field and training for operators. The system will provide accurate asset condition reporting, and will provide clear monitoring of maintenance, scheduled work and other asset management activities.

A Flood Hydrology Study for North Pine dam was also finalised.

Water Quality

This year saw a continued focus on water quality through managing land-use impacts, improving leased land management, using planning guidelines to control development, building relationships, and further developing our telemetry and monitoring systems.

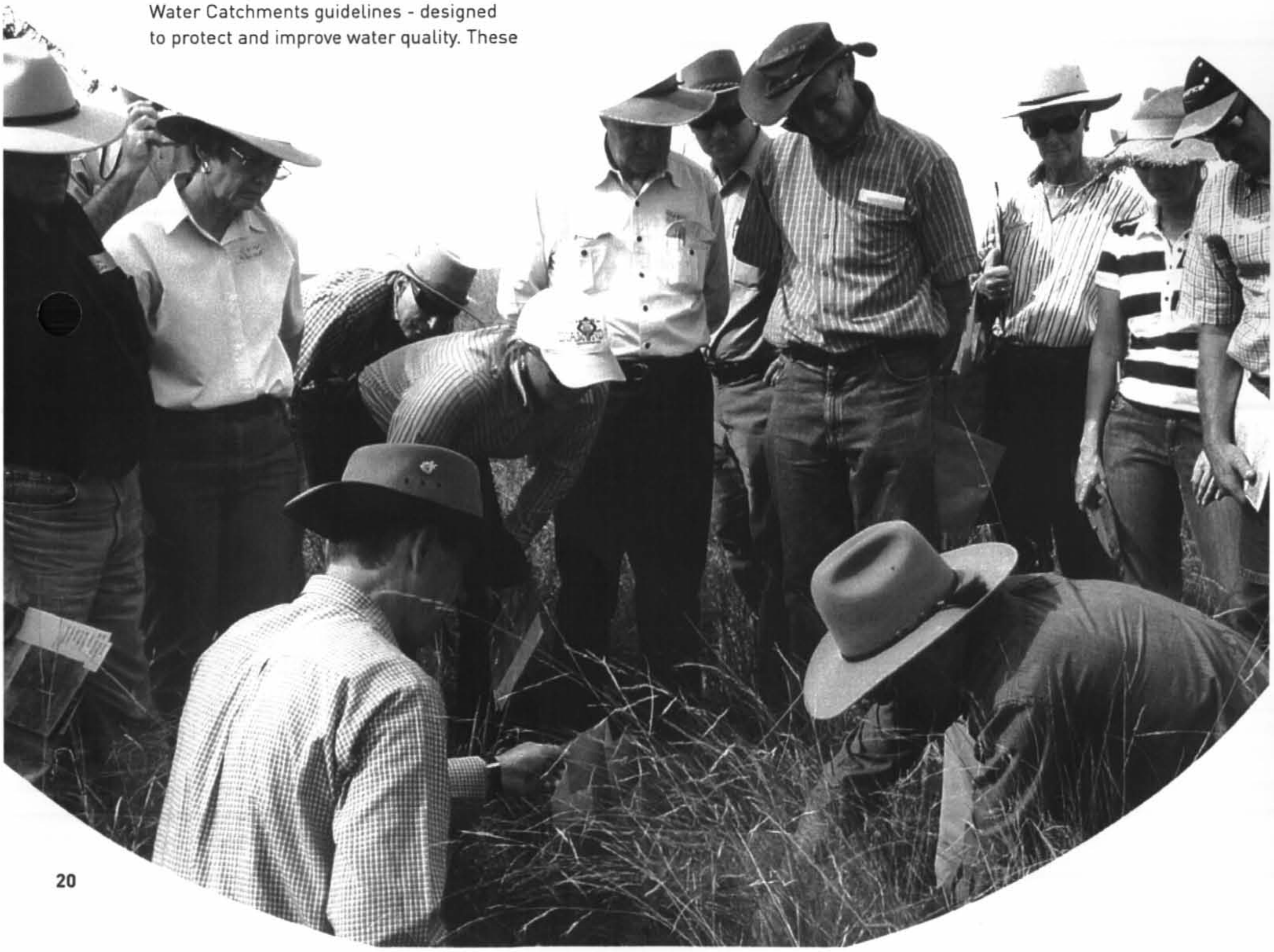
There are many pressures and stresses on the water quality in our rivers, streams and dams. These include nutrients, erosion and sediment loads, sewage inputs or unsewered areas, stormwater runoff, bacteria and parasitic contaminants and algal blooms.

Business performance overview

A number of important reports and guidelines were prepared or updated during the year. They include:

- The 2007/08 Drought Water Quality Risk Assessment report - revising a previous risk assessment completed in 2006/07 and confirming original assumptions that identified risks such as algal and cyanobacterial blooms, bacteria, and taste and odours can be addressed by existing management processes.The report included a series of risk assessments that led to the preparation of the draft Drinking Water Quality Management Plan.
- The 2007 Water Quality Management in Drinking Water Catchments guidelines - designed to protect and improve water quality. These guidelines assist land users, developers and Government by providing information on how development can be undertaken in the catchments to recognise and manage impact on water quality.

Vertical Profiling System (VPS) work continued to provide valuable, real-time access to water quality information. VPS is a water quality telemetry system with floating 'profilers" which descend and ascend the water column to take water quality measurements at various levels. These profilers can be activated by remote control, and transmit information wirelessly.



During August 2007, the best winter rainfall in more than eight years increased combined dam levels to 20 per cent. Inflows to dams also resulted in increased levels of water weeds being washed into the reservoirs from waterways.

A new technique to manage water weeds involving floating spill booms introduced during 2007/08 proved effective in reducing levels of herbicide use and restricting weed affected areas, while a combination of biological control (salvinia weevils), herbicide and mechanical harvesting was trialled in the mid-Brisbane River.

Land Management

With a range of land use activities within the catchments, including farming, urban development, and recreation areas, land management plays a pivotal role in ensuring improved water quality.

The company focussed on long term sustainability and a multi-barrier, "whole-of-catchment" approach to the water cycle which involved improving biodiversity, building better relationships with lease holders, research organisations, community groups and other stakeholders.

The company's Farm Plan Project provided support for leaseholders to develop farm plans, which are designed to boost farm business productivity returns in ways which improve long term sustainability and water quality.

A further 21 farm plans for lease holders were developed and 35 lease holders received assistance to begin implementing or complete farm plan actions, such as providing stock watering points to keep animals away from lake foreshores, fencing and weed control.

At the end of 2007/08, 77 farm plans had been developed with a further 11 proposed. Forty-three farm plans were partially or fully implemented. Sixty-two per cent of leased land is now subject to farm plans.

A survey of lease holders completed in July 2007 indicated significant gains in building positive and co-operative relations with lease holders. The survey noted an average overall improvement of 68 per cent since the previous 2005 survey.

Stage One of the Regional Biodiversity Corridor Project was largely completed and agreement from funding partner SEQ Catchments was given to commence Stage Two.

Work included planting trees, fencing, deer control, wildlife surveys, fire management, and information days.

In association with this project, South East Queensland Water Corporation Limited and the Environmental Protection Agency signed a Nature Refuge Agreement in July 2007 .

The Nature Refuge is part of a million dollar plan to provide the region's largest biodiversity corridor, linking the Brisbane Valley Riparian Corridor with the D'Aguilar Range.

In addition to providing habitat, and potential carbon offset opportunities, revegetated areas improve the performance of catchments in retaining and treating water, resulting in higher yields of improved quality water, and reduced water treatment costs.

Other land managemet highlights include:

- The management of terrestrial weed across 890 hectares via mechanical and herbicide controls, and the control of aquatic weed along 47 kilometres of waterways.
- Increased patrol activity and inspections of gates, locks and security cameras increased to monitor illegal access as lower dam levels increased catchment land areas.
- Baiting and trapping programs continued to manage pest animals, including rabbits, deer, pigs, feral dogs and cats.

Business performance overview

Recreational Services

South East Queensland Water Corporation Limited provided a variety of environmentally appropriate facilities for recreational visitors.

Public access to our lands and water storages is controlled to ensure waste is managed for the protection of water quality, to promote high satisfaction of recreation users, and to promote diverse, compatible recreation use.

A 2007/08 survey of recreational area users found over 80 per cent rated the services provided as good or very good.

Increases in dam levels from record lows of around16 per cent to 40 per cent increased opportunities for recreational activities on the dams and adjacent areas.

Water craft speed restrictions were imposed on Lake Somerset due to low water levels. The 6km/h speed restriction was lifted in September 2007, following winter rains.

Lake Somerset remained the most popular recreation area with an estimated 3,500 campers and 1,500 day visitors during the Easter holiday period.

An estimated 66,000 Australian bass fingerlings were also released into Lake Somerset to support recreational fishing.

Business Water Efficiency Program

The Business Water Efficiency Program (BWEP) is a Queensland Government initiative providing $55 million in incentive funding to help Queensland businesses save water.

Funded by the Department of Local Government, Sport and Recreation, managed by South East Queensland Water Corporation Limited and delivered locally by councils and water service providers, the program helps businesses to reduce water consumption, save money, reduce environmental impacts and build reputations for water efficiency.

During 2007/08 BWEP funding applications from South East Queensland businesses closed in January 2008, with the full $40 million fully allocated.

Over 1000 applications were received from 666 businesses. When fully implemented, the program will deliver consumption savings in excess of 23 megalitres per day, with expenditure commitments from successful participating businesses exceeding $100 million.

Water supply strategy

South East Queensland Water Corporation Limited had continued to work with the State Government, Queensland Water Commission and the Council of Mayors (SEQ) on the Regional Water Supply Strategy, to ensure sustainable water supplies for the future.

The company contributed to the funding of the Regional Water Supply Strategy and participated in related working groups on future levels of service, contingency supplies, regional water balances and other issues.

Environmental and Social Sustainability

Much of South East Queensland Water Corporation Limited's business performance was underpinned by the company's focus on environmental and social sustainability.

