Financial report

Contents

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2018

	Note	2018 $M	2017 $M
Revenue			
Annual service charges		1,220	1,124
Volume charges		704	663
Operating subsidies		409	464
Developers' contributions		181	202
Other revenue	5	94	96
Total revenue		**2,608**	**2,549**
Expenses			
Depreciation and amortisation	10 & 11	(496)	(496)
Employee benefits expense	6(a)	(306)	(249)
Hired and contracted services		(134)	(235)
Energy	6(b)	(157)	(144)
Other expenses	6(c)	(334)	(262)
Total expenses		**(1,427)**	**(1,376)**
Results from operating activities		**1,181**	**1,173**
Net finance costs	7	**(250)**	**(253)**
Surplus before income tax equivalent		**931**	**920**
Income tax equivalent expense	8	(281)	(275)
Surplus for the year		**650**	**645**
Other comprehensive income – Re-measurement of defined benefit liability		2	3
Related income tax equivalent	8	(1)	(1)
Other comprehensive income, net of tax equivalent		**1**	**2**
Total comprehensive income for the year		**651**	**647**
Attributable to:			
Owner of the Corporation		651	647
Non-controlling interests	26	-	-
		651	**647**

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

Consolidated Statement of Financial Position

as at 30 June 2018

	Note	2018 $M	2017 $M
Current assets			
Cash and cash equivalents		26	10
Trade and other receivables	9	228	221
Prepayments		4	5
Inventories		22	24
Total current assets		**280**	**260**
Non-current assets			
Trade and other receivables	9	19	18
Property, plant and equipment	10	17,108	16,798
Intangible assets	11	83	77
Total non-current assets		**17,210**	**16,893**
Total assets		**17,490**	**17,153**
Current liabilities			
Trade and other payables		329	359
Interest-bearing loans and borrowings	12	9	54
Income tax equivalent payable		7	26
Provisions	14	1	3
Employee benefits	15	88	82
Other liabilities	16	18	17
Total current liabilities		**452**	**541**
Non-current liabilities			
Interest-bearing loans and borrowings	12	6,132	5,831
Deferred tax equivalent liabilities	13	246	246
Provisions	14	17	11
Employee benefits	15	41	43
Other liabilities	16	22	24
Total non-current liabilities		**6,458**	**6,155**
Total liabilities		**6,910**	**6,696**
Net assets		**10,580**	**10,457**
Equity			
Contributed equity	17	7,561	7,561
Accumulated surplus		3,019	2,896
Equity attributable to owners of the Corporation		**10,580**	**10,457**
Non-controlling interests		-	-
Total equity		**10,580**	**10,457**

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

Consolidated Statement of Changes In Equity

for the year ended 30 June 2018

	Attributable to owners of the Corporation				
	Equity	Accumulated Surplus	Total	Non-controlling interests	Total equity
	$M	$M	$M	$M	$M
Opening balance at 1 July 2017	**7,561**	**2,896**	**10,457**	**-**	**10,457**
Total comprehensive income for the year					
Surplus for the year	-	650	650	-	650
Other comprehensive income (net of tax equivalent)	-	1	1	-	1
Total comprehensive income for the year	**-**	**651**	**651**	**-**	**651**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends paid	-	(528)	(528)	-	(528)
Total transactions with owners	**-**	**(528)**	**(528)**	**-**	**(528)**
Closing balance at 30 June 2018	**7,561**	**3,019**	**10,580**	**-**	**10,580**

Consolidated Statement of Changes In Equity

for the year ended 30 June 2017

	Attributable to owners of the Corporation				
	Equity	Accumulated Surplus	Total	Non-controlling interests	Total equity
	$M	$M	$M	$M	$M
Opening balance at 1 July 2016	**7,561**	**2,732**	**10,293**	**-**	**10,293**
Total comprehensive income for the year					
Surplus for the year	-	645	645	-	645
Other comprehensive income (net of tax equivalent)	-	2	2	-	2
Total comprehensive income for the year	**-**	**647**	**647**	**-**	**647**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Dividends paid	-	(483)	(483)	-	(483)
Total transactions with owners	**-**	**(483)**	**(483)**	**-**	**(483)**
Closing balance at 30 June 2017	**7,561**	**2,896**	**10,457**	**-**	**10,457**

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

Consolidated Statement of Cash Flows

for the year ended 30 June 2018

	Note	2018 $M	2017 $M
Cash flows from operating activities			
Cash receipts from customers		1,946	1,777
Interest received		-	2
Interest paid		(267)	(268)
Cash paid to suppliers and employees		(990)	(935)
Income tax equivalents paid		(300)	(316)
Government grants		24	13
Operating subsidies		409	464
Developers' contributions		121	118
GST received		122	114
Other fees and charges		53	85
Net cash from operating activities	18	**1,118**	**1,054**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(810)	(741)
Acquisition of intangible assets		(26)	(21)
Proceeds from sale of property, plant and equipment		4	2
Recognition of alliance cash on consolidation		3	-
Deposits		-	(2)
Net cash used in investing activities		**(829)**	**(762)**
Cash flows from financing activities			
Net proceeds from borrowings		264	199
Dividends paid		(528)	(483)
Payment of finance lease liabilities		(9)	(8)
Net cash used in financing activities		**(273)**	**(292)**
Net increase in cash and cash equivalents		**16**	**-**
Cash and cash equivalents at 1 July		**10**	**10**
Cash and cash equivalents at 30 June		**26**	**10**

The above Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Report

Note 1: Reporting Entity

Water Corporation (the "Corporation") is a not-for-profit entity incorporated under the *Water Corporations Act 1995* and domiciled in Australia. Its registered office is at 629 Newcastle St Leederville WA 6007. These consolidated financial statements cover the year ended 30 June 2018 and comprise the Corporation and its controlled entities (together referred to as the "Group"). The Group is primarily involved in the provision of water and wastewater services.

Note 2: Basis of Preparation

During the financial year ended 30 June 2018, the Corporation reviewed the control model defined within AASB 10 Consolidated Financial Statements and AASB 12 Disclosure of Interests in Other Parties. In line with the Corporation's approach to continuously improve transparency of disclosure in the financial report, two controlled entities have been consolidated with effect from 1 July 2017 (See Note 26). Comparative amounts have not been restated for this change in the basis of preparation of the consolidated financial report.

The consolidated financial report is a general purpose financial report which has been prepared in accordance with the *Water Corporations Act 1995* and Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB). The consolidated financial report complies with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial report was approved in accordance with a resolution of the Directors on 21 August 2018.

The consolidated financial report is prepared on the historical cost basis except for certain financial assets and financial liabilities which are stated at their fair value. The methods used to measure fair values are discussed further in Note 25.

Amounts in the Directors' Report and consolidated financial report have been rounded off to the nearest whole number of millions of dollars, unless otherwise stated rounding is to the nearest one hundred thousand.

Certain comparative amounts in this consolidated financial report have been reclassified to conform to the current year's presentation.

Note 3: Functional and Presentation Currency

The consolidated financial report is presented in Australian dollars, which is the Corporation's functional currency.

Note 4: Use of Estimates and Judgements

In preparing this consolidated financial report, management has made judgements, estimates and assumptions that affect the application of the Group's 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 estimates are recognised in the year in which the estimate is revised and any future years affected.

The areas where estimates and judgements are significant to the consolidated financial report, or a higher degree of judgement or complexity is involved, are listed below and described in more detail in the related notes:

- Note 9 - Calculation of unbilled revenue
- Note 11 - Impairment of intangible asset with an indefinite useful life
- Note 12 - Leases: whether an arrangement contains a lease
- Note 14 - Provision for site restoration

Note 5: Other Revenue

	2018 $M	**2017 $M**
Other fees and charges	70	73
Government grants	14	13
Rental income	8	9
Net gain on disposal of property, plant and equipment	2	1
	94	**96**

Other fees and charges - Other fees and charges include design fees, building fees, industrial waste charges, plumbing inspection fees, sewerage testing fees, fire service charges and other miscellaneous revenue.

