

2018 Annual Report



Our Vision

We deliver on the changing energy needs of Western Australians, powered by community trust and the passion of our people.

Our Values



Safety First

We respect and take care of each other, our community and the environment. We choose safety – if it's not safe we don't do it.



Customer Focus

We accept responsibility, do what we say and think about how our work affects others. Our solutions are relevant and make financial sense for our community.



Be Bold

We embrace change and have a go. We challenge the status quo to deliver better outcomes. We learn and adapt quickly – we're nimble.



Teamwork

We invite the diverse opinion of others and work together. We share ideas that advance our knowledge to develop energy solutions for our community.

Contents

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2017/2018 highlights	2
About Western Power	3
Chairman's message	4
CEO's report	6
New ways of servicing our customers	8
Safety	10
Our people	12
In the community	14
Performance against statement of corporate intent	16
Directors' report	17
Corporate governance disclosures	33
Financial statements	34

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If you would like to provide feedback on this report please email:
westernpower.communications@westernpower.com.au

2017/2018 highlights

2.4 TRIFR
per million
hrs worked
Improved by 1.0

\$351M
net profit
after tax
Improved by \$24M

14 out of 17
Service Standard
Benchmarks
Set by the Economic
Regulation Authority

\$451M
Operational
Costs (OPEX)
Improved by \$79M

99.93%
supply
availability

26,000+ poles
replaced or reinforced
300km wires replaced
Largest ever works program

61 less
accidental
public
contact
299 incidents

835,000
customer
service
centre calls

Corporate
reputation
score **6.5**

Employee
engagement
score **80%**

About Western Power

For more than 70 years we've connected Western Australians to a wide range of traditional and renewable energy resources.

We're proud to continue to safely deliver an essential service for our community, in the form of reliable energy to meet their changing energy needs.

Increasingly the grid is acting as an energy sharing platform for our customers to choose how they want their electricity supplied and delivered. We're not only excited about the opportunities that technology is bringing, but we're committed to linking technology and customers to help unlock more choice. We're being bold, thinking differently and preparing for our energy future.

Our people are passionate about building, maintaining and operating the electricity transmission and distribution networks on behalf of Western Australia's south west community. We're focussed on projects that move our grid to a modular future, offering new services and products, and ensuring the grid can continue to connect more renewable energy.

The grid connects our community of more than one million customers, over an area larger than the entire United Kingdom. Our powerlines span from Kalbarri in the north, south to Albany and out to Kalgoorlie in the east. Our South West Interconnected Network (SWIN), together with electricity generators, comprises the South West Interconnected System (SWIS) – the only state that's not connected to the National Energy Market.

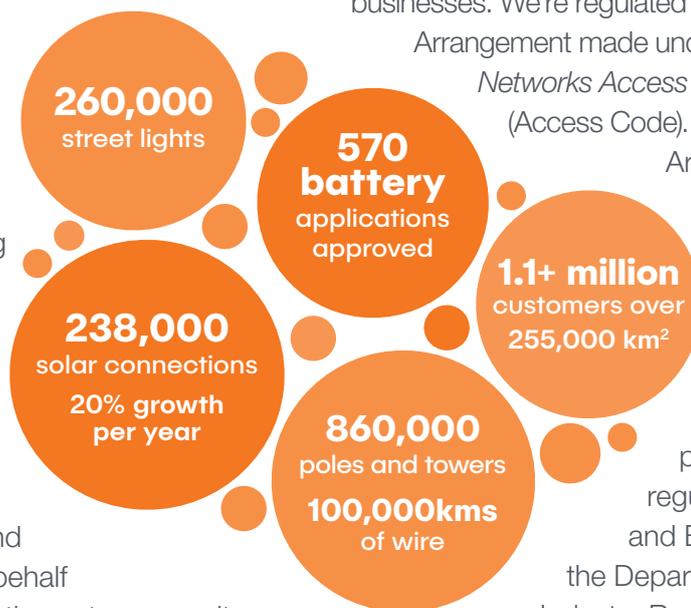
As a local business our performance is overseen by the Western Australian Economic Regulation Authority (ERA) who ensure a fair, competitive and efficient environment for consumers and businesses. We're regulated through an Access

Arrangement made under the *Electricity Networks Access Code 2004 (WA)* (Access Code). The Access

Arrangement sets service performance targets and how much we can charge to allow access to the network.

Our safety performance is regulated by the Building and Energy division of the Department of Mines, Industry Regulation and Safety (formerly EnergySafety). As a Western

Australian State Government-owned corporation, we're governed by an independent Board of non-executive directors reporting to the Minister for Energy who represents our owner.



Chairman's message

The Australian energy sector is in a period of change and with a heightened community awareness of how energy is generated, supplied and consumed.

While our network is not connected to the national grid, local discussions about energy generation, distribution and increasing customer choices are the same.

Ongoing assessments of the current and new energy options highlight the continued importance to the State of a reliable and efficient electricity network. The Western Power Business Strategy 2017-2022 reflects the changing community needs and is grounded in three strategic themes; maximise the value of today's network, enhance the use of the network and reshape our business.