In summary, during the 2007/08 reporting period the company:

- Strengthened relationships with lease holders through the Farm Plan Program and continued a process of consultation with lessees to improve the health of our catchments and promote sustainable farming practices.
- Released the 2007/08 Seqwater Drought Water Quality Risk Assessment report, which assessed risks associated with five extreme drought scenarios, and completed a draft Drinking Water Quality Management Plan, which outlines the management of water quality risks identified in the Drought Water Quality Risk Assessment.

- Revised and released the Seqwater Development Guidelines for Water Quality Management in Drinking Water Catchments 2007 to assist land users, developers and Government authorities to achieve sustainable water quality outcomes for land uses, development and activities within our water storage catchments.
- Continued work on the Biodiversity Corridor Project, which included planting trees, fencing, deer control, wildlife surveys, fire management, and information days.
- Successfully managed the $40 million Business Water Efficiency Program - delivering water consumption savings in excess of 23 megalitres per day and expenditure commitments from successful participating businesses in excess of $100 million.
- Continued to support for the Healthy Waterways program, which involves Government, community, industry, researchers and traditional owners throughout South East Queensland in works to improve the health and beauty of our waterways and catchments.
- Protected South East Queensland's catchment areas from bushfires through implementation of fire management plans and construction of an extensive firebreak network.
- Trialled a combination of biological control (salvinia weevils) herbicide and mechanical harvesting to control water weeds in the mid-Brisbane River.
- Maintained dams in a state of preparedness for flooding events by ensuring all dam machinery is in working order and able to respond to any flood emergencies and by updating flood operations manuals for all three major storages.
- Continued to educate the community about the water cycle and efficient water use, through facilities such as information centre at Wivenhoe Dam, which received over 100,000 visitors throughout the year.

Queensland Bulk Water Supply Authority
(Trading as Seqwater)

Financial Report for the period
16 November 2007 - 30 June 2008

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Queensland Bulk Water Supply Authority

General Information

This financial report covers Queensland Bulk Water Supply Authority and its controlled entities.

Queensland Bulk Water Supply Authority is a Statutory Body under the *Financial Administration and Audit Act 1977* and under the *Statutory Bodies Financial Arrangement Act 1982* and has been established under the *South East Queensland Water (Restructuring) Act 2007*. Queensland Bulk Water Supply Authority expires at the end of 99 years after it was established. The State is the successor in law of Queensland Bulk Water Supply Authority at expiry date.

Queensland Bulk Water Supply Authority is controlled by the State of Queensland which is the ultimate parent.

The head office and principal place of business of Queensland Bulk Water Supply Authority is:

Level 3, 240 Margaret Street, Brisbane QLD, 4000

A description of the nature of Queensland Bulk Water Supply Authority's operations and its principal activities is included in the notes to the financial statements.

Queensland Bulk Water Supply Authority

Income statements

for the period ended 30 June 2008

	Notes	Consolidated 16 November 2007 - 30 June 2008 $000	Entity 16 November 2007 - 30 June 2008 $000
Income			
Water sales		19,248	1,072
Grants and contributions	7	80	80
Other revenue	8	18,291	3,595
Total income		37,619	4,747
Expenses			
Employee expenses	10	(6,289)	(1,839)
Supplies and services	11	(18,836)	(3,747)
Depreciation and amortisation	13	(3,988)	(786)
Finance/Borrowing costs	14	(19,112)	(13,673)
Other expenses		(1,829)	(464)
Total expense		(50,054)	(20,509)
Loss before income tax		(12,435)	(15,762)
Income tax credit	15	4,183	5,182
Net loss after related income tax		(8,252)	(10,580)

The accompanying notes form part of these statements.

Queensland Bulk Water Supply Authority
Balance sheets
as at 30 June 2008

	Notes	Consolidated 2008 $000	Entity 2008 $000
Current assets			
Cash and cash equivalents	23	148,444	6,135
Trade and other receivables	20	12,803	6,263
Inventories	21	151	151
Total current assets		161,398	12,549
Non-current assets			
Trade and other receivables	20	3	-
Property, plant and equipment	16	654,793	125,579
Intangible assets	17	44,080	10,433
Investment in subsidiary		-	392,588
Deferred tax assets	22	7,984	7,529
Total non current assets		706,860	536,129
Total assets		868,258	548,678
Current liabilities			
Trade and other payables	26	49,509	6,713
Employee benefits	25	1,960	614
Interest bearing liabilities	24	6,535	6,535
Total current liabilities		58,004	13,862
Non-current liabilities			
Trade and other payables	26	-	1,891
Interest bearing liabilities	24	731,917	542,300
Deferred tax liabilities	22	84,918	-
Employee benefits	25	1,671	1,205
Total non current liabilities		818,506	545,396
Total liabilities		876,510	559,258
Net assets/(liabilities)		(8,252)	(10,580)
Equity			
Accumulated losses		8,252	10,580
Total equity/(deficiency)		(8,252)	(10,580)

The accompanying notes form part of these statements.

Queensland Bulk Water Supply Authority

Statements of changes in equity

for the period ended 30 June 2008

Accumulated Losses

	Consolidated 16 November 2007 - 30 June 2008 $000	Entity 16 November 2007 - 30 June 2008 $000
Balance 16 November 2007	-	-
Loss after income tax	8,252	10,580
Balance 30 June 2008	8,252	10,580

The accompanying notes form part of these statements.

Queensland Bulk Water Supply Authority

Cash flow statements

for the period ended 30 June 2008

	Notes	Consolidated 16 November 2007 - 30 June 2008 $000	Entity 16 November 2007 - 30 June 2008 $000
		Inflow/(Outflows)	
Cash flows from operating activities			
Inflows:			
Receipts from water sales		16,532	786
Receipts from leases, rentals and other		12,791	123
Interest received		3,519	250
GST collected		1,875	396
Outflows:			
Payments to suppliers and employees		(29,582)	(4,138)
Interest paid		(6,217)	(60)
GST paid		(2,633)	(1,073)
Income taxes paid		-	-
Other		(55)	(3)
Net operating cash flows	23(b)	**(3,770)**	**(3,719)**
Cash flows from investing activities			
Inflows:			
Proceeds from sale of plant and equipment		59	-
Receipts from mortgage redemption		10	-
Cash acquired from acquisition of subsidiary		144,466	-
Cash acquired from acquisition of AquaGen's specified net assets		11,556	11,556
Outflows:			
Payments for acquisition of property, plant and equipment		(10,951)	(8,776)
Payments for acquisition of subsidiary		(392,588)	(392,588)
Payments for acquisition of AquaGen's specified net assets		(115,083)	(115,083)
Net investing cash flows		**(362,531)**	**(504,891)**
Cash flows from financing activities			
Inflows:			
Borrowings		508,210	508,210
Working capital facility		6,535	6,535
Outflows:			
Net financing cash flows		**514,745**	**514,745**
Net increase (decrease) in cash held		148,444	6,135
Cash at the beginning of the financial period		-	-
Cash at the end of the financial period	23(a)	**148,444**	**6,135**

The accompanying notes form part of these statements.

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Queensland Bulk Water Supply Authority
Notes to the financial statements

1. Reporting entity

The Queensland Bulk Water Supply Authority (the "Entity") is a Queensland Statutory Authority under the *South East Queensland Water Restructuring Act 2007* with a limited life of 99 years from establishment. The address of the Entity's registered office is Level 3, 240 Margaret Street, Brisbane QLD. The consolidated financial statements of the Entity as at and for the period ended 30 June 2008 comprise the Entity and its subsidiary (together referred to as "the Group"). The Group is primarily involved in the supply of water services and carrying out water activities.

The Entity was established on 16 November 2007 and commenced trading on 1 February 2008 when the Entity acquired 100% of the shares of South East Queensland Water Corporation Limited ("SEQWater") from 12 different Councils and Queensland Treasury Holdings Pty Ltd for a consideration of $392,588,495.

The Entity acquired specified assets, liabilities, contracts, personnel and instruments from AquaGen Water and Renewable Energy ("AquaGen") on 1 March 2008 for a consideration of $115,082,586. AquaGen is the trade name for the Caloundra Maroochy Water Supply Board.

The Group's and Entity's first reporting period is the 16 November 2007 to 30 June 2008. The results for the Group include the results of SEQWater and AquaGen from 1 February 2008 and 1 March 2008 respectively. The Entity's results incorporate the results of AquaGen from 1 March 2008. As this is the first reporting period, no comparatives have been reported.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with:

- Applicable Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB"). The financial statements of the Entity comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board (IASB);
- the *Financial Administration and Audit Act 1977*;
- Queensland Treasury's Financial Reporting Requirements for Queensland Government agencies; and
- other authoritive pronouncements.

The financial statements were authorised for issue by the Board on 31 August 2008.

(b) Basis of measurement

The financial statements have been prepared on an accrual basis and are based on historical costs except for the following:

- financial instruments at fair value through profit or loss are measured at fair value; and
- land, buildings and infrastructure are measured at fair value.

The methods used to measure fair values are discussed further in Note 4.

(c) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Group's functional currency. Amounts included in the financial statements have been rounded to the nearest $1,000, unless disclosure of the full amount is specifically required.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Queensland Bulk Water Supply Authority
Notes to the financial statements

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following:

(i) Determination of for profit or not for profit

As set out in the *South East Queensland Water (Restructuring) Act 2007* the Entity must carry out its functions as a commercial enterprise. The Entity has applied its judgement in assessing whether it meets the definition of a for profit or not for profit entity for the purposes of the accounting standards and has concluded the business is a for profit entity. This determination is supported by the contract with the Water Grid Manager.

(ii) Business combinations as a result of the *South East Queensland Water (Restructuring) Act 2007*

On 16 November 2007, the *South East Queensland Water (Restructuring) Act 2007* was enacted by the Parliament of Queensland.

Under the Act the Queensland Bulk Water Supply Authority was established to own and operate bulk water supply infrastructure in the South East Queensland region and to provide water services.