Government grants - Government grants are recognised as revenue when evidence exists to support the passing of control of the benefit and there is reasonable assurance that they will be received.

Note 6: Expenses

Note 6(a) Employee benefits expense includes the following:

	2018 $M	2017 $M
Salaries, wages and other employee expenses	284	222
Contributions to Water Corporation Super and the Water Corporation Superannuation Plan	22	27
	306	**249**

Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the Statement of Comprehensive Income in the financial year during which services are rendered by employees.

Up until the end of April 2017, the Group sponsored the Water Corporation Superannuation Plan, which was managed by Water Corporation Superannuation Pty Ltd, a trustee company. The trustee company had six directors, three of whom were nominated by the Corporation and the other three were elected by the Water Corporation Superannuation Plan's members. On 1 May 2017, the fund was transferred to Water Corporation Super, a new fund managed by AMP.

Note 6(b) Energy expenses predominantly relate to procuring renewable and non-renewable energy used in the Group's desalination plants, water and wastewater treatment plants and for conveying water through the metropolitan and regional systems.

Note 6(c) Other expenses includes the following:

		2018 $M	2017 $M
Information technology		44	44
Equipment hire charges		25	26
Corporate charges		37	35
Materials		29	26
Chemicals		28	27
Derecognised assets		12	12
Payroll tax and workers compensation		26	20
Contract labour		66	24
Property expenses		34	34
Other		17	10
Maintenance and Asset management Alliance partners	(refer note 26)	5	-
Discontinued capital projects		11	4
		334	**262**

Note 7: Net Finance Costs

	2018 $M	2017 $M
Finance income		
Interest income	-	(2)
Finance costs		
Interest expense	265	268
Capitalised interest (Note a)	(15)	(13)
Total finance costs	250	255
Net finance costs	**250**	**253**

		2018	2017
Note a)	The average interest rate used to capitalise interest expenses related to major works was:	4.27%	3.78%

Note 8: Income Tax Equivalent Expense

8.1 Recognised in surplus or deficit

	2018 $M	2017 $M
Current income tax equivalent expense		
Current year	281	297
Deferred income tax equivalent expense		
Reversal of temporary differences	-	(22)
Total income tax equivalent expense	**281**	**275**

8.2 Recognised in other comprehensive income

	Before tax 2018 $M	Tax expense 2018 $M	Net of tax 2018 $M	Before tax 2017 $M	Tax expense 2017 $M	Net of tax 2017 $M
Re-measurement of defined benefit liability	2	(1)	1	3	(1)	2

8.3 Reconciliation of effective tax equivalent rate

	2018 $M	2017 $M
Surplus for the year attributable to parent entity	650	645
Total income tax equivalent expense	281	275
Surplus before income tax equivalent expense	**931**	**920**
Income tax equivalent using the Group's tax equivalent rate (30%)	280	276
Non-taxable income	(1)	(1)
Adjustment in respect of previous year	2	-
Effective tax equivalent expense	**281**	**275**

Note 9: Trade and Other Receivables

	2018 $M	2017 $M
Current		
Trade and other receivables (Note a)	232	223
Provision for impairment losses	(4)	(2)
	228	**221**
Non-current		
Pensioner rates deferrals (Note b)	19	18
	19	**18**
Total trade and other receivables	**247**	**239**

Note a) Trade and other receivables includes unbilled revenue, which is calculated using a combination of actual and estimated monthly water usage and prices.

Note b) In accordance with *The Rates and Charges (Rebates and Deferments) Act*, eligible pensioners are permitted to defer their annual service charges, which will be realised on sale of property or from the estate. Interest is not charged to customers on the deferred amounts, but is recouped from the State Government in the form of Operating Subsidies (see Note 28.2b).

The Group's exposures to credit risk and impairment losses related to trade and other receivables are disclosed in Note 25.

Note 10: Property, Plant and Equipment

	Cost 2018 $M	Accumulated Depreciation 2018 $M	Carrying Amount 2018 $M
System Assets	20,925	5,815	15,110
Land and Buildings	901	158	743
Support Assets	349	233	116
Works in Progress	1,139	-	1,139
Carrying amount of property, plant and equipment	**23,314**	**6,206**	**17,108**

Comparative figures for 2017 are as follows:

	Cost 2017 $M	Accumulated Depreciation 2017 $M	Carrying Amount 2017 $M
System Assets	20,289	5,430	14,859
Land and Buildings	824	144	680
Support Assets	330	217	113
Works in Progress	1,146	-	1,146
Carrying amount of property, plant and equipment	**22,589**	**5,791**	**16,798**

Reconciliations

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

	System Assets 2018 $M	Land and Buildings 2018 $M	Support Assets 2018 $M	Works in Progress 2018 $M	Total 2018 $M
Balance at 1 July 2017	14,859	680	113	1,146	16,798
Additions	81	3	-	719	803
Disposals	(14)	(2)	(1)	-	(17)
Depreciation expense	(439)	(14)	(23)	-	(476)
Transfers between classes	623	76	27	(726)	-
Balance at 30 June 2018	**15,110**	**743**	**116**	**1,139**	**17,108**

Comparative figures for 2017 are as follows:

	System Assets 2017 $M	Land and Buildings 2017 $M	Support Assets 2017 $M	Works in Progress 2017 $M	Total 2018 $M
Balance at 1 July 2016	14,757	657	99	906	16,419
Additions	104	-	-	777	881
Disposals	(11)	-	(1)	-	(12)
Depreciation expense	(434)	(13)	(22)	-	(469)
Transfers between classes	443	35	37	(515)	-
Transfer to Intangible Assets (Note 11)	-	1	-	(22)	(21)
Balance at 30 June 2017	**14,859**	**680**	**113**	**1,146**	**16,798**

Leased Assets – Mundaring Water Treatment Plant

In 2012, the Group entered into an arrangement that is not in the legal form of a lease, but is accounted for as a lease based on the terms and conditions of the arrangement (see Note 12). The net carrying amount of the capitalised leased assets as at 30 June 2018 was $231 million (2017: $239 million).

Note 11: Intangible Assets

	Cost 2018 $M	Accumulated Amortisation 2018 $M	Carrying Amount 2018 $M
Computer software	286	242	44
Intellectual property	2	2	-
Water entitlement	31	-	31
Property easements	8	-	8
Total intangible assets	**327**	**244**	**83**

Comparative figures for 2017 are as follows:

	Cost 2017 $M	Accumulated Amortisation 2017 $M	Carrying Amount 2017 $M
Computer software	263	222	41
Intellectual property	2	2	-
Water entitlement	31	-	31
Property easements	6	1	5
Total intangible assets	**302**	**225**	**77**

Reconciliations

Reconciliations of the carrying amounts of intangible assets at the beginning and end of the current and previous financial year are set out below.

	Computer Software 2018 $M	Intellectual Property 2018 $M	Water Entitlement 2018 $M	Property Easements 2018 $M	Total 2018 $M
Balance at 1 July 2017	41	-	31	5	77
Additions	23	-	-	3	26
Amortisation expense	(20)	-	-	-	(20)
Balance at 30 June 2018	**44**	**-**	**31**	**8**	**83**

Comparative figures for 2017 are as follows:

	Computer Software 2017 $M	Intellectual Property 2017 $M	Water Entitlement 2017 $M	Property Easements 2017 $M	Total 2017 $M
Balance at 1 July 2016	36	2	31	6	75
Additions	-	-	-	-	-
Derecognitions	-	(2)	-	-	(2)
Amortisation expense	(18)	-	-	-	(18)
Transfer from works in progress (Note 10)	23	-	-	(1)	22
Balance at 30 June 2017	**41**	**-**	**31**	**5**	**77**

Impairment test for water entitlements

The Group acquired a number of water entitlements from a third party between 2006 and 2010. These entitlements are recorded at historical cost, less any impairment expense. They are considered to have an indefinite life and are therefore not amortised but tested annually for impairment by comparing the carrying value with the recoverable amount. The recoverable amount has been determined by assessing the replacement cost of the asset with reference to the cost of other current potential water sources, such as bore extraction, desalination or water catchment. The Group's Long Run Marginal Cost of new sources of water is used to calculate the notional replacement cost of the water entitlements.