As a State Government-owned organisation with significant asset investments, changes in how we do business can have a critical impact on the State. We are closely working with the Government, our regulators and members of the energy sector to unlock the value of the grid for the entire community.



One of the most important reforms we're seeking is the establishment of a constrained access model, which will allow us to connect renewable energy at scale. Rule changes would mean network upgrade costs are deferred for new low cost renewable projects, which will reduce the average cost of electricity.

In addition to the need for constrained access, we continue to advocate for legislative and regulatory reforms that offer customers more choice in how they receive and use electricity. Reforms that support a modular network design will save hundreds of millions of dollars on replacing poles and wires, improve regional reliability and reduce bushfire risk. Reforms should also allow the introduction of more innovation to improve cost control, along with development of services and products that meet the changing needs of Western Australians.

While unlocking future opportunities has been a large part of Western Power's year, the strength of the existing business' performance meant that for the second consecutive year, Western Power has returned a financial benefit to the State. This result highlights the efficiency of all employees across the organisation, who have achieved this outcome while improving safety performance.

One of the most pleasing aspects of our performance this year is our continued focus on working safely and on the safety of our community. The introduction of a five-year Safety Maturity Strategy shows an ongoing commitment to enhance safety leadership across our business.



“This result highlights
the efficiency of all
employees across
the organisation”

Our performance has supported the approach to the Access Agreement submission to the ERA for our fourth Access Agreement period (AA4). The submission has been a key undertaking across the organisation throughout the year. Our goal for current and future operations is to maintain safe and reliable services without materially increasing costs.

As a Board we have ourselves experienced a period of renewal and change, with the reappointment of Greg Martin, Peter Iancov and myself for further terms. We also welcomed new directors in Eva Skira and Denise Goldsworthy.

Ms Goldsworthy and Ms Skira replaced outgoing directors Sharon Warburton and the long serving Hon. George Cash, both of whom we thank for their commitment and active contributions in shaping Western Power.

In addition to achieving gender balance in the Board’s membership, there has also been increased female representation across the organisation’s executive and senior leadership.

Operationally, the year has provided some challenges to the organisation in meeting its Service Standard Benchmarks. While 14 benchmarks were attained, disappointingly three fell short of the target due to severe storm weather conditions during the year. It reminds us of the challenges that we face to maintain the network and safely restore power to customers, often amidst extraordinary and challenging conditions.

The Board acknowledged the findings of the State Government’s *Special Inquiry into Government Programs and Projects*, and we have commenced implementing the Inquiry’s recommendations.

We support the Government Trading Enterprise (GTE) reform process and to assist directly we have provided support to the Department of Treasury reform project team.

We also implemented government policy changes by developing a Sustainable Procurement Standard that incorporates the *Western Australian Jobs Act 2017*, Western Australian Industry Participation Strategy, along with Aboriginal Procurement Policy and Federal modern slavery requirements. Further, Western Power has continued its commitment to creating career opportunities for Western Australians through our intake of apprentices and trainees, and support of industry relevant scholarships.

The executive and management of Western Power, led by Chief Executive Officer Guy Chalkley, has continued to ensure that Western Power delivers industry leading services and reliability to the people of Western Australia.

On behalf of the Board, I would like to acknowledge and thank all employees for their excellent work. Their tireless commitment ensures Western Power is a valuable and viable asset for its owners, the people of Western Australia.

Colin Beckett
Chairman

CEO's report

In reflecting on the past 12 months, it's been an interesting and challenging time to set a new strategy in the electricity industry.

After relative stability for decades, the industry is going through a fundamental shift that's reshaping the traditional value chain for electricity.

Exactly what the grid of the future will look like continues to evolve and we're committed to adapting our business to meet the needs of the Western Australian community. Last year we refined our Business Strategy 2017-2022 and reinvigorated our vision and values, with input from our employees.

Our people are our most important asset, and we take our role as custodians of the grid very seriously. It's the combination of knowledge, skills and resilience of our people that will see us transform our grid and unlock its value for the next generation.

While we plan and organise our business for the future, we've not taken our eye off the present. Safety remains at the core of what we do; the safety of our people, community and environment.

This year we achieved a Total Recordable Injury Frequency Rate (TRIFR) of 2.4, improving our performance by 1.0 per million hours worked.



This is us living our value of Safety First – if it's not safe we don't do it. We should all feel proud as it is one of the lowest in our industry.

Safety isn't just physical, it extends to ensuring that our workplace is diverse and inclusive. In 2017, I became a member of 'CEOs for Gender Equity in WA' with the aim for our business to be reflective of the diverse community we serve. This year we were very proud to launch our inaugural Reconciliation Action Plan, which recognises the Noongar and Yamatji peoples on whose country the Western Power Network is located.

Serving our 1.1 million customers is only possible because of the hard work of our teams, who diligently plan, maintain and operate the network – and respond to emergency calls 24 hours a day, seven days a week.

This year saw a number of large scale severe weather events, which adversely impacted our overall Service Standard Benchmarks performance. Major storms in the Goldfields, Mid-West, Wheatbelt, Great Southern and South West caused widespread damage to the network, which led to extended outages for large numbers of our regional customers.