The Entity acquired through Transfer Notices the following bulk water supply businesses in the financial period ended 30 June 2008:

- On 1 February 2008 the Entity acquired all of the shares in South East Queensland Water Corporation Limited (SEQWater) from 12 different Councils and Queensland Treasury Holdings Pty Ltd for a consideration of $392,588,495.
- On 1 March 2008 the Entity acquired specified assets, liabilities, contracts, personnel and instruments from AquaGen Water and Renewable Energy ('AquaGen') for a consideration of $115,082,586. AquaGen is the trade name for the Caloundra-Maroochy Water Supply Board.
- The Entity acquired specified assets, liabilities, instruments and personnel from various Councils, SunWater and Department of Natural Resources as specified on gazetted Transfer Notices issued by the Queensland Government. These acquisitions are not accounted for until 1 July 2008 as this is the date the Entity effectively took control of these assets and is exposed to the risk and rewards associated with those assets (refer to Note 34).

Additional details in relation to the acquisitions are set out in Note 6.

(iii) Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates (refer to Note 3(h) and Note 18).

(iv) Income tax and utilisation of tax losses

The financial statements have been prepared on the basis that the Entity will be subject to the National Tax Equivalent Regime with effect from the date of establishment and that it will consolidate for tax purposes at that point in time. However, as at the date of these financial statements, the Entity had not received formal notification from the State Government on this matter, but have prepared the financial statements on the expectation that formal approval of tax status and to consolidate will be granted in due course.

During the period ended 30 June 2008 $6,933,000 of tax losses were recognised on consolidation as it is considered probable that future taxable profits will be generated against which the tax losses could be utilised.

Queensland Bulk Water Supply Authority
Notes to the financial statements

2. **Basis of preparation (continued)**

(d) **Use of estimates and judgements (continued)**

(v) Provision for Impairment of Receivables

The directors believe that the full amount of the debt included in the accounts receivable at 30 June 2008 is recoverable, and no provision for impairment of receivables has been made at 30 June 2008.

(vi) Interest bearing liabilities

Loans have been provided to the Entity through Transfer Notices under the *South East Queensland Water (Restructuring) Act* 2007. Whilst formal loan documents have not been finalised at the date of the financial report, Queensland Treasury Corporation has advised that the term on these loans expires in January 2071, accordingly all relevant interest bearing liabilities have been aged as non current.

3. **Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) **Basis of consolidation**

(i) Subsidiary

Subsidiaries are entities controlled by the Entity. Control exists when the Entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of the subsidiary have been changed when necessary to align them with the policies adopted by the Entity.

In the Entity's individual financial statements, investment in the subsidiary is carried at cost.

(ii) Transactions eliminated on consolidation

Intra-entity balances, and any unrealised income and expenses arising from intra-entity transactions, are eliminated in preparing the consolidated financial statements.

(b) **Business combinations**

Business combinations are recognised in accordance with AASB 3 *Business Combinations* and accounted for using the purchase method.

Cost is measured as the fair value of the assets given, or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

(c) **Financial instruments**

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Queensland Bulk Water Supply Authority
Notes to the financial statements

3. **Significant accounting policies (continued)**

(c) **Financial instruments (continued)**

Non-derivative financial instruments (continued)

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are reported as part of short-term borrowings in current liabilities on the balance sheet.

Financial instruments are classified and measured as follows:

- Cash and cash equivalents - held at fair value through profit and loss.
- Receivables - held at amortised cost.
- Held to maturity investment - held at amortised cost.
- Payables - held at amortised cost.
- Borrowings - are held at amortised cost.

The Group does not enter transactions for speculative purposes, nor for hedging. Apart from cash and cash equivalents, the Group holds no financial assets classified at fair value through profit and loss.

Receivables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is amortised cost using the effective interest method, less an allowance for any impairment of receivables. Short term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial. An allowance for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Bad debts are written off as incurred.

Financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(d) **Inventories**

Inventories are measured at the lower of cost and net realisable value. Cost is assigned on a weighted average basis, and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(e) **Property, plant and equipment**

(i) Recognition and measurement

Each class of property, plant and equipment is initially recognised at cost. Assets acquired in exchange for other non-monetary assets or assets acquired at no cost or for nominal consideration are initially recognised at fair value. On initial recognition, all costs incurred in purchasing or constructing the asset and getting it ready for use are capitalised to the value of the asset. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Land, buildings and infrastructure are measured at fair value in accordance with AASB 116 *Property, Plant and Equipment* and Queensland Treasury's *Non-Current Asset Policies for the Queensland Public Sector*.

Plant and equipment, other than major plant and equipment, is measured at cost. Separately identified components of assets are measured on the same basis as the assets to which they relate.

Queensland Bulk Water Supply Authority
Notes to the financial statements

3. **Significant accounting policies (continued)**

(e) **Property, plant and equipment (continued)**

(i) Recognition and measurement (continued)

Where an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which the asset belongs is to be revalued.

Net revaluation increments in respect of each non-current asset are credited to the asset revaluation reserve, except to the extent that it reverses a previous decrement recognised as an expense for that asset in the Income Statement. In this instance the reversal portion of the increment is recognised as revenue in the Income Statement.

Net revaluation decrements in respect of each asset are recognised as an expense in the Income Statement, except to the extent that they reverse a previous increment for that asset and a positive balance exists in the asset revaluation reserve for that asset. In this instance, the reversal portion of the decrement is charged directly to the reserve, but so as not to exceed the balance of the reserve for that asset.

(ii) Subsequent costs

Costs incurred subsequent to the initial asset purchase are capitalised when the expenditure improves the condition of the asset beyond its originally assessed standard of performance or capacity. Outlays that do not meet the criteria for recognition as an asset are expensed as repairs and maintenance as incurred.

(iii) Depreciation

Depreciation is recognised in the Income Statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives applied for the current and comparative periods are as follows:

Class of Fixed Asset	Depreciation Rate	Useful Life
Buildings	1.25% - 2.5%	40 – 80 years
Infrastructure – dams and associated works	0.667% - 6.67%	15 - 150 years
Infrastructure - dams electrical and mechanical works	10% - 33.33%	3 – 10 years
Plant and equipment	10% - 33.33%	3 – 10 years
Motor vehicles and office equipment	10% - 33.33%	3 – 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(f) **Intangible assets**

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment (refer to Note 3(h)).

Queensland Bulk Water Supply Authority
Notes to the financial statements

3. **Significant accounting policies (continued)**

(f) **Intangible assets (continued)**

(ii) **Other intangible assets**

Intangible assets that are acquired by the Group are initially measured at cost.

Where there is an active and liquid market, intangible assets are carried at a revalued amount; otherwise they are carried at cost after initial recognition. If revalued, the same rules apply as to those for property, plant and equipment.

Intangible assets, both at cost and revalued amounts, are subject to amortisation and impairment testing.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the income statement.

Amortisation

The depreciable amount of an intangible asset with a finite useful life is to be amortised on a systematic basis over the estimated useful lives of the assets. For other intangible assets, the useful life has been determined to be 40 years.

Intangible assets with indefinite useful lives are not amortised.

(g) **Leased assets**

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased assets, and operating leases under which the lessor effectively retains all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is recognised at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding liability is established at the same amount. Lease payments are allocated between the principal component and the interest expense. The fair value of the asset is depreciated over the term of the lease.

Operating lease payments are charged to the Income Statement in the period in which they are incurred.

Restoration obligations under lease obligations are provided over the life of the lease.

(h) **Impairment**

(i) **Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

Queensland Bulk Water Supply Authority
Notes to the financial statements

3. Significant accounting policies (continued)

(h) Impairment (continued)

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss, unless the asset is carried at a revalued amount. When the asset is measured at a revalued amount, the impairment loss is offset against the asset revaluation reserve of the relevant class to the extent available.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Assets under construction

Assets under construction (work in progress) are carried at cost and not depreciated until they reach service delivery.

Interest costs on borrowings specifically financing assets under construction are capitalised.

(j) Employee benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for short-term employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including applicable related on-costs. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

Queensland Bulk Water Supply Authority
Notes to the financial statements

3. **Significant accounting policies (continued)**

(j) **Employee benefits (continued)**

For those entitlements not expected to be paid within 12 months, the liabilities are classified as non-current liabilities and recognised at their present value, calculated using yields on fixed rate Commonwealth Government bonds of similar maturity.

Non-vesting sick leave is recognised as an expense as it is taken. Some employees with seven or more years of service are entitled to a payment for a percentage of their accumulated unused sick leave on termination, resignation or retirement. A liability for a percentage of this accumulated sick leave is measured at the present value of the estimated future cash outflows and includes related employee on-costs.

(ii) Long Service Leave

The long service leave provision represents the present value of the estimated future cash outflows to be made resulting from employee's services provided to balance date. The current provision is calculated using the simplified approach whereby a net factor of 0.95 is applied to the long service leave amount of the employees with 3 or more years of service in order to estimate the present value. This approach is an approximation process to recognise the probable liability that will eventuate for staff that have achieved the 7 years of service.

(iii) Defined superannuation schemes

The Group currently contributes to the QSuper defined benefit superannuation fund for a small number of its employees. Under AIFRS, where there is a surplus or deficit in financial position of a defined benefit superannuation fund, the employer sponsors, to the extent permissible under the trust deed of the superannuation fund, can recognise an asset for the surplus or must recognise a liability for the deficit. However, as responsibility for the funding of the QSuper defined benefit superannuation fund is assumed at a whole-of-Government level, no asset or liability is required to be recognised by the Group.

The Group also contributes the Local Government Superannuation Scheme ('LGSuper') for employees under both defined benefit and accumulation superannuation funds. The defined benefit fund was closed to new entrants from 1 July 1998. Therefore, from this date all persons becoming permanent employees contribute to the LGSuper accumulation superannuation fund. Both funds are defined contribution schemes under AASB 119 *Employee Benefits*. The Group's liability or interest in respect of the scheme is the amount of statutory contributions payable up to the reporting date, as defined under the terms of the scheme. Any amount by which either scheme is over or under funded would only affect future benefits and is not an asset or liability of the Group. Accordingly there is no recognition in the financial statements of any over- or under-funding of the scheme.

(k) **Revenue**

Revenue is measured at fair value of the consideration or contribution received or receivable. All revenue is stated net of the amount of goods and services tax (GST).

(i) Government grants and subsidies

Government grants and subsidies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Government grants and subsidies are recognised as revenue when the Group obtains control over the grant, usually upon receipt.