Note 12: Interest-bearing Loans and Borrowings

	2018 $M	2017 $M
Current		
Unsecured:		
Western Australian Treasury Corporation Working Capital Facility	-	46
Finance lease liabilities (Note b)	9	8
	9	**54**
Non-current		
Unsecured:		
Western Australian Treasury Corporation Term Fixed Rate Lending (Note a)	3,841	3,636
Western Australian Treasury Corporation Term Floating Rate Lending (Note a)	2,069	1,964
Finance lease liabilities (Note b)	222	231
	6,132	**5,831**
Total interest-bearing loans and borrowings	**6,141**	**5,885**

Note a) Western Australian Treasury Corporation Term Fixed & Floating Rate Lending

The non-current amount of the Term Fixed Rate Lending of $3,841 million ($2017: $3,636 million), includes $879 million (2017: $872 million) that will become due and payable during the 2018-19 year. The non-current amount of the Term Floating Rate Lending of $2,069 million ($2017: $1,964 million), includes $500 million (2017: $500 million) that will become due and payable during the 2018-19 year. It is the Corporation's expectation that these amounts will be refinanced under contractual arrangements in place with the Western Australian Treasury Corporation, rather than repaid, and therefore they are not recognised as current borrowings. This is supported by:

i. An agreement with the Western Australian Treasury Corporation, an entity owned by the Western Australian State Government, where the Corporation's borrowings are refinanced at regular intervals between 2018 and 2028; and

ii. The approval of the Corporation's forecast borrowing requirements for the next four years, including no requirement for repayment of the amounts classified as non-current above, within the 2018 Western Australian State Budget.

Note b) Finance lease liabilities

Finance lease liabilities are payable as follows:

	2018 $M	2017 $M
Less than one year	9	8
Between one and five years	32	34
More than five years	190	197
	231	**239**

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are expensed in the periods in which they are incurred.

Lease of system assets not in the legal form of a lease

During 2012, the Group entered into an arrangement with a third party to build and operate the Mundaring Water Treatment Plant for a period of 35 years. Although the arrangement is not in the legal form of a lease, the Group concluded that the arrangement contains a lease of the plant. The lease was classified as a finance lease. At inception of the arrangement, payments were split into lease payments and payments that related to other elements. The imputed finance costs on the liability were determined based on the interest rate implicit in the arrangement.

Note 13: Deferred Tax Equivalent Liabilities

13.1 Recognised deferred tax equivalent assets and liabilities

Deferred tax equivalent assets and liabilities are attributable to the following:

	Assets 2018 $M	Liabilities 2018 $M	Net 2018 $M
Property, plant and equipment	-	289	289
Provisions	(43)	-	(43)
Other items	(12)	12	-
Deferred tax equivalent (assets) / liabilities	(55)	301	246
Set off of tax equivalents	55	(55)	-
Net deferred tax equivalent liabilities	**-**	**246**	**246**

Comparative figures for June 2017 are as follows:

	Assets 2017 $M	Liabilities 2017 $M	Net 2017 $M
Property, plant and equipment	-	292	292
Provisions	(43)	-	(43)
Other items	(17)	14	(3)
Deferred tax equivalent (assets) / liabilities	(60)	306	246
Set off of tax equivalents	60	(60)	-
Net deferred tax equivalent liabilities	**-**	**246**	**246**

13.2 Movement in temporary differences during the year

	Balance 1 July 17 $M	Recognised in income $M	Balance 30 June 18 $M
Property, plant and equipment	292	(3)	289
Provisions	(43)	-	(43)
Other items	(3)	3	-
	246	**-**	**246**

Comparative figures for June 2017 are as follows:

	Balance 1 July 16 $M	Recognised in income $M	Balance 30 June 17 $M
Property, plant and equipment	306	(14)	292
Provisions	(45)	2	(43)
Other items	6	(9)	(3)
	267	**(21)**	**246**

Note 14: Provisions

	2018 $M	2017 $M
Current		
Site restoration	1	3
Non-current		
Workers' compensation	1	1
Site restoration	16	10
	17	**11**
Total provisions	**18**	**14**

Reconciliations of the carrying amount of provisions for 2018 are set out below:

	Workers' Compensation $M	Site Restoration $M	Total $M
Carrying amount at 1 July 2017	1	13	14
Provisions made (reversed) during the year	-	4	4
Carrying amount at 30 June 2018	**1**	**17**	**18**

Provision for site restoration

The provision for site restoration costs is calculated based on a probability weighted estimate of costs to investigate and remediate each site. The timing and extent of restoration work required is based on the classification allocated by the Department of Water and Environmental Regulation (formerly the Department of Environment Regulation) and the findings of preliminary and detailed investigations.

Note 15: Employee Benefits

The provision for employee benefits comprises:

	2018 $M	2017 $M
Current		
Long service leave	47	49
Annual leave	35	30
Other employee benefits	3	2
Defined benefit superannuation (Note a)	3	1
	88	**82**
Non-current		
Long service leave	5	2
Defined benefit superannuation (Note a)	36	41
	41	**43**
Total employee benefits	**129**	**125**

Note a) Defined benefit superannuation

The Group sponsors the following defined benefit plans:

- State Superannuation Pension Fund (Pension Scheme), which closed to contributory members on 15 August 1986; and
- Gold State Superannuation Scheme (GSSS) lump sum scheme, which was opened to contributory members on 1 July 1987 and closed on 29 December 1995.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

Re-measurements of the net defined liability, which comprise actuarial gains and losses, are recognised immediately in Other Comprehensive Income. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate, used to measure the defined benefit obligation at the beginning of the annual period, to the net benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plans are recognised in profit or loss.

Nature of the benefits provided by the Schemes

Pension Scheme – The employer-financed benefit is a pension benefit payable on retirement, death or invalidity, or a lump sum benefit on resignation.

GSSS – Some former Pension Scheme members transferred to the GSSS. In respect of their transferred benefit, the members receive a lump sum benefit at retirement, death or invalidity which is related to their salary during their employment and indexed during any deferral period after leaving public sector employment.

Description of the regulatory framework

The schemes operate under the *State Superannuation Act 2000 (Western Australia)* and the *State Superannuation Regulations 2001 (Western Australia)*. Although the schemes are not formally subject to the Superannuation Industry (Supervision) (SIS) legislation, the Western Australian government has undertaken (in a Heads of Government Agreement) to operate the schemes in accordance with the spirit of the SIS legislation. As exempt public sector superannuation schemes (as defined by the SIS legislation), the schemes are not subject to any minimum funding requirements. As constitutionally protected schemes, the schemes are not required to pay tax.

Description of other entities' responsibilities for the governance of the Schemes

The Government Employees Superannuation Board (GESB) is the Schemes' Trustee and is responsible for the governance of the Schemes. As Trustee, GESB has a legal obligation to act solely in the best interests of Scheme beneficiaries. GESB has the following roles:

Administration of the Schemes and payment to the beneficiaries when required in accordance with the Scheme rules;

Compliance with the Heads of Government Agreement referred to above.