Outages are frustrating for our customers, but it's equally important to remember that there are real people who identify, repair and restore power – their commitment is a demonstration of our values of Customer Focus and Teamwork. Our people respond in what can only be described as trying and sometime dangerous conditions by carefully planning, co-ordinating and safely working to get power back on.

This year we've taken advantage of being in Western Australia and the benefits of having a dispersed population together with good sun, wind and waves. Our abundant natural resources allow us to continue to trial new technology with the potential to improve community power reliability and safety outcomes.

We've continued to explore microgrids, stand-alone power systems (SPS) and community battery systems as alternative solutions. These innovative energy solutions are a demonstration of our Be Bold value. By challenging the status quo to deliver better customer outcomes, our aim is to offer communities more choice on how they receive energy.

Our efforts were recognised nationally by the Deloitte *2017 Innovation in Electricity Networks Report*, which acknowledged us for implementing innovations that could benefit customers.

We plan to continue to listen to the changing needs of customers, to reshape our business using new energy technology and the skills of our people, for the benefit of all Western Australians.

To ensure no one is left behind, we need regulation and legislation to keep pace with technology. This year, with support from the State Government and the ERA, we're trialling new network approaches including the Kalbarri Renewable Microgrid and the SPS Demonstration Project.

A key component of our decision making is data, with data allowing us to measure and assess SPS as a possible alternative to replacing kilometres of poles and wires. The initial trial of six properties in the Great Southern provided us with the confidence to conduct the larger Demonstration Project across approximately 60 locations, at the edge of our grid.

The improved focus on more efficient and innovative approaches to serving our community is reflected in the Access Arrangement for the new fourth access period (AA4). Our improved financial performance during the previous access arrangement period enabled network costs to remain flat.

Our AA4 proposal seeks to maintain our safe and reliable service without materially increasing customer bills, by adopting new technology to deliver financially sensible solutions for our community. Our lower capital expenditure for 2017/18 represents prudent allocation of capital until the AA4 decision is finalised, which is expected by the end of 2018.

Our proposal includes a program of depot modernisation, which will see the replacement of outdated and inefficient depots - as they come to the end of lease or effective life. The program supports our ongoing focus on operational efficiency and providing our people with safe and modern workplaces. Construction of a new Vasse depot (which will amalgamate our Margaret River and Busselton depots) started in early 2018.

Throughout the coming year we will continue to explore technologies, support renewable inputs on the grid, and work with government to update rules to allow our customers to have more choice.

I'd like to acknowledge and thank the Board of Directors for their support and forward thinking in the delivery of our Business Strategy. I'd also like to thank the Government and Minister for Energy, Hon. Ben Wyatt for the opportunity to collaboratively transform the WA electricity sector.

I firmly believe that the Western Power grid will continue to play a fundamental role in how the majority of Western Australians receive their energy. I thank all our customers, stakeholders and employees for supporting Western Power. It is an exciting time to be in the energy business and we will continue to adapt to the evolving expectations of our community.

Guy Chalkley
Chief Executive Officer



"It's been an interesting and challenging time to set a new strategy"

New ways of servicing our customers

The rapid pace of changing technology is making it possible for us to evolve the way we serve our community, and we're looking at ways that technology can deliver our customers more choice.

In recognition of the growing importance of change, we appointed an Executive Manager of Change and Innovation in 2017.

Our specialist teams are rapidly evolving our use of data, to ensure we run our business as efficiently as possible and help predict future customer demands. One opportunity that we are exploring is advanced meters, which digitally measure and remotely send energy use data. This technology has the potential to deliver customers real-time data about their energy use so they can decide how and when they use electricity.

In looking at how technology is shaping our physical network of traditional poles and wires, we're evolving our grid to be more modular by using new alternative energy solutions.

That is why we're trialling microgrids, SPS, batteries and other solutions – as they can potentially avoid spending hundreds of millions of dollars replacing existing infrastructure.

Western Australia is home to good wind, waves and sun – with energy innovators seeking to test new solutions on our grid. By enabling new technology trials we continue to develop examples of customer benefits to maximise the efficiency of current infrastructure to bring down the infrastructure cost that forms part of every customers' bill.

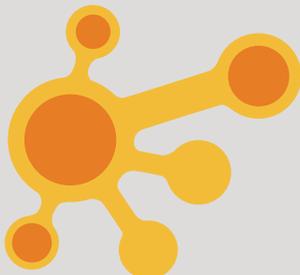
Kalbarri Microgrid

In February 2018, the Minister for Energy, Hon. Ben Wyatt announced the award of a \$6.8 million contract for a 100 per cent renewable energy-powered microgrid project for Kalbarri. We have engineered and designed the innovative solution which will be one of the most sophisticated microgrids in Australia, and meet community expectations and our operational needs.

The town of Kalbarri will be able to draw directly from renewable sources during an unplanned outage – including a local wind farm, residential solar and any future renewable generation. The project will be installed and commissioned before the end of 2019.