Grants and subsidies that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants and subsidies that compensate the Group for the cost of an asset are recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Queensland Bulk Water Supply Authority
Notes to the financial statements

3. Significant accounting policies (continued)

(ii) Water charges

Revenue from the sale of water is recognised when consumption data based on meter readings for the period is recorded.

(iii) Services

Revenue from rendering of a service is recognised upon the delivery of the service to the customers.

(iv) Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in the income statement, using the effective interest method.

(l) Finance/Borrowing costs

Finance/Borrowing costs comprise:

- interest expense on bank overdrafts, short-term and long-term borrowings,
- unwinding of the discount on provisions;
- amortisation of discounts or premiums relating to borrowings; and
- ancillary administration charges.

Finance/Borrowing costs are recognised in the Income Statement using the effective interest method and are expensed in the period in which they arise. Finance/Borrowing costs that are not settled in the period in which they arise are added to the carrying amount of the borrowing.

Finance/Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

(m) Income tax

The financial statements have been prepared on the basis that the Entity will be subject to the National Tax Equivalent Regime with effect from the date of establishment. As a result an "equivalent" or "notional income tax" liability is payable to the responsible Queensland State Government Minister for payment into the consolidated fund. However, as at the date of these financial statements, the Entity had not received formal notification from the State Government on this matter.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Queensland Bulk Water Supply Authority
Notes to the financial statements

3. Significant accounting policies (continued)

(m) Income tax (continued)

(i) Tax consolidation

With SEQWater becoming a wholly owned subsidiary on 1 February 2008, the Entity and its wholly owned subsidiary became eligible on that date to form a consolidated group for income tax purposes. The Group has elected to form a tax consolidated group as at 30 June 2008. Formal notification to the Australian Taxation Office ("ATO") will be completed upon lodgement of the 2008 tax return.

Aquagen was not previously a participant in the National Tax Equivalents Regime. No non acquisition deferred tax assets/liabilities were recognised.

As a consequence of forming a tax consolidated group, all members of the tax-consolidated group are taxed as a single entity from that date. The head entity within the tax-consolidated group is the Entity.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "separate taxpayer within group" approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the Group is assumed by the Entity in the tax-consolidated group and are recognised by the Group as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Group as an equity contribution or distribution.

The Group recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the Entity only.

(ii) Nature of tax funding arrangements and tax sharing arrangements

The Entity, in conjunction with SEQWater, will enter into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the Entity equal to the current tax liability/(asset) assumed by the Entity and any tax-loss deferred tax asset assumed by the Entity, resulting in the Entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivable/(payable) are at call.

(n) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

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

Queensland Bulk Water Supply Authority
Notes to the financial statements

3. Significant accounting policies (continued)

(o) New standards and interpretations not yet adopted

The Group has not applied any Australian Accounting Standards and interpretations that have been issued but are not yet effective. The Group will apply these standards and interpretations in accordance with their respective commencement dates.

- Revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.
- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements. The revised standard is not expected to impact on the Group's financial statements.
- AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents no segment information in respect of its business. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.
- AI 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. AI 14 will become mandatory for the Group's 30 June 2009 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

(p) Going concern

The Balance Sheet indicates as at 30 June 2008, the Entity has a net asset deficiency of $10.58 million and working capital deficiency of $1.313 million. In addition, the Group has a net asset deficiency of $8.252 million.

The directors are of the opinion that the Group is a going concern on the following basis:

- the Group has sufficient approval funding to pay for local government assets that were transferred to the Group on 1 July 2008;
- it is the intention of the Queensland Treasurer to transfer any projects (inclusive of funding) when they are completed;
- there is an agreement with the Water Grid Manager up to 30 June 2010 to provide revenue for a return on and of assets;

Queensland Bulk Water Supply Authority
Notes to the financial statements

3. **Significant accounting policies (continued)**

(p) **Going concern (continued)**

- the Group has a working capital surplus of $103.394 million; and
- all debt funding is long term with no expectations of repayment in the next 12 months.

The directors note the uncertainty with respect to Queensland Water Restructuring Arrangements as outlined in Note 18 and are comfortable that the Group has both the financial facilities and operational cash flow to meet the debts as and when they fall due (refer also to Note 2(d)(vi)).

4. **Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) **Property, plant and equipment**

The fair value of land, buildings and infrastructure is measured as follows:

- Where there is an active and liquid market for assets similar in type and condition, the fair value of an asset is its price in that market.
- Where there is no market price for the assets, fair value is the lower of the depreciated replacement cost and the net present value of the cash flows from the asset.

(b) **Intangible assets**

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) **Trade and other receivables and payables**

The fair value of trade and other receivables and payables are assumed to approximate their nominal value less estimated credit adjustments.

(d) **Prepayments**

The fair value of prepayments is represented by the book value as the period of time to consumption is short and there are no rates involved in the calculation.

(e) **Borrowings**

The fair value of borrowings, which is determined for disclosure purposes, is determined by reference to published price quotations in an active market and reflects the value of the debt if the Group repaid it in full at balance date. As it is the intention of the Group to hold its borrowings for their full term, no adjustment provision is made in these accounts.

Queensland Bulk Water Supply Authority
Notes to the financial statements

5. Financial Risk Management

Overview

The Group's activities expose it to a variety of financial risks including credit risk, liquidity risk, and interest rate risk. Exposure to financial risks is managed in accordance with the Group's approved policies on financial risk management. These policies focus on managing the volatility of financial markets and seek to minimise potential adverse effects on the financial performance of the Group. The Group measures risk exposure using a variety of methods as follows:

Risk Exposure	Measurement Method
Credit Risk	Ageing analysis
Liquidity risk	Maturity analysis
Interest rate risk	Sensitivity analysis

Credit risk

Credit risk exposure refers to the situation where the Group may incur financial loss as a result of another party to a financial instrument failing to discharge their obligations. The Group has no major concentration of credit risk to any single debtor or group of debtors.

The Group is also exposed to credit risk through its investments with the Queensland Treasury Corporation (QTC) and deposits held with banks. The QTC Cash Fund is an asset management portfolio that invests with a wide variety of high credit rating counterparts. Deposits are capital guaranteed. Other investments are held with highly rated and regulated financial institutions, and whilst not capital guaranteed the likelihood of a credit failure is remote.

Liquidity risk

Liquidity risk refers to the situation where the Group may encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to liquidity risk through its trading in the normal course of business and borrowings from the QTC for asset acquisitions and capital works. The Group manages its exposure to liquidity risk by maintaining sufficient undrawn facilities, both short and long term, to cater for unexpected volatility in cash flows.

Market risk

The Group does not trade in foreign currency and is not materially exposed to commodity price ranges. The Group is exposed to interest rate risk through its borrowings from QTC and cash deposited in interest bearing accounts. The Group manages that part of its portfolio relating to SEQWater by setting, monitoring and adjusting the terms and duration of its loan portfolio as allowed under its commercial financing contract with QTC. The component of the portfolio of loans that are related to the purchase of the SEQWater shares and AquaGen assets under the facility set up via the Transfer Notice are exposed to movements in interest rates and are managed by QTC.

Interest rate risk

The Group is exposed to interest rate risk through its borrowings from the QTC and investments held with financial institutions. The risk in borrowing is effectively managed by borrowing from financial institutions which provide access to floating funding sources such that the desired interest rate risk exposure can be constructed.

Interest rate risk in other areas is minimal. The Group manages that part of its portfolio relating to SEQWater by setting, monitoring and adjusting the terms and duration of its loan portfolio as allowed under its commercial financing contract with QTC. The component of the portfolio of loans that are related to the purchase of the SEQWater shares and AquaGen assets under the facility set up via the Transfer Notice are exposed to movements in interest rates and are managed by QTC.

Queensland Bulk Water Supply Authority
Notes to the financial statements

5. **Financial Risk Management (continued)**

Capital management

The Group must pay to the State of Queensland, for each financial year, an annual return of the amount decided under Part 5 of the *South Queensland Water (Restructuring) Act 2007*. The return must be paid within 6 months after the end of the financial year for which it is payable or a longer period allowed by the responsible Ministers. During the period from 1 to 15 May in each financial year the Group must give to the responsible Ministers; a) an estimate of the Group's net profit for the financial year; and b) a recommendation about the amount of the annual return to be paid for the financial year. Before the end of the financial year, the responsible Ministers must either approve the recommendation or give the Group a direction to pay an annual return of a different stated amount. The amount of the annual return must not be more than the amount of the estimated net profit given to the responsible Ministers under the *South Queensland Water (Restructuring) Act 2007*. During the first financial period no annual return is payable.

	Consolidated 30 June 2008 $000	Entity 30 June 2008 $000
Total borrowings (net of cash)	590,008	542,700
Total assets (before cash)	719,814	542,543
Gearing ratio	82%	100%

Queensland Bulk Water Supply Authority
Notes to the financial statements

6. Business combinations

South East Queensland Water Corporation Limited ('SEQWater')

On 1 February 2008 all of the shares in SEQWater transferred from twelve different Councils and Queensland Treasury Holdings Pty Ltd to the Entity for a consideration of $392,588,495 as set out in the gazetted Transfer Notice issued by the Queensland Government dated 29 January 2008. The consideration was paid to each Council by the Entity repaying, on behalf of each Council, debt owed by each Council to QTC. Any excess over and above the outstanding debt was paid in cash.

The Entity applied the purchase method of accounting under AASB 3 *Business Combinations* for the acquisition of SEQWater's shares.