Description of risks

There are a number of risks to which the Schemes expose the Group. The more significant risks relating to the defined benefits are:

- Legislative risk – The risk is that legislative changes could be made which increases the cost of providing the defined benefits.
- Pensioner mortality risk – The risk is that pensioner mortality with be lighter than expected, resulting in pensions being paid for a longer period.
- Inflation risk -
    - *Pension Scheme* - The risk that inflation is higher than anticipated, increasing pension payments, and the associated employer contributions.
    - GSSS - The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, and/or that inflation (which affects the indexation of deferred benefits) will be higher than assumed, increasing the defined benefit amounts and the associated employer contributions.

Description of significant events

There were no Scheme amendments affecting the defined benefits payable, curtailments or settlements during the year.

Reconciliation of the net defined benefit liability

	2018 $M	2017 $M
Pension Scheme	32	34
GSSS	7	8
Net defined benefit liability	**39**	**42**

Reconciliation of the defined benefit obligation

	2018 $M	2017 $M
Present value of defined benefit obligations at beginning of the year	42	48
Current service cost	-	-
Interest cost	1	1
Actuarial (gains)/losses arising from changes in financial assumptions	(2)	-
Actuarial (gains)/losses arising from liability experience	-	(4)
Benefits paid	(2)	(3)
Present value of defined benefit obligations at end of the year	**39**	**42**

Fair value of scheme assets

There are no assets in the Pension Scheme to support the State Share of the benefit or in the GSSS for current employees to support the transferred benefits.

Significant actuarial assumptions at the reporting date

	2018	2017
Assumptions to determine start of year defined benefit obligation and defined benefit cost for the current year Discount rate (pensioners and active members)	2.3%	2.3%
Expected salary increase rate	1.5% for 2017/18, 1.1% for 2018/19, 1.0% for 2019/20, and then 3.7% pa	2.5% for 2016/17, 2.5% for 2017/18, 2.5% for 2018/19, and then 3.5% pa
Expected pension increase rate	2.5%	2.5%
Assumptions to determine defined benefit obligation at the valuation date Discount rate (pensioners and active members)	2.6%	2.3%
Expected salary increase rate	1.5% for 2018/19, 1.5% for 2019/20, 1.5% for 2020/21, and then 4.2% pa	1.5% for 2016/17, 1.1% for 2017/18, 1.0% for 2018/19, and then 3.7% pa
Expected pension increase rate	2.5%	2.5%

The discount rate is based on the Government bond maturing in April 2026. The decrement rates used (e.g. mortality and retirement rates) are based on those used at the last actuarial valuation for the Schemes.

Sensitivity analysis

The defined benefit obligation as at 30 June 2018 under several scenarios is presented below.

Pension Scheme

Scenarios A and B relate to discount rate sensitivity. Scenarios C and D relate to expected pension increase rate sensitivity.

- Scenario A: 0.5% pa lower discount rate assumption
- Scenario B: 0.5% pa higher discount rate assumption
- Scenario C: 0.5% pa lower expected pension increase rate assumption
- Scenario D: 0.5% pa higher expected pension increase rate assumption

	Base Case	Scenario A -0.5% pa discount rate	Scenario B +0.5% pa discount rate	Scenario C -0.5% pa pension increase rate	Scenario D +0.5% pa pension increase rate
Discount rate	2.6% pa	2.1% pa	3.1% pa	2.6% pa	2.6% pa
Pension increase rate	2.5% pa	2.5% pa	2.5% pa	2.0% pa	3.0% pa
Defined benefit obligation ($M)	32	35	30	30	35

GSSS

Scenarios A and B relate to discount rate sensitivity. Scenarios C and D relate to expected salary increase rate and indexation sensitivity.

- Scenario A: 0.5% pa lower discount rate assumption
- Scenario B: 0.5% pa higher discount rate assumption
- Scenario C: 0.5% pa lower expected salary increase rate and indexation rate assumption
- Scenario D: 0.5% pa higher expected salary increase rate and indexation rate assumption

	Base Case	Scenario A -0.5% pa discount rate	Scenario B +0.5% pa discount rate	Scenario C -0.5% pa increase rate & indexation rate	Scenario D +0.5% pa increase rate & indexation rate
Discount rate	2.6% pa	2.1% pa	3.1% pa	2.6% pa	2.6% pa
Salary increase rate	4.2% pa	4.2% pa	4.2% pa	3.7% pa	4.7% pa
Defined benefit obligation ($M)	7	8	7	7	8

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other obligations.

Funding arrangements

The employer contributes, as required, to meet the benefits paid.

Expected contributions

Expected employer contributions for the financial year ending 30 June 2019 are $3m.

Maturity profile of defined benefit obligation

Pension Scheme - The weighted average duration of the Group's defined benefit obligation is 15.6 years.

GSSS - The weighted average duration of the Group's defined benefit obligation is 2.8 years.

Note 16: Other Liabilities

	2018 $M	2017 $M
Current		
Developers' deferred liabilities (Note a)	13	8
Deposits	5	9
	18	**17**
Non-current		
Developers' deferred liabilities (Note a)	18	21
Deposits	4	3
	22	**24**
Total other liabilities	**40**	**41**

Note a) Developers' deferred liabilities

Developers' deferred liabilities are the amounts payable to developers as reimbursements for the costs of headworks, constructed under Developer Constructed Work Agreements, where developers have self-funded the construction of certain headworks to enable a development, at a time that was earlier than planned by the Group.

Note 17: Equity

17.1 Contributed equity

	2018 $M	2017 $M
Owner's initial contribution (Note a)	7,327	7,327
Equity contributions (Note b)	234	234
	7,561	**7,561**

Note a) Owner's initial contribution

Owner's initial contribution is the portion of the residual interest in the Water Authority of Western Australia's assets, after deducting the liabilities that were transferred from the Water Authority of Western Australia to the Water Corporation on 1 January 1996.

Note b) Equity contributions

Equity contributions represent assets and amounts received from the State Government in relation to funding for the construction of projects.

Dividends

The following dividends were declared and paid by the Group for the year ended 30 June.

	2018 $M	2017 $M
Interim dividend payment	513	479
Final dividend payment for the prior year	15	4
	528	483

Note 18: Reconciliation of Cash Flows from Operating Activities

18.1 Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash includes cash on hand and in banks.

Cash held at bank earns interest at rates determined by the Department of Treasury. For the year ended 30 June 2018, the average interest rate was 2.0% (2017: 2.0%).

The Group's exposure to interest rate risk for financial assets and liabilities is disclosed in Note 25.

18.2 Reconciliation of cash flows from operating activities

	2018 $M	2017 $M
Surplus for the year	**650**	**645**
Gain on disposal of assets	(2)	(1)
Derecognised assets	12	12
Developers' contributions (non-cash)	(60)	(84)
Capitalisation of interest expense	(15)	(13)
Impairment loss on receivables	2	-
Employee benefits:		
Superannuation	(2)	(5)
Long service leave	1	(2)
Annual leave	6	(1)
Provisions:		
Site restoration - net	4	1
Depreciation and amortisation	496	487
GST paid for property, plant and equipment	50	44
Increase in trade and other receivables	(11)	(17)
Decrease in income tax equivalent	(18)	(41)
Decrease/(increase) in inventories	2	(2)
Increase in trade and other payables and other liabilities	3	31
Net cash from operating activities	**1,118**	**1,054**

Note 19: Auditor's Remuneration

The total fees paid or due and payable to the Office of the Auditor General for the year are as follows:

	2018 $'000	2017 $'000
Audit of financial reports	302	304

Note 20: Related Parties

Key Management Personnel Remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. This comprises all Ministers, the directors and the general managers who lead the various groups of the Group. The Group is not obligated to compensate the Minister for Water and therefore disclosures in relation to the Minister's compensation are not disclosed in this report but they are included in the *Annual Report on State Finances*.