Integrated network current model

- All customers physically connected
- Interconnected lines
- Central generation



Modular network future model

- SPS and microgrids located on network boundaries
- Local generation and storage



“This technology has the potential to deliver customers real-time data”

Alternative energy solutions

Following the success of the Great Southern SPS pilot in 2016/17, we’ve started planning and engaging for a larger demonstration project for approximately 60 systems to be installed across regional areas. The project will look at how SPS can be used at scale, as a more cost effective alternative to replacing around 260 kilometres of overhead powerlines in the project area.

Work on the battery energy storage system (BESS) in Perenjori continued during the year. More than 1,100 parameters have been set and programmed to match local network and environmental demands. The project has not been without its challenges during the configuration and commissioning. We’ve taken learnings about using large-scale battery storage on the network, what’s needed to operate reliably in challenging terrain and we’re now in operation.



Executive Manager, Fiona Bishop (fourth from left) with Hackathon winners

Generator Interim Access (GIA)

We not only support residential customers, we also safely connect new load from generators to the grid. We’ve worked with the Australian Energy Market Operator (AEMO) and the Public Utilities Office on a solution to enable new connections, which would be infeasible to deliver before we introduce constrained access.

The GIA tool interacts with AEMO’s market systems to manage and automatically ‘constrain off’ generators when network capacity is limited. This is a new approach to how electricity generators interact with our grid. It is an important short term solution to meet community expectation of more renewable energy, while maintaining a safe and reliable energy supply.

Hackathon

Challenging some of the brightest minds from WA’s business, academia and technology communities, we sought possible solutions to: “How can Albany achieve energy self-sufficiency?”

All in the name of innovation, more than 10 teams locked themselves away for a 36 hour hackathon. The hackathon employed a new way of working to help unlock the potential of the grid, embrace renewable generation options and solve Albany’s unique challenge.

Safety

At Western Power, we all choose Safety First.

To ensure we protect the safety and wellbeing of our employees, contractors, customers and communities — we carefully manage a range of stringent systems and processes.

Throughout the 2017/18 financial year, the safety performance of our people has seen a TRIFR of 2.4 per million hours work, well below the target of 2.9. This is one of the best results for any network around Australia.

This year we introduced our five-year Safety Maturity Strategy, in addition to several key projects including the Golden Safety Rules, employee Health and Wellness Program and revised Work Instructions.



While we have industry leading statistics and have seen a substantial reduction in TRIFR over the past three years, the number of significant potential incidents has risen and three lost time injuries were recorded in the last year.

Given this trend, we're focussing on ongoing critical risk management and developing strategies to increase attention in these areas.

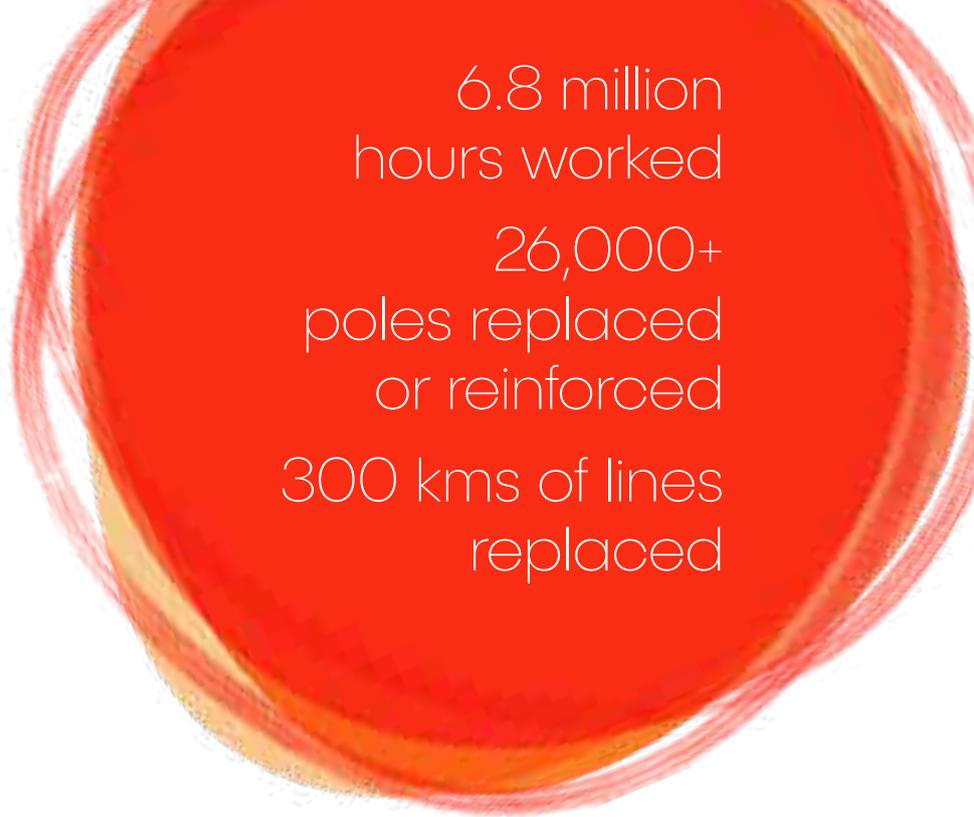
Driving continues to be our number one high-risk activity. To manage this risk we've introduced a telematics system across light fleet vehicles, with heavy fleet vehicles to follow in early 2019.