In the 5 months to 30 June 2008 SEQWater contributed profit of $4,366,000. If the acquisition had occurred on 1 July 2007, management estimates that consolidated revenue would have been $73,929,000 and consolidated profit for the period would have been $5,425,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 July 2007.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

	Pre-acquisition carrying values	Fair value adjustments	Recognised values on acquisition 1 February 2008
	$000	$000	$000
Assets			
Cash and cash equivalents	144,467	-	144,467
Trade and other receivables	6,610	-	6,610
Other assets	478	-	478
Total current assets	*151,555*	-	*151,555*
Trade and other receivables	19	-	19
Property, plant and equipment	415,509	114,703	530,212
Intangible assets	-	4,900	4,900
Deferred tax assets	9,621	(7,806)	1,815
Total non-current assets	*425,149*	*111,797*	*536,946*
Total assets	**576,704**	**111,797**	**688,501**
Liabilities			
Trade and other payables	51,812	(520)	51,292
Employee benefits	517	-	517
Total current liabilities	*52,329*	*(520)*	*51,809*
Interest-bearing liabilities	193,000	(3,755)	189,245
Employee benefits	478	-	478
Trade and other payables	25,499	(25,499)	-
Deferred tax liabilities	46,381	37,007	83,388
Total non-current liabilities	*265,358*	*7,753*	*273,111*
Total liabilities	**317,687**	**7,232**	**324,920**
Total net identifiable assets and liabilities	**259,017**	**104,564**	**363,581**
Goodwill on acquisition			29,007
Consideration paid			392,588
Cash acquired			144,467
Net cash outflow			248,121

Queensland Bulk Water Supply Authority
Notes to the financial statements

6. Business combinations (continued).

Pre-acquisition carrying amounts were determined based on applicable AASBs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values (see Note 4 for methods used in determining fair values). In determining the fair value of the hydro power plant agreement and the BWEP consulting revenues acquired, the Entity applied a discount rate of 8.98% to the estimated revenues.

The goodwill of $29 million reflects the combined future benefits that are going to be generated from the merged operations.

Caloundra Maroochy Water Supply Board (trading as AquaGen)

On 1 March 2008 specified assets, liabilities, contracts, personnel and instruments transferred from AquaGen to the Entity for a consideration of $115,082,586 as set out in the gazetted Transfer Notice issued by the Queensland Government dated 27 February 2008. The consideration was paid to AquaGen by repaying, on behalf of AquaGen, debt owed by AquaGen to QTC. Any excess over and above the outstanding debt was paid to Caloundra City Council and Maroochy Shire Council by the Entity to repay debt owed by each Council to QTC.

In the 4 months to 30 June 2008 AquaGen contributed profit of $53,000. If the acquisition had occurred on 1 July 2007, management estimates that consolidated revenue would have been $49,027,000 and consolidated profit for the period would have been $4,476,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 July 2007.

The acquisition had the following effect on the Entity's assets and liabilities on acquisition date:

	Pre-acquisition carrying values $000	Fair value adjustments $000	Recognised values on acquisition 1 March 2008 $000
Assets			
Cash and cash equivalents	11,556	0	11,556
Trade and other receivables	282	(282)	0
Other current assets	395	0	395
Total current assets	*12,233*	*(282)*	*11,951*
Property, plant and equipment	114,148	0	114,148
Deferred tax assets	0	456	456
Total non-current assets	*114,148*	*456*	*114,604*
Total assets	**126,381**	**174**	**126,555**
Liabilities			
Employee benefits	96	0	96
Total current liabilities	*96*	*0*	*96*
Interest-bearing liabilities	20,067	139	20,206
Employee benefits	174	0	174
Deferred tax liabilities	0	0	0
Other liabilities	0	1,248	1,248
Contingent liabilities	0	181	181
Total non-current liabilities	*20,241*	*1,568*	*21,809*
Total liabilities	**20,337**		**21,905**
Total net identifiable assets and liabilities	**106,044**	**(1,394)**	**104,650**
Goodwill on acquisition			10,433
Consideration paid			115,083
Cash acquired			11,556
Net cash outflow			103,526

Pre-acquisition carrying amounts were determined based on applicable AASBs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values (see Note 4 for methods used in determining fair values).

Queensland Bulk Water Supply Authority
Notes to the financial statements

6. Business combinations (continued)

The goodwill of $10.4 million reflects the combined future benefits that are going to be generated from the merged operations.

Business combinations after the reporting date but before the financial report is authorised as a result of the *South East Queensland Water (Restructuring) Act 2007*

The Entity acquired specified net assets from various Councils and from SunWater and DNR at dates varying between 14 March 2008 and 1 July 2008 as specified on gazetted Transfer Notices issued by the Queensland Government. For accounting purposes the acquisition date for the specified net assets from the Councils and from SunWater has been determined to be 1 July 2008. Included in the total compensation is the interest paid to SEQWater shareholders as per Queensland Government Gazette No. 61 dated 30 June 2008.

For the businesses acquired, the Entity will apply the purchase method of accounting under AASB 3 *Business Combinations* for the acquisition of the specified net assets from this date.

Entities from which specified net assets have been acquired:	**Total Compensation paid by the Entity**
	$000
Brisbane City Council	339,646
Esk Gatton Laidley Water Board	8,440
Gold Coast City Council	467,620
Ipswich City Council	95
Lockyer Valley Regional Council	14
Logan City Council	8,167
Moreton Bay Regional Council (formed from amalgamation of Caboolture Shire Council, Redcliffe City Council and Pine Rivers Shire Council)	61,473
Redland City Council	43,274
Scenic Rim Regional Council (formed from amalgamation of Beaudesert Shire Council, Boonah Shire Council and a small part of Ipswich City Council)	8,077
Somerset Regional Council (formed from amalgamation of Esk Shire Council and Kilcoy Shire Council)	10,257
Sunshine Coast Regional Council (formed from amalgamation of Caloundra City Council, Maroochy Shire Council and Noosa Shire Council)	86,445
SunWater	77,693
Department of Natural Resources and Water	252
Queensland Treasury Holdings	185
Total payments	**1,111,638**
Less: Interest paid to former SEQWater shareholders	**926**
Compensation payment to Councils, SunWater and DNR	**1,110,712**

The amounts recognised at 1 July 2008 for each class of assets, liabilities and contingent liabilities acquired have not been determined before the financial report is authorised for issue due to the specialised nature of the specified net assets acquired making it impractical to prepare reliably before the financial report is authorised.

Queensland Bulk Water Supply Authority
Notes to the financial statements

		Consolidated 16 November 2007 - 30 June 2008 $000	Entity 16 November 2007 - 30 June 2008 $000
7.	**Grant and other contributions**		
	Grant income	80	80
		80	80
8.	**Other revenue**		
	Interest income	4,908	250
	Project income (see Note 9)	8,845	-
	Other	4,538	3,345
		18,291	3,595
9.	**Project income**		
	Business Water Efficiency Program	8,178	-
	Purified Recycled Water Program	667	-
		8,845	-
10.	**Employee expenses**		
	Wages and salaries	5,602	1,452
	Employer superannuation contribution	304	173
	Workers' compensation premium	24	-
	Payroll tax	129	73
	Other personnel expenses	230	141
		6,289	1,839

The number of employees including both *full time employee* and part time employees measured on full time equivalent basis are:

	Consolidated	Entity
Number of employees	169	72

Executive remuneration

The number of senior executives who received or were due to receive total remuneration of $100,000 and more:

	Consolidated	Entity
$120,000 to 139,999	1	-
$140,000 to 159,999	1	-
	2	-

	2008 $'000	2008 $'000
Total remuneration of executives shown above	282	-

Queensland Bulk Water Supply Authority
Notes to the financial statements

10. Employee expenses (continued)

The amount calculated as executive remuneration in these financial statements includes the direct remuneration received, as well as items not directly received by senior executives, such as the movement in leave accruals and fringe benefits tax paid on motor vehicles. This amount will therefore differ from advertised executive remuneration packages which do not include the latter items.

	Consolidated 16 November 2007 - 30 June 2008	Entity 16 November 2007 - 30 June 2008
11. Supplies and services	**$000**	**$000**
Consultants and contractors	4,462	3,175
Supplies and consumables	3,195	345
Project expenditure (refer Note 12)	9,940	-
Other expenses	1,239	227
	18,836	**3,747**
12. Project expenditure		
Business Water Efficiency Program	8,728	-
Purified Recycled Water Program	1,038	-
Biodiversity Corridor	174	-
	9,940	**-**
13. Depreciation and amortisation		
Buildings	478	2
Infrastructure	2,437	688
Plant and equipments	406	63
Motor vehicles and office equipment	407	33
Intangibles	260	-
	3,988	**786**
14. Finance/Borrowing costs		
Interest paid or payable to QTC	19,112	13,673
	19,112	**13,673**

Queensland Bulk Water Supply Authority
Notes to the financial statements

15. Income tax

The difference between income tax expense provided in the financial statements and the prima facie income tax expense is reconciled as follows:

	Consolidated 16 November 2007 - 30 June 2008 $000	Entity 16 November 2007 - 30 June 2008 $000
Loss before income tax	(12,435)	(15,762)
Prima facie thereon at 30%	(3,730)	(4,729)
Less:		
Tax impact of provision transfer	(453)	(453)
Total income tax attributable to loss	**(4,183)**	**(5,182)**
Current tax credit	-	-
Deferred tax credit	(4,183)	(5,182)
Income tax credit from continuing operations	(4,183)	(5,182)

16. Property, plant and equipment

	Consolidated						
	Land $000	Buildings $000	Infrastructure $000	Plant and equipment $000	Motor vehicles and office equipment $000	Work in progress $000	Total $000
Balance at 16 November 2007	-	-	-	-	-	-	-
Acquisitions through business combinations	77,539	26,021	491,969	9,198	3,004	36,629	644,360
Other additions	99	457	384	872	742	11,658	14,212
Disposals	-	-	-	(4)	(164)		(168)
Transfers between classes	-	-		-	-		-
Balance at 30 June 2008	77,638	26,478	492,353	10,066	3,582	48,287	658,404
Depreciation and impairment losses							
Balance at 16 November 2007	-	-	-	-	-	-	-
Depreciation for the period	-	(479)	(2,438)	(405)	(407)	-	(3,729)
Reversal of impairment loss	-	-	-	-	-	-	-
Disposals	-	-	-	1	117	-	118
Balance at 30 June 2008		(479)	(2,438)	(404)	(290)	-	(3,611)
Carrying amounts							
At 16 November 2007	-	-	-	-	-	-	-
At 30 June 2008	77,638	25,999	489,915	9,662	3,292	48,287	654,793

Queensland Bulk Water Supply Authority
Notes to the financial statements

16. Property, plant and equipment (continued)

	Entity						
	Land	**Buildings**	**Infra structure**	**Plant and equipment**	**Motor vehicles and office equipment**	**Work in progress**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Balance at 16 November 2007	-	-	-	-	-	-	-
Acquisitions through business combinations	8,615	253	67,635	1,028	546	36,071	114,148
Other additions	-	-	7	4	130	12,076	12,217
Disposals	-	-	-	-	-	-	-
Transfers between classes	-	-	-	-	-	-	-
Balance at 30 June 2008	8,615	253	67,642	1,032	676	48,147	126,365
Depreciation and impairment losses							
Balance at 16 November 2007	-	-	-	-	-	-	-
Depreciation for the period	-	(2)	(688)	(63)	(33)	-	(786)
Reversal of impairment loss	-	-	-	-	-	-	
Disposals	-	-	-	-	-	-	
Balance at 30 June 2008	-	(2)	(688)	(63)	(33)	-	(786)
Carrying amounts							
At 16 November 2007	-	-	-	-	-	-	-
At 30 June 2008	8,615	251	66,954	969	643	48,147	125,579

Property Plant and Equipment valuations were determined by reference to the following:

Land

Land has been included at fair value at acquisition date. Additions are recorded at cost.