The compensation paid to key management personnel during the year comprised:

	2018 $'000	2017 $'000
Short-term employee benefits	3,493	2,927
Post-employment benefits	301	304
Other long-term benefits	115	132
Termination benefits	164	-
	4,073	**3,363**

Other Transactions with Key Management Personnel and Related Entities

Related parties of the Group include:

- all Ministers, their close family members and their controlled or jointly controlled entities;
- all directors, general managers, their close family members and their controlled or jointly controlled entities;
- Western Australian government departments and public sector entities, including related bodies included in the whole of government consolidated financial statements;
- associates and joint ventures, that are included in the whole of government consolidated financial statements; and
- the Government Employees Superannuation Board (GESB).

The Ministers and directors of the Group, or their related entities, conduct transactions with the Group within normal employee and customer relationships, on terms and conditions no more favourable than those that it is reasonable to expect the Group would have adopted if dealing with a Minister, director or related entity at arm's length in similar circumstances.

There are no reportable related party transactions with the current Ministers, the directors or the general managers of the Group this financial year.

The Group transacts with a number of Western Australian State Government authorities, agencies and government trading enterprises. Transactions with these entities include, but are not limited to: depositing and borrowing money; sales and purchases of goods, property and other assets; use of utilities; vehicle licensing; other government fees and charges. Total annual transactions with these entities, in excess of $10 million, include:

	Transaction value year ended	
	2018 $M	**2017 $M**
Transactions with Department of Treasury, Department of Finance and Western Australian Treasury Corporation		
Receipts		
Department of Treasury – Operating Subsidies	409	464
Western Australian Treasury Corporation		
- Proceeds from borrowings	1,348	665
- Foreign currency	-	2
Payments		
Department of Treasury		
- Dividends	528	483
- Income tax equivalent	300	316
- Local government rates equivalent	7	6
Department of Finance		
- Payroll tax	20	18
- Vehicle leases and stamp duty	-	34
Western Australian Treasury Corporation		
- Repayment of borrowings	1,084	466
- Interest on borrowings	201	204
- Guarantee fees	40	38
- Purchase of foreign currency	-	2
Other Western Australian Government Related Entities		
Payments		
Government Employees' Superannuation Board	13	14
Synergy	9	18
Horizon Power	12	13
Western Power	11	7

The above list excludes annual service charges and volume charges received by the Group.

Note 21: Operating Leases

21.1 Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2018 $M	2017 $M
Less than one year	9	8
Between one and five years	14	14
More than five years	4	1
	27	**23**

The Group leases property, plant and motor vehicles under non-cancellable operating leases.

During the financial year ended 30 June 2018, $9 million was recognised as an expense in the Consolidated Statement of Comprehensive Income in respect of non-cancellable operating leases (2017: $12 million).

A review of the Corporation's lease contracts during the current financial year concluded that payments made in relation to renewable energy supply arrangements are entirely variable as they are dependent on production that varies with weather conditions. The minimum lease payments under these arrangements are therefore nil. During the financial year ended 30 June 2018 contingent rental expenses of $27 million (2017: $25 million) in relation to the renewable energy supply arrangements were recognised as an expense in the Consolidated Statement of Comprehensive Income. The Group has restated the comparative amounts in the above note.

21.2 Leases as lessor

The future minimum lease payments under non-cancellable leases are as follows:

	2018 $M	2017 $M
Less than one year	6	7
Between one and five years	11	12
More than five years	11	10
	28	29

The Group leases out property under operating leases.

During the financial year ended 30 June 2018, $8 million was recognised as rental income in the Consolidated Statement of Comprehensive Income (2017: $9 million).

Note 22: Capital Commitments

Total capital expenditure contracted for at reporting date but not provided for in the consolidated financial report is $280 million (2017: $338 million).

Note 23: Contingent Liabilities

Currently the Group is a party to, or is potentially affected by a number of legal claims. Until proceedings relating to these claims are finalised, uncertainty exists regarding the impact, if any, on the operations of the Group.

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

The following identifiable contingent liabilities exist at 30 June 2018:

	2018 $M	2017 $M
Bank guarantees (Note a)	12	10

Note a) Bank guarantees are issued in the normal course of business to guarantee the performance of the Water Corporation under contracts and the period of each guarantee varies by contract agreement.

Note 24: Subsequent Events

There have been no events subsequent to balance date which would have a material effect on the Group's financial statements at 30 June 2018.

Note 25: Financial Instruments

25.1 Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Group's exposure to each of the above risks, objectives, policies and processes for measuring and managing risk, as well as quantitative disclosures.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group has a disciplined and constructive control environment in which all employees are clearly advised of their roles and obligations.

The Corporation's Audit and Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Compliance Committee is assisted in its oversight role by the Risk and Assurance Branch, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Corporation's Audit and Risk Committee.

25.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Management has a credit policy in place and the exposure to credit risk is monitored on a regular basis. The credit risk on financial assets, which have been recognised on the statement of financial position, other than cash and other financial assets is generally the carrying amount, net of any impairment loss for doubtful debts. Most receivables relating to water service charges are the responsibility of and are recoverable from the owner of the property. Under legislation, the Group may lodge and register a memorial and appropriate endorsements on the title of properties in arrears, which when in place restricts any instrument affecting that property from being registered without the Group's consent. Other receivables are regularly reviewed and allowance is made for debts deemed to be doubtful.

The Group has established an allowance for impairment that represents its estimate of incurred losses in respect to trade and other receivables and comprises individually significant exposures.

At reporting date, there were no significant concentrations of credit risk.

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at reporting date was:

	2018 $M	2017 $M
Cash and cash equivalents	26	10
Trade and other receivables (Note 9)	247	239
	273	**249**

The Group is not materially exposed to any individual customer.

Impairment losses

The aging of the Group's trade and other receivables at reporting date was:

	Gross 2018 $M	Impairment 2018 $M	Gross 2017 $M	Impairment 2017 $M
Not past due	191	-	187	-
Past due 0-30 days	24	-	21	-
Past due 31-60 days	8	-	6	-
Past due 61-90 days	4	-	4	-
More than 90 days	24	4	23	2
	251	**4**	**241**	**2**

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2018 $M	2017 $M
Balance at 1 July	2	2
Impairment loss recognised	2	-
Balance at 30 June	**4**	**2**

Impairment losses are recognised when recovery of the debt is considered to be unlikely or of high risk due to circumstances such as the value of any security held is or becomes less than the value of the debt, the cost of recovery is approximate to or becomes greater than the value of the debt, the customer's financial position is unfavourable or the customer is deceased or whereabouts is unknown.

Based on historical default rates, the Group believes that no impairment allowance is necessary in respect of trade and other receivables not past due or past due by up to 90 days.

During the year ended 30 June 2018, the Group renegotiated the terms of trade and other receivables of $29 million (2017: $29 million) from customers. If it had not been for these renegotiations, the receivables would have been overdue by more than 90 days. There was no impairment loss recognised this financial year (2017: nil).

The allowance account, in respect of trade and other receivables, is used to record impairment losses, unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the amounts considered irrecoverable are written off against the financial asset directly. At 30 June 2018, the Group does not have any collective impairments on its trade and other receivables (2017: nil).

25.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

On an annual basis, the Board approves the forward five-year forecast of cash flows incorporated in the Strategic Development Plan (SDP). On an annual basis, the Board also approves the projected cash flows, for the current and next financial years, derived from the Statement of Corporate Intent (SCI). The SDP and SCI convey the liquidity risk by reporting projected net debt levels with committed facilities. During the financial year, any significant divergence from the projected cash flows is reported to the Board.