In 2017/18, we undertook over 14,000 safety and quality inspections of work performed by our internal and external workforce. We finished the year with a compliance rate of 98 per cent for safety and 95 per cent for quality.

The focus areas for the coming year will be our Golden Safety Rules, Incident Management and Contractor Verification Audits. A Contractor Framework review was introduced to include verification audits ensuring contractor compliance to our strict safety, health and environment requirements.

Our commitment to community safety extends beyond our immediate responsibilities to safely operating the network. In addition to supporting the Dial Before You Dig program, we're working with numerous bodies to reduce the risk of contact with our network. These organisations include the Tree Guild of WA, Master Builders of WA, Crane Industry Council of WA and Institute of Public Works Engineering Australia - to name just a few.

Damage from Kalgoorlie storms in 2017



6.8 million
hours worked

26,000+
poles replaced
or reinforced

300 kms of lines
replaced

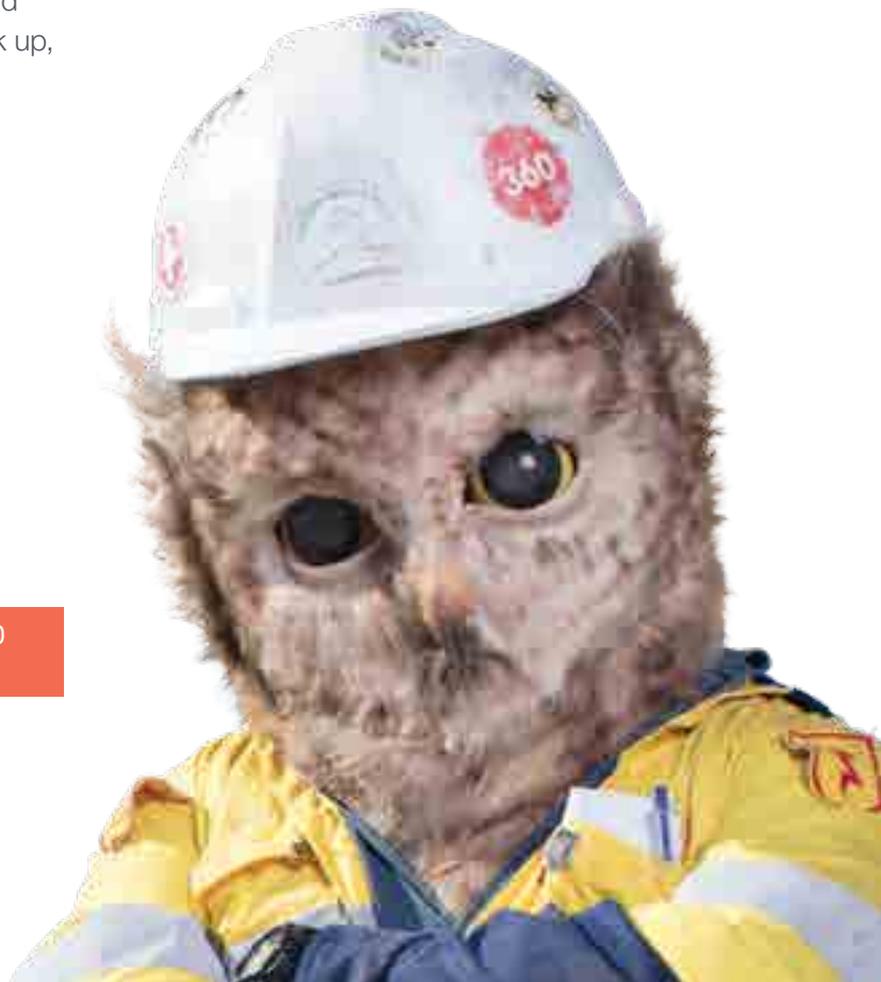
360 Aware

During 2017/18 there were a total of 309 accidental third party contacts with the network, an average of 26 a month. The result can be anything from minor damage, outages, injury or potential fatalities. Industry focussed advertising emphasised the importance for workers to be aware of their surroundings.

The campaign was supported by 360 Aware industry presentations to educate workers about the potential dangers of working around electricity. Our message to workers is to 'look up, look down, look all around'.

The free presentations are tailored to each business or project, factoring in specific jobs, locations and habits.

To maximise engagement, the sessions are presented at all hours of the day, including 4am pre-start meetings or night shift gatherings. The take-away for crews is always the same, 'Before anything risky, Look 360.'



AI the Owl featured in our industry safety '360 Aware' campaign

Our people

At the heart of Western Power are our people.

Our 2,700 strong workforce plays a critical role in creating a safe workplace while delivering a safe and reliable service to our customers.

Our employees, both in demographic and location, reflect the diversity of the communities that we serve.

From field employees who maintain our grid, to network operators, engineers, data scientists and support functions — we're looking for ways we can be more efficient in delivering power to our community.

Our key organisational metric for our people is their engagement. Over the course of the year, this improved, survey on survey to be 80 per cent.

Employees believe that management is responding confidently to current challenges and the business has an exciting future. Employees continue to say that Western Power has constructive team environments and is a great place to work.