Buildings

The head office building at 240 Margaret Street, Brisbane has been recognised at market value at the acquisition date.

Infrastructure

Infrastructure assets are included at fair value at acquisition date. Any additions from that date are recorded at cost.

Plant and Equipment

All plant and equipment in measured at cost less accumulated depreciation in accordance with Queensland Treasury's *Non-Current Asset Policies for the Queensland Public Sector.*

Motor vehicles and office equipment

All motor vehicles and office equipment in measured at cost less accumulated depreciation in accordance with Queensland Treasury's *Non-Current Asset Policies for the Queensland Public Sector.*

Work in progress

Borrowing costs of $509,000 have been capitalised within work in progress during the period.

Queensland Bulk Water Supply Authority
Notes to the financial statements

		Consolidated	
	Goodwill	Other	Total
	$000	$000	$000
17. Intangible Assets			
Balance at 16 November 2007	-	-	-
Acquisitions through business combinations	39,440	4,900	44,340
Balance at 30 June 2008	39,440	4,900	44,340
Amortisation and Impairment losses			
Balance at 16 November 2007	-	-	-
Amortisation for the period	-	(260)	(260)
Balance at 30 June 2008	-	(260)	-
Carrying amounts			
16 November 2007	-	-	
30 June 2008	39,440	4,640	44,080

		Entity	
	Goodwill	Other	Total
	$000	$000	$000
Balance at 16 November 2007	-	-	-
Acquisitions through business combinations	10,433	-	10,433
Balance at 30 June 2008	10,433	-	10,433
Amortisation and Impairment losses			
Balance at 16 November 2007	-	-	-
Amortisation for the period	-	-	-
Balance at 30 June 2008	-	-	-
Carrying amounts			-
16 November 2007	-	-	-
30 June 2008	-	-	10,433

Queensland Bulk Water Supply Authority
Notes to the financial statements

18. Impairment testing for cash generating units

The carrying amount of assets, including the goodwill (refer to Notes 6 and 17), allocated to each cash generating unit are set out below:

Entity	Carrying amount of assets	Recoverable amount	Surplus / (Deficiency)
	$000	$000	$000
AquaGen CGU	163.3	173.3	10.0
SEQWater CGU	562.9	566.1	3.2
	726.2	739.4	13.2

The recoverable amount of the two cash generating units was estimated based on their respective values in use and was determined with the assistance of independent valuers. For both the SEQWater and AquaGen cash generating units, the recoverable amounts exceed the carrying amount and no impairment has been recognised.

The recoverable amount has been determined utilising the following key assumptions:

- Cash flows were projected utilising the methodology currently set by the Queensland Water Commission, on behalf of the price regulator, for both drought related and non-drought related assets, and applied to the regulatory asset base. The prices used to determine revenues are based on a rate of return that is set at 10.16% for non-drought related assets and 6.88% for drought related assets and adjusted for inflation of 3.0% per annum. No growth or decline in these rates was factored in over the lives of the assets.
- Cash inflows incorporate net revenues generated from regulated revenue as discussed above as well as other revenue sources including hydro electric power generating revenue, rental income, consulting income and recreational and sundry income. These other revenue sources relate directly to the respective SEQWater and AquaGen cash generating units based on management's best estimate of future cash flows having regard to historical performance, contractual cash flows as well as expectations about possible variations in the amount and timing of those future cash flows.
- Cash flow forecasts were estimated for a period of 30 years using the building blocks approach, and then extrapolated in perpetuity utilising the Gordons Growth Model. The pricing mechanism is based on the regulatory asset base which assumes a remaining useful life for depreciation purposes of 63 years.
- The discount rate was calculated using the WACC/CAPM framework. The 10.16% return on capital was tested to ensure that it incorporated current market conditions and the riskiness of the cash flows. The rate was adjusted to reflect the borrowing capacity of the entity, the removal of interest rate risk, little refinancing risk and short term contracts in place. The resultant discount rate applicable for non-drought assets was 9.92%. This rate was further adjusted for the removal of the competitive neutrality fee in the case of drought assets. For drought assets, the appropriate discount rate was 7.8%.
- Expenditure necessary to maintain or sustain the performance of the assets has been taken into account when estimating the net future cash flows as it is deemed maintenance in nature.
- The valuation model was analysed by independent third parties. The model and the validity of the assumptions adopted were found to be rigorous. A sensitivity analysis was conducted to identify the valuation effect of changes in key value drivers being:
    - Internal drivers – asset lives, capital expenditure, non-regulated income, consulting income; and
    - External drivers – regulated asset base, discount rate and inflation.
- The assumptions concerning the internal drivers were in line with management's current business strategy. For the external drivers, the valuation was most sensitive to the discount rate and the regulated asset base.

Queensland Bulk Water Supply Authority
Notes to the financial statements

18. **Impairment testing for cash generating units**

- It should be noted that an adverse movement in key drivers has the potential to result in an impairment. For example, if the regulator were to offset regulated income with non-regulated income, the reduction in the net revenue stream may result in an impairment.

The values assigned to the key assumptions represent management's assessment of future trends in the water industry and are based on both external sources and internal sources (historical data).

Inherent uncertainty

The above estimates are particularly sensitive to changes in the prices set by the Queensland Water Commission on the water assets. The methodology has been initially set by the Queensland Water Commission in relation to the Entity's two year contract with the Water Grid Manager, and the impact of a reasonably possible change in these prices during or after this period is not able to be reliably estimated. This is due to the estimate being dependent on the exact timing of this change in the future, the mix of drought and non-drought assets owned by the Group at that time and future changes in the methodology used in determining the regulatory return. At this point in time, the Queensland Government has not yet determined the pricing mechanism post 30 June 2010. Therefore, there is significant uncertainty with what form the pricing mechanism may take post 30 June 2010. Should the pricing provided by the Regulator be reduced or if the pricing on assets acquired or constructed in the future be insufficient to generate a commercial return, an impairment may arise and could have a significant effect on the carrying value of the assets in future periods. Without additional information in relation to the changes to the methodology and the uncertainty of what form the pricing mechanism may take post 30 June 2010, the Group is not currently able to reliably model/quantify any potential future impairment and the financial statements have not been adjusted for the effect of any future impairment.

Queensland Bulk Water Supply Authority
Notes to the financial statements

18. Impairment testing for cash generating units

- It should be noted that an adverse movement in key drivers has the potential to result in an impairment. For example, if the regulator were to offset regulated income with non-regulated income, the reduction in the net revenue stream may result in an impairment.

The values assigned to the key assumptions represent management's assessment of future trends in the water industry and are based on both external sources and internal sources (historical data).

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Queensland Bulk Water Supply Authority
Notes to the financial statements

		Consolidated	Entity
		2008	2008
19.	**Investment in subsidiary**	$000	$000
	Non-current		
	Investment in SEQWC	-	392,588
		-	392,588
20.	**Trade and other receivables**		
	Current		
	Water sales debtors	3,165	287
	GST receivable	974	685
	GST payable	(66)	(9)
		908	676
	Receivable from subsidiary	-	49
	Other receivables	8,730	5,251
		12,803	6,263
	Non-current		
	Other debtors	3	-
		12,806	6,263
21.	**Inventories**		
	Supplies and consumables	151	151
		151	151

Queensland Bulk Water Supply Authority
Notes to the financial statements

22. Tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2008 $000	Consolidated Liabilities 2008 $000	Net 2008 $000
Property, plant and equipment	-	(82,511)	(82,511)
Intangibles	-	(1,392)	(1,392)
Borrowings	-	(1,015)	(1,015)
Capitalised expenses	16	-	16
PRW unearned revenue	71	-	71
Provision for employee benefits	882	-	882
Superannuation contribution	1	-	1
Tax losses	6,933	-	6,933
Other items	81	-	81
Tax assets (liabilities)	7,984	(84,918)	(76,934)

		Entity	
Property, plant and equipment	25	-	25
Provision for employee benefits	499	-	499
Superannuation contribution	1	-	1
Tax losses	6,933	-	6,933
Other items	71	-	71
Tax assets (liabilities)	7,529	-	7,529
Set off of tax	-	-	-
Net tax assets (liabilities)	7,529	-	7,529

(b) Movement in temporary differences during the period

	Balance 16 November 2007 $000	Consolidated Recognised in profit or loss $000	Acquired in business combinations $000	Balance 30 June 2008 $000
Property, plant and equipment	-	(1,720)	(80,791)	(82,511)
Intangibles	-	78	(1,470)	(1,392)
Borrowings	-	112	(1,127)	(1,015)
PRW unearned revenue	-	71	-	71
Provision for employee benefits	-	502	380	882
Superannuation contributions	-	1	-	1
Tax losses	-	5,448	1,485	6,933
Other items	-	(310)	407	97
	-	4,182	(81,116)	(76,934)