The Corporation ensures that it maintains a liquidity buffer of $4 million on a daily basis in approved liquidity instruments to cover cash flow volatility over the short-term and to provide time to arrange additional funding facilities in the event of a cash flow emergency. Funds held in excess of liquidity requirements may be used to retire debt, invest in approved liquidity instruments or invest in approved financial instruments other than approved liquidity instruments in a manner consistent with the approved liquidity and funding strategy.

At 30 June 2018, the current liabilities of the Corporation exceeded its current assets by $172 million (2017: $281 million). The Corporation will meet its current liability obligations, as and when they fall due for payment, by refinancing the debt, under contractual arrangements in place with the Western Australian Treasury Corporation (see Note 12).

The Corporation has in place arrangements for Western Australian Treasury Corporation (WATC) to provide finance, with total facility limits set by the State Treasurer through the annual State Budget, or as amended from time-to-time by a formal process including the Mid-year Review or via letters of amendment.

For 2017/18, the borrowing limit was set at $5,956 million (2017: $5,722 million) for the repayment of maturing debt and ongoing capital expenditure. Included in the limit of $5,956 million is a Liquidity Facility that can be drawn down, within the constraints of the total limit, to meet short-term financing needs, and a Working Capital Facility currently limited to $80 million (2017: $80 million) to assist with cash flow management.

As at 30 June 2018, $5,910 million was drawn under the total debt facility (2017: $5,646 million), including $nil (2017: $46 million) of Working Capital Facility. The remaining amount available under the total debt facility, with the relevant approval was $46 million (2017: $76 million). For 2018/19, the facility limit has initially been set at $6,006 million (2017: $5,927 million) providing available borrowings of $96 million up to 30 June 2019.

Outstanding lines of credit are regularly discussed and agreed with WATC. The type, currency and term of any new finance are determined at the time of draw-down between the Corporation and WATC.

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

30 June 2018	Carrying amount $M	Contractual cash flows $M	6 mths or less $M	6-12 mths $M	1-2 years $M	2-5 years $M	More than 5 years $M
Non-derivative financial liabilities							
Trade and other payables	329	(329)	(329)	-	-	-	-
Interest-bearing loans and borrowings:							
- WATC working capital facility	-	-	-	-	-	-	-
- WATC Term Floating Rate Lending	2,069	(2,195)	(530)	(22)	(680)	(963)	-
- WATC Term Fixed Rate Lending	3,841	(4,706)	(278)	(278)	(539)	(1,481)	(2,130)
	6,239	**(7,230)**	**(1,137)**	**(300)**	**(1,219)**	**(2,444)**	**(2,130)**

30 June 2017	Carrying amount $M	Contractual cash flows $M	6 mths or less $M	6-12 mths $M	1-2 years $M	2-5 years $M	More than 5 years $M
Non-derivative financial liabilities							
Trade and other payables	359	(359)	(359)	-	-	-	-
Interest-bearing loans and borrowings:							
- WATC liquidity facility	-	-	-	-	-	-	-
- WATC working capital facility	46	(46)	(46)	-	-	-	-
- WATC Term Floating Rate Lending	1,964	(2,075)	(482)	(76)	(534)	(983)	-
- WATC Term Fixed Rate Lending	3,636	(4,499)	(273)	(269)	(521)	(1,424)	(2,012)
	6,005	**(6,979)**	**(1,160)**	**(345)**	**(1,055)**	**(2,407)**	**(2,012)**

The gross inflows/(outflows) disclosed in the previous table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are usually not closed out prior to contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement, e.g. forward exchange contracts.

25.4 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

The Group enters into derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out in line with risk management policies. Generally, the Group seeks to apply hedge accounting in order to manage volatility in surplus or deficit.

25.4.1 Currency risk

The Group makes purchases that are denominated in currencies other than Australian dollars. The currencies in which these transactions primarily are denominated in are Euro and USD.

In accordance with risk management policies, non-material exposures to an aggregate value of $200,000 for any one project may be left unhedged. At any one time, unhedged exposures in a specific foreign currency cannot exceed an aggregate value of $500,000 and unhedged exposures in all foreign currencies cannot exceed an aggregate value of $1,000,000.

The Group uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from reporting date. When necessary, forward exchange contracts are rolled over at maturity.

The Group has no material exposure to foreign currency risk.

25.4.2 Interest rate risk

The Group is exposed to interest rate risk through financial assets and financial liabilities and adopts a policy of ensuring the majority of its exposure to changes in interest rates on borrowings is on a fixed rate basis.

Profile

At reporting date the interest rate profile of the Group's interest bearing financial instruments was:

	2018 $M	2017 $M
Fixed rate instruments		
WATC Working capital facility	-	46
WATC Term Floating Rate Lending (interest rate fixed for 3 or 6 months)	2,069	1,964
WATC Term Fixed Rate Lending (Note a)	3,841	3,636
	5,910	**5,646**

Note a) Structured into 40 lines spread over 40 quarters (10 years), with one fortieth of the portfolio maturing each quarter, refinanced at an interest rate fixed for 10 years.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through surplus or deficit, and the Group does not designate the forward points component of derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at reporting date would not affect equity.

Cash flow sensitivity analysis for fixed rate instruments

Borrowings under the Term Fixed Rate Lending facility are structured into various lines of 10 year debt, with maturities staggered quarterly. Of the total $3,841 million under the Term Fixed Rate Lending facility, $379 million will mature in the next 12 months and will be refinanced at interest rates fixed for 10 years. Borrowings under the Term Floating Rate Lending facility are structured into various debt lines, with maturities between 2 years and 5 years. Interest rates under the Term Floating Rate facility are reset every 3 months or 6 months. Of the total $2,069 million under this facility, $500 million will mature in the next 12 months, with interest rates fixed for either 3 months or 6 months. A change of 100 basis points in interest rates at the reporting date would have increased or decreased interest expense (before capitalised interest) by $18 million. This analysis assumes that all other variables remain constant.

25.5 Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Carrying Amount 2018 $M	Fair Value 2018 $M	Carrying Amount 2017 $M	Fair Value 2017 $M
Assets carried at amortised cost				
Cash and cash equivalents	17	17	10	10
Trade and other receivables	250	250	241	241
Liabilities carried at amortised cost				
Trade and other payables	328	328	359	359
Interest-bearing loans and borrowings:				
- WATC working capital facility	-	-	46	46
- WATC Term Floating Rate Lending	2,069	2,084	1,964	1,981
- WATC Term Fixed Rate Lending	3,841	4,011	3,636	3,834
Liabilities carried at fair value				
Other forward exchange contracts	-	-	-	-

The basis for determining fair values is disclosed in Note 28.20.

Interest rates used for determining fair value

The average interest rates used to discount estimated cash flows, where applicable, are based on the WA Treasury Corporation yield curve at the reporting date, plus a margin which represents the buy sell spread, and were as follows:

	2018	2017
Interest-bearing loans and borrowings	2.0%-3.1%	1.6%-3.3%

25.6 Fair value hierarchy

The Group does not hold assets or liabilities that are required to be valued under the fair value hierarchy.

Note 26: Controlled entities

During the financial year ended 30 June 2018, the Corporation reviewed the control model, defined within AASB 10 Consolidated Financial Statements and AASB 12 Disclosure of Interests in Other Parties, and in line with the Corporation's approach to continuously improve transparency of disclosure in the financial report, the following two controlled entities have been consolidated with effect from 1 July 2017.

- Programmed Facility Management (PRA) Pty Ltd; and
- Aroona P&T Pty Ltd.

While the Corporation does not hold any ownership interests in Programmed Facility Management (PRA) Pty Ltd and Aroona P&T Pty Ltd (service companies) but controls these entities, which have been created as part of the Perth Region and Metro Operation, Maintenance and Asset Management contracts with third party contractors, through its involvement over these service companies to direct their operations and is exposed to variable returns through its involvement and power over the activities of the entities.