The Hon. Ben Wyatt, Minister for Energy and Aboriginal Affairs with apprentice Tim Yarran

We continue our commitment to creating career opportunities for Western Australians through our intake of apprentices and trainees, and ongoing support of industry scholarships. Two intakes of apprentices saw 19 Western Australians from country and metropolitan areas start their careers with us as line workers, electricians, cable jointers and mechanical apprentices.

We showed excellent progress in our diversity and inclusion goals. In gender diversity, our Board is now gender balanced and females in senior leadership increased to 38 per cent this year. In the coming year, we will increase our focus to females at all levels of our organisation, including our field employees.



Western Power Walbirniny Nyungar Ben named by Nyungar elder Len Collard
Artist: Jade (J.D.) Penangke

Team Giving

We have a dedicated volunteer committee who organise employee fundraising events across our business – from hotdogs and hamburgers, to cash donations and in-kind volunteering. Our people choose to support a number of ‘close to home’ causes and charities, which contribute thousands of dollars to worthwhile causes.

Recipients of our employee generosity this year included the Lucy Saw Centre, World’s Greatest Shave, Breast Cancer Care WA, Telethon and Youth Focus.



Executive Manager, Peter Kerr shaves his head for Leukaemia Foundation's World's Greatest Shave

Reconciliation Action Plan

We are pleased to have released our inaugural Reconciliation Action Plan (RAP), under the guidance of our RAP Committee. This Reflect RAP demonstrates the commitment that we have to help start our reconciliation journey and build strong foundations for relationships, respect and opportunities with Aboriginal and Torres Strait Islander customers and communities.

The Reflect RAP allows time for us to raise awareness and support for future RAP objectives, and assists to develop a solid governance model and business case for ongoing commitments.

Red25

This year we've signed up again to the Red25 challenge, a friendly competition with other organisations to work towards ensuring that 25 per cent of Australia's blood donations are secured. Our target number of donations for the 2018 calendar year is 330, and we are well on our way to reaching that target.



Employees from our Jandakot Depot donating blood for Red25

In the community

We've actively engaged with communities on planned maintenance work, major projects, electrical safety and new technologies.

From shopping centre displays to regional field days, schools and special events - we've met with a large number of our customers and stakeholders sharing information and listening to their views.

A range of engagements supported the introduction of new technology to the network with community meetings in Kalbarri on the renewable-powered microgrid project which is under construction. We also provided details on extensive planned works in regions at community events like the Wagin Woolorama, and discussed our response to storms in the Albany region and upcoming pole replacement programs.

Shockproof

The successful in-school Shockproof program was boosted with the launch of a website for students and teachers to access electrical safety resources and activities throughout the year. Aligned with WA curriculum outcomes, the new interactive website takes students on a journey, learning about our network and how electricity works.



Transformer artwork by Andrew Frazer in Albany

Creating artistic FORMs

The Great Southern region gained some added artistic installations during the year, courtesy of our partnership with not-for-profit cultural organisation FORM.

The partnership has delivered improved visual amenity, support for Western Australian and international artists, and the creation of distinct community murals. Our assets have never looked so good, with walls and transformer boxes in Katanning and Albany adorned with unique artworks.

The collaborative art projects help to substantially lower visual vandalism in communities, which subsequently reduces the cost of graffiti removal, saving hundreds of thousands of dollars each year. The partnership also supported the transformation of grain silos in Albany.

Apprentices installing powerpoles at the Constable Care Safety School



Constable Care Safety School

We continued our relationship with the Constable Care Safety School in Maylands, contributing to the new dedicated area for children aged 4-11 years to learn what they should do if they see a fallen powerline. The site features a realistic line down scenario with scaled down versions of poles, wires and a mini pillar that through the use of augmented reality resemble a damaged powerline scenario. Not only is this approach extremely engaging for students, it gives us up to date information about students' understanding, awareness and the effectiveness of our public safety messages.



Students from Wattle Grove Primary School present their grid of the future

Circuit Breakers

Launched in 2017, Circuit Breakers aims to inspire the next generation of thinkers, makers and creators. This primary school Science, Technology, Engineering and Mathematics (STEM) program saw our engineers visit 20 schools to engage with students and foster an understanding of our grid and new technologies. More than 550 students successfully completed the program, with participating schools receiving two 3D printers to integrate into their ongoing STEM approach.

Circuit Breakers culminated in the Western Power Science Fair with schools presenting their displays of the network of the future. Feedback from schools was extremely positive and we are pleased to continue the program in 2018.

TAFE Scholarships

During 2017/18 we provided a kick-start to the energy careers of 76 Western Australians through TAFE scholarships. The boost for people looking to build a career in Western Australia's energy sector was provided to first year apprentices and pre-apprentices in Albany, Bunbury, Geraldton and Kalgoorlie. Electrotechnology apprenticeship and pre-apprenticeship courses continued our support of the State Government's commitment to provide more jobs in regional WA.

Performance against statement of corporate intent

Our Statement of Corporate Intent (SCI) 2017/18 documents key performance measures, targets and results – as agreed with the Minister for Energy, with the concurrence of the Treasurer.