Queensland Bulk Water Supply Authority
Notes to the financial statements

22. Tax assets and liabilities (continued)

	Entity			
	Balance 16 November 2007	Recognised in profit or loss	Acquired in business combinations	Balance 30 June 2008
	$000	$000	$000	$000
Property, plant and equipment	-	25	-	25
Provision for employee benefits	-	499	-	499
Superannuation contributions	-	1	-	1
Tax losses		5,448	1,485	6,933
Other items	-	71	-	71
	-	6,044	1,485	7,529

	Consolidated 2008 $000	Entity 2008 $000
23. Cash and cash equivalents		
(a) Cash and cash equivalents		
Cash on hand	1	-
Bank balances	8,205	6,135
Short term deposits with QTC	140,238	-
Cash and cash equivalents in the statement of cash flows	148,444	6,135
(b) Reconciliation of cash flows from operating activities		
Cash flows from operating activities		
Loss for the period	(8,252)	(10,580)
Adjustments for:		
Depreciation	3,728	786
Amortisation of intangible assets	260	-
Loss on sale of property, plant and equipment	19	-
Income tax credit	(4,183)	(5,182)
Impairment losses		
Change in assets and liabilities	(8,428)	(14,976)
Change in trade and other receivables	(4,866)	(3,587)
Change in inventories	(151)	(151)
Change in GST input tax credits receivable	(653)	(685)
Change in trade and other payables	(2,948)	1,791
Change in provisions and employee benefits	485	267
Change in interest payable	12,895	13,613
Change in GST payable	(104)	9
Net cash from operating activities	(3,770)	(3,719)
(c) Funding facilities		
Drawn	738,452	548,835
Unused	7,000	-
Total Facility	745,452	548,835
(d) Credit standby arrangement		
Drawn	6,535	6,535
Unused	3,465	3,465
Total Facility	10,000	10,000

Queensland Bulk Water Supply Authority
Notes to the financial statements

		Consolidated 2008 $000	Entity 2008 $000
24.	**Interest bearing liabilities**		
	Current - unsecured		
	QTC - Working capital facility	6,535	6,535
	Non-current - unsecured		
	QTC - Loans	731,917	542,300
		738,452	548,835

Terms and conditions of outstanding loans were as follows:

Consolidated	Currency	Nominal interest rate	Year of maturity	Face value $000	Carrying amount $000
QTC – SEQWC Loan	AUD	6.37%	2015	193,000	189,617
All Entity loans are included within consolidated		(Weighted Average)		548,835	548,835
				741,835	738,452

Entity	Currency	Nominal interest rate	Year of maturity	Face value $000	Carrying amount $000
QTC – SEQWC Debt	AUD	6.45%	2071	521,285	521,285
QTC – EMA Debt	AUD	6.45%	2071	20,715	20,715
QTC – Fluoridation Debt	AUD	6.45%	2071	300	300
QTC – Working capital facility	AUD	7.40%	2071	6,535	6,535
		(Weighted Average)		548,835	548,835

On advice from QTC, repayments have been assumed to include interest plus a fixed return of principal. On this basis, all debt is repaid by January 2071.

		Consolidated 2008 $000	Entity 2008 $000
25.	**Employee benefits**		
	Current		
	Salaries and wages accrued	873	155
	Liability for long service leave	151	100
	Liability for annual leave	925	348
	Liability for sick leave	11	11
		1,960	**614**
	Non-Current		
	Liability for long-service leave	1,363	897
	Liability for annual leave	221	221
	Liability for sick leave	87	87
		1,671	**1,205**
		3,631	**1,819**

Refer to Note 10 for details of the amount of superannuation contribution paid by the Group to the superannuation funds in respect of this period for the benefit of the employees.

Queensland Bulk Water Supply Authority
Notes to the financial statements

25. **Employee benefits (continued)**

LGSuper

The audited general purpose financial report of the scheme as at 30 June 2007 which was not subject to any audit qualification indicates that the assets of the scheme are sufficient to meet the accrued benefits.

The general purpose financial statements disclose that the most recent actuarial assessment of the scheme was undertaken as at 30 June 2007. The actuary indicated that without improvements to benefit conditions, or other unanticipated events, current contribution rates would be sufficient to meet members' benefits as they accrue.

The Queensland Local Government Superannuation Board, the trustee of the scheme, advised that the local government superannuation scheme was a complying superannuation scheme for the purpose of the Commonwealth Superannuation Industry (Supervision) legislation.

	Consolidated 2008 $000	Entity 2008 $000
26. Trade and other payables		
Current liabilities		
Trade creditors	829	724
Unearned revenue	466	-
Business Water Efficiency Program	37,394	-
Security deposits	33	-
Other payables	10,787	5,989
	49,509	6,713
Non-current liabilities		
Intercompany payable	-	1,891
	49,509	8,604

The intercompany payable relates to the transfer of tax losses from SEQWater under tax consolidation rules.

27. **Financial instruments**

Credit risk

Exposure to credit risk

The maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the gross carrying amount of those assets inclusive of any provisions for impairment. No collateral is held as security relating to the financial assets held by the Group.

The following table represents the Group's maximum exposure to credit risk:

Receivables	12,806	6,263
Cash and cash equivalents	148,444	6,135
	161,250	12,398

Queensland Bulk Water Supply Authority
Notes to the financial statements

27. Financial instruments (continued)

Past due but not impaired receivables:

No financial assets have had their terms renegotiated so as to prevent them from being past due or impaired, and are stated at the carrying amounts as indicated.

The following table represents an analysis of the age of the Group's financial assets as at 30 June 2008 that are either fully performing, past due or impaired:

	Consolidated		Entity	
	Gross 2008 $000	Impairment 2008 $000	Gross 2008 $000	Impairment 2008 $000
Not past due	12,787	-	6,263	-
Past due 0-30 days	3	-	-	-
Past due 31-120 days	16	-	-	-
Past due 121 days to one year	-	-	-	-
More than one year	-	-	-	-
	12,806	-	6,263	-

No comparatives required as the Entity was formed November 2007.

Liquidity risk

The following tables set out the liquidity risk of financial liabilities held by the Group and the Entity. The amounts disclosed in the maturity analysis represent the contractual undiscounted cash flows at balance sheet date relating to the principal amount outstanding:

Consolidated 30 June 2008:

Financial liabilities	Carrying amount $000	Contractual cash flows $000	Payable in < 1 year $000	1-5 years $000	More than 5 years $000
QTC Borrowings – Loans	731,917	6,497,560	339,965	602,353	5,555,241
QTC Borrowings – Working Capital Facility	6,535	6,616	6,616	-	-
Trade and other payables	49,509	49,509	49,509	-	-
	787,961	6,553,685	396,090	602,353	5,555,241

Entity 30 June 2008

Financial liabilities	Carrying amount $000	Contractual cash flows $000	< 1 year $000	1-5 years $000	More than 5 years $000
QTC Borrowings - Loans	542,300	6,312,309	154,715	602,353	5,555,241
QTC Borrowings – Working Capital Facility	6,535	6,616	6,616	-	-
Trade and other payables	8,604	8,604	6,713	1,891	-
	557,439	6,327,529	168,034	604,244	5,555,241

The amounts disclosed under the contractual cash flows above represent the total principal and interest repayments to be made to the year 2071 on an undiscounted basis.

Queensland Bulk Water Supply Authority
Notes to the financial statements

27. **Financial instruments (continued)**

No comparatives required as the Entity was formed November 2007.

The contractual undiscounted cash flows set out above include contractual commitments at 30 June 2008 to draw down borrowings from QTC at 1 July 2008. The borrowings of $1,110,712,000 were provided at 1 July 2008 to finance the acquisitions of specified net assets from various Councils, SunWater and the Department of Natural Resources and Water. The borrowings have a nominal interest rate of 6.86% and mature in 2071. Refer to Note 6 'Business Combinations after the reporting date but before the financial report is authorised as a result of the *South East Queensland Water (Restructuring) Act 2007*' for details of the acquisitions at 1 July 2008.

Market risk

The Group does not trade in foreign currency and is not materially exposed to commodity price ranges. The Group is exposed to interest rate risk through borrowings from QTC and cash deposited in interest bearing accounts.

Interest rate risk

Sensitivity analysis

The following sensitivity analysis depicts the outcome to profit and loss if interest rates would change by +/- 1% from the year-end rates applicable to the Group's and the Entity's financial assets and liabilities. The calculations assume that the rate would be held constant over the next financial year, with the change occurring at the beginning of that year. This is mainly attributable to the Group and the Entity's exposure to variable interest rates on its borrowings from QTC.

	Consolidated 30 June 2008				
		-1%		+1%	
	Net carrying amounts	Profit	Reserves	Profit	Reserves
	$000	$000	$000	$000	$000
Cash and cash equivalents	148,444	(1,484)	(1,484)	1,484	1,484
QTC Borrowings – Loans	(731,917)	634	634	(634)	(634)
QTC Borrowings – Working Capital Facility	(6,535)	65	65	(65)	(65)
	(590,008)	(785)	(785)	785	785

	Entity 30 June 2008				
		-1%		+1%	
	Net carrying amounts	Profit	Reserves	Profit	Reserves
	$000	$000	$000	$000	$000
Cash and cash equivalents	6,135	(61)	(61)	61	61
QTC Borrowings – Loans	(542,300)	460	460	(460)	(460)
QTC Borrowings – Working Capital Facility	(6,535)	65	65	(65)	(65)
	(542,700)	464	464	(464)	(464)

No comparatives required as the Entity was formed in November 2007.

Queensland Bulk Water Supply Authority
Notes to the financial statements

27. Financial instruments (continued)

Fair value

The carrying amounts of all financial assets and financial liabilities, except the borrowings from the QTC are representative of their fair value. The fair value of the borrowings is calculated using discounted cash flow analysis and the effective interest is disclosed below:

	Consolidated 30 June 2008 $000 Carrying amount	$000 Fair value	Entity 30 June 2008 $000 Carrying amount	$000 Fair value
QTC Borrowings – Loans	731,917	721,230	542,300	535,980
QTC Borrowings – Working Capital Facility	6,535	6,535	6,535	6,535
	738,452	727,765	548,835	542,515

No comparatives required as the entity was formed in November 2007.