In 2017-18, the third party contractors were paid a margin of $8 million while the service entities were reimbursed for costs incurred in providing services. Of this $8 million margin, $5 million is included in Other expenses (see Note 6(c)) and $3 million has been capitalised in property, plant and equipment.

Note 27: Parent Entity Disclosures

	2018 $M	2017 $M
Result of parent entity		
Surplus for the period	650	645
Other Comprehensive income	1	2
Total comprehensive income for the period	**651**	**647**
Financial Position of parent entity at year end		
Current assets	274	260
Non-current assets	17,211	16,893
Total assets	**17,485**	**17,153**
Current liabilities	1,326	541
Non-current liabilities	5,578	6,155
Total liabilities	**6,904**	**6,696**

	2018 $M	2017 $M
Total equity of the parent entity comprising:		
Contributed equity	7,561	7,561
Accumulated surplus	3,020	2,896
Total equity	**10,581**	**10,457**

Parent entity contingent liabilities
The parent entity contingent liabilities are as disclosed in Note 23.

Parent entity capital commitments
Total capital expenditure contracted for at reporting date is as disclosed in Note 22.

Note 28: Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in this consolidated financial report.

28.1 Principles of consolidation

28.1.1 Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group.

28.1.2 Controlled entities

Controlled entities are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The financial results of controlled entities are included in the consolidated financial report from the date on which control commences until the date on which control ceases.

Where there is loss of control of a controlled entity, the Group derecognises the assets and liabilities of the controlled entity and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former controlled entity is measured at fair value when control is lost.

All inter-company balances and transactions, including unrealised gains arising from intra-group transactions, are eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered. Non-controlling interests in the equity and the results of controlled entities are shown separately in the consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of changes in equity.

28.2 Revenue

(a) Revenue from annual service charges and volume charges is recognised in the Consolidated Statement of Comprehensive Income at the amounts levied and billed for the period, including interest on overdue amounts, less rebates/concessions allowed to entitled customers. Revenue also includes an estimate for the value of water consumed but not billed at reporting date.

(b) Operating Subsidies are recognised as revenue when there is reasonable assurance that they will be received and the Corporation has complied with the conditions attached to them. Operating Subsidies are received from the State Government for:

- costs in respect of country water, sewerage, drainage and irrigation services;
- infill sewerage program; and
- revenue foregone, plus agreed administration costs, from rebates and concessions to Pensioners, Seniors and various exempt bodies on annual service charges, water consumption charges and other fees and charges.

(c) Developers' contributions are recognised as revenue at fair value when received. The Corporation receives capital contributions from external parties in the form of either assets or cash. These are commonly referred to as Developers' Contributions and consist of:

- headworks contributions - developers are required to make standard contributions towards the cost of headworks necessary to provide reticulation services within a subdivision;
- handover works - as a condition of subdivision, developers are required to provide water, and in most areas sewerage services, to individual blocks. These services are connected to the existing system and handed over to the Corporation free of charge;
- work performed for developers - as an alternative to developers arranging for the installation of reticulation services, the Corporation may be requested to provide these with the developer paying the cost at an agreed quotation; and
- notional capital surcharge - companies supplied water through special agreements are required to make additional capital payments if they exceed the quota of water they have paid for.

The after-tax equivalent value of handover works is excluded from the base used to calculate dividend payments.

28.3 Leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

28.3.1 Finance leases

Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

28.3.2 Operating leases

Payments made under operating leases are recognised in the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of the lease.

28.4 Net finance costs

28.4.1 Finance income

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

28.4.2 Finance costs

Finance costs comprise interest expense on borrowings calculated using the effective interest method. The interest expense component of finance lease payments is recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

Borrowing costs are expensed as incurred except where they relate to the financing of projects under construction, with an estimated cost of more than $5 million, where they are capitalised up to the date of commissioning.

Foreign currency gains and losses are reported on a net basis.

28.5 Income Tax equivalent

The Corporation is exempt from the Commonwealth of Australia's Income Tax Assessment Act 1936 but makes income tax equivalent payments to the Western Australian Government. The Corporation entered into the National Taxation Equivalent Regime (NTER) environment on 1 July 2001 having previously operated under the state-based Taxation Equivalent Regime. While tax equivalent payments are remitted to the Department of Treasury, the Corporation's tax equivalent is subject to Australian Tax Office (ATO) administration. The calculation of the liability in respect of these tax equivalents is governed by the Income Tax Assessment Act and the NTER guidelines as agreed by the NTER Working Party.

Income tax equivalent expense comprises current and deferred tax equivalents. Current tax equivalent and deferred tax equivalent is recognised in the Consolidated Statement of Comprehensive Income.

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

Deferred tax equivalent is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax equivalent 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 reporting date.

In determining the amount of current and deferred tax equivalent the Group takes into account the impact of uncertain tax positions and whether additional tax equivalents and interest may be due. The Group believes that its accruals for tax equivalent liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax equivalent liabilities; such changes to tax equivalent liabilities will impact tax equivalent expense in the period that such a determination is made.

Deferred tax equivalent assets and liabilities are offset if there is a legally enforceable right to offset current tax equivalent liabilities and assets, and they relate to income tax equivalents levied by the same tax authority on the same taxable entity.

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

28.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in banks.

28.7 Trade and other receivables

Trade and other receivables are stated at their amortised cost less provision for impairment losses (see Note 28.11) and are normally settled within 30 days.

28.8 Inventories

Inventories consist of consumable engineering supplies and spares required for maintenance and operation of systems and general construction works. Inventories are measured at cost and adjusted when applicable for any loss of service potential.

An allowance is maintained for the diminution in the value of inventories due to obsolescence and items being surplus to requirements.

28.9 Property, plant and equipment

28.9.1 Recognition and measurement

Property, plant and equipment represent the capital works and plant required for the operation of the Group and comprises:

(a) works carried out under the capital investment program, which are initially recorded at cost. Cost includes direct materials and labour together with a proportion of management expenses directly related to bringing the asset to its working condition, and capitalisation of interest directly attributable to major works with an estimated cost greater than $5 million;

(b) works carried out by developers, which are taken over by the Group free of charge are recorded at deemed cost, being the fair value at the date of acquisition; and

(c) other property, plant and equipment, which are initially recorded at cost of acquisition plus incidental costs directly attributable to the acquisition.

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see Note 28.9.3) and impairment losses (see Note 28.11).

28.9.2 Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the following:

(a) the cost of replacement parts of an item is included when that cost is incurred, if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The carrying amounts of those parts that are replaced are derecognised.

(b) the cost of regular major inspection if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. Any remaining carrying amount of the cost of the previous inspection is derecognised.

All other costs are recognised in the Consolidated Statement of Comprehensive Income as an expense when incurred.

28.9.3 Depreciation

In order to recognise the loss of service potential of property, plant and equipment, depreciation is recognised in the Consolidated Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, making allowance where appropriate for residual values. 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 at the end of the lease term. Land is not depreciated. Asset lives are reviewed annually, taking into account commercial and technical obsolescence, as well as normal wear and tear.

The estimated useful lives of the different classes of property, plant and equipment for current and comparative years are as follows:

	Life (years)
Tunnels - water	150
Dams and associated civil works	120
Pipes - water and wastewater (other than galvanised steel)	75 - 110
Ocean outfalls and associated pipes	40 - 100
Bridges (other than timber)	50 - 80
Reservoirs and tanks	50 - 70
Fire hydrants and reticulation valves	50 - 55
Civil works - pump stations and treatment plants	50
Buildings (other than temporary)	30 - 50
Pipes - water (galvanised steel)	30
Drains and channels	20 - 30
Wells and bores	20 - 30
Mechanical and electrical installations	25
Telemetry equipment, instruments and revenue meters	10
Furniture, office and laboratory equipment	7
Vehicles and mobile plant	3 - 7
Computer equipment	3 - 5

28.10 Intangible assets

28.10.1 Computer software

Computer software consists of software which is not integral to the hardware, such as the ERP and billing system. Computer software is stated at cost less accumulated amortisation (see Note 28.10.3) and accumulated impairment losses (see Note 28.11).