The SCI is prepared in accordance with Part 5 of the *Electricity Corporations Act 2005 (WA)* and can be found on our website: westernpower.com.au/about/reports-publications

MEASURE	ACTUAL	TARGET
Total Recordable Injury Frequency Rate (TRIFR)	2.4	≤2.9
Public impact incidents	0.3	≤0.4
Reportable environmental incidents	0.3	≤0.4
Service standards met	14	17
Customer supply availability	99.93%	≥99.92%
Net promoter score	-8	≥-7
Capital expenditure	\$685M	≤\$932M
Dividend to Government	\$419M	≥\$390
Employee engagement	80%	≥75%

Notes

- TRIFR: number of injuries per million hours worked over 12 months.
- Public impact incidents: number of incidents which resulted in a third party injury or third party property damage over \$20,000.
- Reportable environmental incidents: average number of environmental incidents reported to regulators.
- Service standards met: performance against reliability benchmarks as set by our regulator.
- Customer supply availability: percentage of time for the year that the average customer has supply.
- Net promoter score: as measured by our customer survey.
- Employee engagement: as measured by an employee engagement survey.

Directors' report

The directors of Electricity Networks Corporation trading as Western Power (Western Power) present this report in accordance with Schedule 4, clause 6 of the *Electricity Corporations Act 2005 (WA)* (Act).

Western Power's directors

The below persons were directors of Western Power as at the date of this report:

Name	Duration
Colin Beckett (<i>Board Chair</i>)	From 29/04/2015
Greg Martin (<i>Deputy Board Chair</i>)	From 29/04/2015
Denise Goldsworthy	From 01/01/2018
Peter Iancov	From 29/04/2015
Vicki Krause	From 01/10/2015
Eva Skira	From 22/11/2017

Directors who resigned/retired during the financial year

- Hon. George Cash A.M. retired as director on 6 December 2017 (appointed as a director in July 2010)
- Sharon Warburton retired as director on 31 December 2017 (appointed as a director in October 2015)

Directors' report (continued)

Information on directors

Legend	
NED = Non-executive director	FRC = Finance and Risk Committee
PPC = People and Performance Committee	

Director	Profile	Committee responsibilities
Colin Beckett Board Chair Independent, NED MA (Cantab) MICE	Appointed with effect from 29/04/2015, current term expires on 28/04/2021. Experience and expertise: Mr Beckett was a senior executive at Chevron Australia Pty Ltd, and was responsible for the development of the Gorgon LNG and domestic gas project on Barrow Island, Western Australia. Prior to this, Mr Beckett was employed at Mobil in Australia and at BP in Australia and the United Kingdom (UK). Mr Beckett is a past Chair and director of the Australian Petroleum Production and Exploration Association (APPEA), a past Chair of the CSIRO Energy and Transportation Sector Advisory Board, a past director of Scitech WA, a past member of the Western Australian Technology and Industry Advisory Council, and a past member of the UWA Oceans Institute. Mr Beckett has a Master of Arts in Engineering from Cambridge University. He is a member of the Institution of Civil Engineers (UK), a fellow of the Australian Institute of Engineers and a graduate member of the Australian Institute of Company Directors. Current directorships: <ul style="list-style-type: none"> • Chancellor of Curtin University (since January 2013) • Non-executive director of Beach Energy Ltd (since April 2015). 	PPC member
Greg Martin Deputy Board Chair Independent, NED B.Ec LLB FAIM MAICD	Appointed with effect from 29/04/2015, current term expires on 28/04/2021. Experience and expertise: Mr Martin has over 35 years' experience in the energy, utility and infrastructure sectors, having spent 25 years with the Australian Gas Light Company Limited (AGL), including five years as Chief Executive Officer and Managing Director. After leaving AGL, Mr Martin was the Chief Executive Officer of the infrastructure division of Challenger Financial Services Group and, subsequently, Managing Director of Murchison Metals Limited. Current directorships: <ul style="list-style-type: none"> • Chair of: <ul style="list-style-type: none"> - Iluka Resources Limited (since January 2013) - Sydney Desalination Plant Pty Ltd (since December 2012) • Non-executive director of Spark Infrastructure RE Limited (since January 2017). 	FRC Chair
Denise Goldsworthy Independent, NED B.Met (Hons1) FAIM FTSE GAICD	Appointed with effect from 01/01/2018, current term expires on 31/12/2019. Experience and expertise: Ms Goldsworthy is an experienced non-executive director and advisor on research, technology and innovation. Ms Goldsworthy has senior executive experience in manufacturing (steel), infrastructure, mining (iron ore, industrial minerals) and technology/innovation sectors. Ms Goldsworthy is the Managing Director and Owner of Alternate Futures - established specifically to work at the interface between Australia's research organisations, tech-start-ups and industry. Ms Goldsworthy is a judge for the Prime Minister's national science awards and was named the 2010 Telstra Australian Business Woman of the Year. Ms Goldsworthy is a member of Chief Executive Women (CEW) and was inducted into the Western Australian Women's Hall of Fame in 2011. Current directorships: <ul style="list-style-type: none"> • Chair of: <ul style="list-style-type: none"> - ChemCentre - Minerals Research Institute of Western Australia (MRIWA) - the Trustees of the Navy Clearance Diver Trust (NCDT) • Non-executive director of Export Finance and Insurance Corporation (EFIC) • Member of: <ul style="list-style-type: none"> - Curtin University Commercialisation Advisory Board - Edith Cowan University Governing Council. 	PPC member