	Consolidated 2008 $000	Entity 2008 $000
28. Operating leases		
(i) Leases as lessee		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	105	-
Between one and five years	250	-
More than five years	-	-
	355	-
(ii) Leases as lessor		
Non-cancellable operating lease rentals are receivable as follows:		
Less than one year	261	-
Between one and five years	58	-
More than five years	-	-
	319	-

The Group rents out office space in their head office building

29. Capital and other commitments

Contracted but not yet provided for and payable:

	Consolidated 2008 $000	Entity 2008 $000
Within one year	29,212	29,212
One year and no later than five years	-	-
More than five years	-	-
	29,212	29,212

Queensland Bulk Water Supply Authority
Notes to the financial statements

29. Capital and other commitments (continued)

The Entity will acquire specified net assets from various councils, SunWater and DNR at 1 July 2008 (as set out in Note 6) for a total consideration of $1,110,712,000.

30. Contingencies

Under the State Government Transfer Notice dated 27 February 2008, the specified net assets of AquaGen (including the Stage 2 Trunk Main Project Construction Contract) were transferred to the Entity. A claim has been made by the Contractor (now in liquidation), in relation to the Stage 2 Trunk Main Project Construction Contract, in an adjudication process and an adjudication order was made against the Entity for a sum in excess of $11M. The Entity disputes the order and is litigating the matters that are the subject of the adjudication order. The Liquidator of the Contractor has provided certain undertakings not to proceed and execute the order against the Entity, but the Entity is intending to request a formal stay of the order from the Supreme Court until a final determination of the matter. The Entity cannot reliably measure the quantum of liabilities (if any) in respect of that dispute.

A dispute, subsequent to year end, to the amount of $83,000 on a hydro-electric contract in South East Queensland Water Corporation Ltd has been settled.

31. Segment reporting

The Group operates in the Water Supply Industry in the South East area of Queensland and provides untreated water to predominantly, local governments in the geographic area.

32. Controlled entities

	Country of incorporation	Ownership interest
Parent and ultimate controlling party		
Entity		
Queensland Bulk Water Supply Authority	Australia	–
Significant subsidiaries		
South East Queensland Water Corporation Limited	Australia	100%

In the financial statements of the Entity investments in subsidiaries are measured at cost. The Entity has no jointly controlled entities.

QBWSA is controlled by the State of Queensland which is the ultimate parent.

Queensland Bulk Water Supply Authority
Notes to the financial statements

33: Related parties

Key management personnel compensation

(a) Directors

Directors' fees include fees paid for membership of Audit Committee and a Task Force. The Directors who were paid, or were due to be paid directly or indirectly from the Group and the Entity since 1 February 2008, were:

	Consolidated			Entity		
	Salary and Fees	Super-annuation Contribution	Total	Salary and Fees	Super-annuation Contribution	Total
	$	$	$	$	$	$
S. Chaplain	36,000	3,240	39,240	33,333	3,000	36,333
T. Fenwick	16,667	1,500	18,167	15,000	1,350	16,350
L. Bond	16,667	1,500	18,167	15,000	1,350	16,350
M. Boydell	16,667	1,500	18,167	15,000	1,350	16,350
I. Fraser	16,667	1,500	18,167	15,000	1,350	16,350
	102,668	9,240	111,908	93,333	8,400	101,733

(b) Executives

The key management personnel remuneration included in salaries are as follows:

	Consolidated	Entity
	30 June 2008	30 June 2008
	$000	$000
Salaries, fees and packaged benefits	723	209
Bonus	-	-
Total key management personnel remuneration	**723**	**209**

(c) Loans to key management personnel

None of the key management personnel have personal loans outstanding as at 30 June 2008.

(d) Other key management personnel transactions

Key management personnel have not conducted transactions with the Group during the period.

(e) Directors' transactions

Tom Fenwick is a Director of Queensland Water Infrastructure Pty Ltd ("QWI"). The Entity is in negotiations for the acquisition of some assets from QWI (refer to Note 34).

Leeanne Bond is a Director of Tarong Energy. Tarong Energy is a customer of the Group.

(f) Transactions with other related parties

Two State Government owned corporations, Tarong Energy and CS Energy, are the Group's customers. All sales are conducted with their customers on normal commercial terms and conditions.

Further, the State also provides consulting advice or contractual services to the Group. These services are provided under normal commercial terms and conditions.

Up to 1 February 2008, Local Government customers of the Company were also shareholders. All sales to these customers are conducted on normal terms and conditions.

Queensland Bulk Water Supply Authority
Notes to the financial statements

33. Related parties (continued)

(f) Transactions with other related parties (continued)

QTC, a Queensland State Government owned corporation, provided loan debt funding and consultancy services to the company under normal commercial terms and conditions.

The Group received reimbursement of $1.663 million in the current period from Western Corridor Recycled Water Scheme for research and monitoring costs incurred within the Purified Recycled Water Program.

The Group also received reimbursement of $270,000 from SEQ Catchments and the Department of Natural Resources and Water for the creation of a Biodiversity Corridor.

The Group received $25 million (2007: $25 million) from the State Government for the Business Water Efficiency Program which consisted of $20 million (2007: $20 million) for the South East Queensland program and $5 million (2007: $5 million) for the Regional Queensland program. The South East Queensland program recorded costs of $12 million and the Regional Queensland program $0.6 million.

All other amounts are set out in the respective notes to the financial statements.

Refer also to Notes 6 and 32.

34. Subsequent events

At 1 July 2008 the Entity acquired specified net assets from various Councils, SunWater and the Department of Natural Resources and Water as set out under Note 6 : Business Combinations after the reporting date but before the financial report is authorised as a result of the *South East Queensland Water (Restructuring) Act 2007*. To finance the acquisitions the Entity drew down borrowings from Queensland Treasury Corporation at 1 July 2008 of $1,110,712,000.

Further, at 1 July 2008 all of SEQWater's assets, liabilities, instruments and personnel transferred to the Entity at their carrying values. The transfer was effected by a Transfer Notice issued by the Queensland Government under the South East Queensland Water (Restructuring) Act 2007 which was gazetted on 20 June 2008. Excluded from transfer were rights and liabilities under each of the contracts between SEQWater and directors or the secretary (other than an employment contract) and related records as well as records required to be kept by SEQWater and assets, liabilities or instruments which are not capable of being transferred under the Transfer Notice. SEQWater ceased operations immediately after 30 June 2008.

Negotiations are currently in progress for the acquisition of the Cedar Grove Weir and Bromelton Off Stream Storage assets from QWI. It is expected that the Entity will acquire these assets under a Transfer Notice direction from Queensland Treasury in June 2009, following the defects liability period. The Entity will operate these assets pursuant to an operating agreement, on behalf of QWI from 1 September 2008.

	Consolidated 2008 $000	Entity 2008 $000
35. Auditors' remuneration		
Audit services		
Auditors of the Group:		
Queensland Audit Office		
- Audit and review of financial reports	144	50
	144	**50**

There are no non-audit services included in this amount.

Queensland Bulk Water Supply Authority
Directors' Declaration as at 30 June 2008

Certificate of Queensland Bulk Water Supply Authority

These general purpose financial statements have been prepared pursuant to section 46F(1) of the *Financial Administration and Audit Act 1977* (the Act), and other prescribed requirements. In accordance with section 46F(3) of the Act we certify that in our opinion:

a) The prescribed requirements for establishing and keeping the accounts have been complied with in all material aspects; and

b) The statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of Queensland Bulk Water Supply Authority for the financial period ended 30 June 2008 and of the financial position of the Consolidated Entity and Parent Entity at the end of that period.

Annabelle Chaplain	Peter Borrows	John Stubbs
Chairman	Chief Executive Officer	Chief Financial Officer
Signature	Signature	Signature
Date 31/08/2008	Date 31/08/2008	Date 31/8/08

INDEPENDENT AUDITOR'S REPORT

To the Board of Queensland Bulk Water Supply Authority

Report on the Financial Report

I have audited the accompanying financial report of Queensland Bulk Water Supply Authority ("Authority"), which comprises the balance sheet as at 30 June 2008 and the income statement, statement of changes in equity and cash flow statement for the period ended on that date, a summary of significant accounting policies other explanatory notes and certificates given by the Board, of the consolidated entity comprising the Authority and the entities it controlled at the period's end or from time to time during the financial period.

The Board's Responsibility for the Financial Report

The Board is responsible for the preparation and fair presentation of the financial report in accordance with prescribed accounting requirements identified in the *Financial Administration and Audit Act 1977* and the *Financial Management Standard 1997* including compliance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the Board also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers the Authority's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal controls, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial report and any mandatory financial reporting requirements as approved by the Treasurer for application in Queensland.

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

Independence

The *Financial Administration and Audit Act 1977* promotes the independence of the Auditor-General and QAO authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can only be removed by Parliament.

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

Auditor's Opinion

In accordance with s.46G of the *Financial Administration and Audit Act 1977* –

(a) I have received all the information and explanations which I have required; and

(b) in my opinion –

(i) the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and

(ii) the financial report has been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards of the transactions of Queensland Bulk Water Supply Authority and the consolidated entity for the financial period 16 November 2007 to 30 June 2008 and of the financial position as at the end of that period; and

(iii) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

Emphasis of Matter

Without qualification to the opinion expressed above, attention is drawn to the following matter.

As indicated in Note 18, Queensland Bulk Water Supply Authority has performed an impairment assessment of its assets based on current pricing arrangements under normal pricing principles for regulated assets. That impairment assessment has concluded that there is no impairment at 30 June 2008. At this point in time, the Queensland Government has not yet determined the pricing mechanism post 30 June 2010. Therefore there is a significant uncertainty with what form the pricing mechanism may take post 30 June 2010. Should the pricing mechanism and elements established post 30 June 2010 provided by the Regulator not incorporate current pricing arrangements under normal pricing principles, an impairment may arise which could have a significant effect on the carrying value of the assets in future periods. The carrying values of assets recognised in the financial statements have not been adjusted for the effect of any future impairment.

G G POOLE FCPA
Auditor-General of Queensland

AUDITOR GENERAL
31 AUG 2008
OF QUEENSLAND

Queensland Audit Office
Brisbane