28.10.2 Water entitlements

Water entitlements purchased by the Group have been recognised initially at the cost of acquiring the entitlements plus incidental costs directly attributable to the acquisition. These entitlements are considered to have an indefinite useful life and are tested annually for impairment (see Note 28.11).

28.10.3 Amortisation

Amortisation is calculated using the cost of the asset, or its deemed cost, less its residual value.

Amortisation of computer software and intellectual property is recognised in the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite. Intangible assets with indefinite useful lives are not amortised and are systematically tested for impairment at each reporting date.

Intangible assets are amortised over the following useful lives:

	Life (years)
Computer software	3 - 10
Intellectual property	10

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

28.11 Impairment

28.11.1 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 impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise and indications that a debtor will enter bankruptcy.

The Group considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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.

All impairment losses are recognised in the Consolidated Statement of Comprehensive Income.

28.11.2 Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax equivalent 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 intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Consolidated Statement of Comprehensive Income.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use for not-for-profit entities is determined using the depreciated replacement cost of the asset when the future economic benefits of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the Group would, if deprived of the asset, replace its remaining future economic benefits.

28.12 Trade and other payables

Trade and other payables are stated at amortised cost and are normally settled within 30 days.

28.13 Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are recognised at amortised cost with any difference between cost and redemption value being recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

28.14 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

28.14.1 Insurance

A provision for uninsured loss events is recognised when a claim is received from an external party after an incident occurs, and it is probable that a payment to the external party will be required to settle the financial obligation associated with the incident. The amount provided for is up to the Group's insurance deductible level.

28.14.2 Workers' compensation

The Group self-insures for risks associated with workers' compensation for claims relating to pre 1 July 1997 events. Outstanding claims are recognised when an incident occurs that may give rise to a claim and are measured at the cost that the Group expects to incur in settling the claims, discounted using a government bond rate with a maturity date approximating the terms of the Group's obligation.

28.14.3 Site restoration

A provision for site restoration costs is recognised when: there is either a legal or constructive obligation to restore a site; the land is contaminated; it is probable a restoration expense will be incurred; and the costs can be estimated reasonably.

28.15 Employee benefits

28.15.1 Long service leave and annual leave

Provisions for Long Service Leave and annual leave are maintained to provide for employee benefits which are assessed on the basis of calculated leave liabilities for employee service to reporting date.

The value of long service leave and annual leave is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and are discounted using the rates attached to the Commonwealth Government bonds at reporting date which have maturity dates approximating the terms of the Group's obligations.

28.15.2 Purchased leave

A Provision for Purchased Leave is maintained to provide for purchased leave benefits which are assessed on the basis of calculated leave entitlements at reporting date.

This scheme allows employees to purchase up to 12 additional weeks leave per annum by agreeing to a reduced salary rate over 52 weeks of the year. The minimum amount of leave available to be purchased is 1 week.

This scheme also allows employees to take reduced salary of eighty percent for four years and have paid leave for the whole of the fifth year at eighty percent of their salary.

Values are calculated at undiscounted amounts based on wage and salary rates that the Group expects to pay as at reporting date including related on-costs.

28.15.3 Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

28.15.4 Non-monetary benefits

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.

28.16 Foreign currency transactions

Transactions in foreign currencies are translated to Australian Dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in the Statement of Comprehensive Income. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

28.17 Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational activities. In accordance with the Treasury Risk Management policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments through surplus or deficit.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 per cent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect the reported surplus or deficit.

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in the Consolidated Statement of Comprehensive Income when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

28.17.1 Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the Consolidated Statement of Comprehensive Income.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the Consolidated Statement of Comprehensive Income in the same period that the hedged item affects the Consolidated Statement of Comprehensive Income.

28.18 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 taxation authority. 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 current liability in the statement of financial position.

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.

28.19 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for future reporting periods, and have not been applied in preparing this consolidated financial report. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

28.19.1 AASB 9 *Financial Instruments*

AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from AASB 139. Based on the work performed thus far, this new standard is not expected to have a material impact to the Group's consolidated financial report.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

28.19.2 AASB 15 *Revenue from Contracts with Customers*

AASB 15 outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in AASB 15 provide a more structured approach to measuring and recognising revenue and replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programs. Based on the work performed thus far, this new standard is not expected to have a material impact to the Group's consolidated financial report.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2019, for not-for profit entities, with early adoption permitted.

28.19.3 AASB 16 *Leases*

AASB 16 removes the lease classification test for lessees and requires all leases (including operating leases) to be brought onto the balance sheet for lessees. The definition of a lease is also amended and is now the new on/off balance sheet test for lessees. It is mandatory for the Group's 30 June 2020 financial statements. The Group is yet to fully determine the effect of the standard on the Group.

28.19.4 AASB 1058 *Income of Not-for-Profit Entities*

AASB 1058 replaces the majority of income recognition requirements relating to public sector not-for-profit entities previously reflected in AASB 1004 *Contributions*.

AASB 1058 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

This new standard is not expected to have a material impact to the Group's consolidated financial statements.

28.19.5 AASB 1059 *Service Concession Arrangements: Grantors*

AASB 1059 addresses the accounting for a service concession arrangement by a grantor that is a public sector entity by prescribing the accounting from a grantor's perspective. The entity is to be involved in the provision of providing public services on behalf of a government entity, and managing some of those services under its own discretion. It also requires that the government entity controls the asset used to deliver those services.

AASB 1059 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

Based on the work performed thus far, this new standard is not expected to have a material impact to the Group's consolidated financial standards, but will require additional disclosure.

28.20 Determination of fair values

A number of the Group's accounting policies and disclosures require the measurement 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.

28.20.1 Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

28.20.2 Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

28.20.3 Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect changes in interest rates.

28.20.4 Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. The fair value of all other receivables/payables is estimated as the present value of future cash flows, discounted at the market rate of interest at reporting date.

28.21 Comparatives

Where appropriate, comparative amounts have been re-presented and re-classified to ensure comparability with the current reporting year.

Directors' declaration

In the opinion of the Directors of the Water Corporation (the "Corporation"):

(a) the consolidated financial statements and notes are in accordance with the *Water Corporations Act 1995*, including:

   (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance, for the financial year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Co*rporations Regulations 2001*.

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

Signed in accordance with a resolution of the Directors:

Michael Hollett
Chairman

Sue Murphy
Chief Executive Officer

Perth, 22 August 2018

Auditor General's report

To the Parliament of Western Australia

WATER CORPORATION

Opinion
I have audited the financial report of Water Corporation and its controlled entities (the Group), which comprises the Consolidated Statement of Financial Position as at 30 June 2018, the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In my opinion, the financial report of the Group is in accordance with schedule 3 of the *Water Corporations Act 1995*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year then ended; and
(b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion
I conducted my audit in accordance with the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the Group in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibility of the Directors for the Financial Report
The directors of the Corporation are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and schedule 3 of the *Water Corporations Act 1995*. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Western Australian Government has made policy or funding decisions affecting the continued existence of the Group.

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the Group audit. I remain solely responsible for my audit opinion.

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

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the Group for the year ended 30 June 2018 included on the Corporation's website. The Corporation's management is responsible for the integrity of the Corporation's website. This audit does not provide assurance on the integrity of the Corporation's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial report. If users of the financial report are concerned with the inherent risks arising from publication on website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

CAROLINE SPENCER
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
22 August 2018