Directors' report (continued)

Director	Profile	Committee responsibilities
<p>Peter Iancov Independent, NED</p> <p>B.E (Elec) FIEAust FAIM FAIB SMIEE MAICD</p>	<p>Appointed with effect from 29/04/2015, current term expires on 31/10/2020.</p> <p>Experience and expertise: Mr Iancov is a professional engineer with more than 24 years' expertise gained in critical energy infrastructure including electricity transmission and distribution, mining, commercial construction, contracting and defence sectors, where he worked as a general manager, chief executive officer, director and advisor.</p> <p>In his previous executive roles, Mr Iancov has been instrumental in securing and delivering major projects including electrical and gas generation, transmission and distribution networks, non-process infrastructure and commercial assets. He has a strong background in the successful delivery of multidisciplinary programs, commercial and contractual risk, governance, systems development and financial management.</p> <p>Current directorships:</p> <ul style="list-style-type: none"> Chair of Scouts Australia - Western Australian Branch (since August 2015) Non-executive director of: <ul style="list-style-type: none"> Australian Naval Infrastructure Pty Ltd (since June 2017) KML Ltd (since December 2016) Robe River Services Pty Ltd (since July 2016) Valmec Limited (since October 2015) Southern Ports Authority (since October 2014) KM Aboriginal Corporation (since June 2014) Chronos Advisory Pty Ltd (since November 2013). 	FRC member
<p>Vicki Krause Independent, NED</p> <p>B.Juris LLB GAICD</p>	<p>Appointed with effect from 01/10/2015, current term expires on 31/12/2019.</p> <p>Experience and expertise: An experienced commercial lawyer, Ms Krause had a 25 year career as a senior corporate executive with the Wesfarmers Group, including seven years as its Chief Legal Counsel.</p> <p>Ms Krause supported successful outcomes in numerous significant acquisitions (including listed companies, trade sales and a privatisation) and divestments. As Chief Legal Counsel and a member of the Wesfarmers Executive Committee, Ms Krause led a large legal team and was responsible for the provision of legal advice and strategic planning in relation to the management of legal risk in the Wesfarmers Group with key outputs including the evaluation and completion of major business projects and major supply arrangements.</p> <p>Ms Krause has completed the Program for Management Development (PMD) course at Harvard Business School.</p> <p>Current directorships:</p> <ul style="list-style-type: none"> Non-executive director of: <ul style="list-style-type: none"> Peet Funds Management Limited (since September 2014) Peet Limited (since April 2014, also member of its Remuneration and Nomination Committees). 	PPC Chair
<p>Eva Skira Independent, NED</p> <p>BA (Hons) MBA SF Fin FAICD FAID FCIS FGIA</p>	<p>Appointed with effect from 22/11/2017, current term expires on 31/10/2020.</p> <p>Experience and expertise: Ms Skira has more than 20 years' experience in roles across banking, financial markets and stockbroking, along with strategic management consulting.</p> <p>Ms Skira's extensive previous board experience with listed and government boards includes roles as Chair of the Water Corporation, Westscheme (the largest superannuation fund in Western Australia, overseeing the merger with AustralianSuper) and Forest Products Commission.</p> <p>Current directorships:</p> <ul style="list-style-type: none"> Chair of the Trustees of St John of God Health Care Group Non-executive director of: <ul style="list-style-type: none"> RCR Tomlinson Ltd Macmahon Holdings Limited. 	FRC member

Directors' report (continued)

Directors' attendance at meetings

Details of the number of meetings of the Board and of each Board committee that directors were eligible to attend during the reporting year ended 30 June 2018, and the number of meetings attended, are below:

Attendee	Board		People and Performance Committee		Finance and Risk Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
C Beckett	8*	8	4	4	-	3 [^]
G Martin	8*	7	-	2 [^]	4	4
D Goldsworthy	4*	4	1	2 [#]	-	2 [^]
P Iancov	8*	8	-	4 [^]	4	4
V Krause	8*	8	4	4	-	4 [^]
E Skira	4*	4	-	1 [^]	1	2 [#]
G Cash	4*	3	2	2	-	2 [^]
S Warburton	4*	4	-	2 [^]	2	2

* Six additional meetings were conducted via circulation. Ms Goldsworthy, Ms Skira, Hon. Cash and Ms Warburton were directors for only part of the year, during which three of the meetings via circulation were conducted.

[^] The director was not a member of the relevant committee, but attended as an invitee

[#] The director was a member of the relevant committee for one of the meetings and attended the other as an invitee

Company Secretary

Mr Sam Barbaro was appointed Western Power's General Counsel and Executive Manager Governance and Assurance in December 2014. His executive role includes management of the secretariat, legal, corporate compliance, enterprise risk, internal audit and corporate governance areas of the business. Mr Barbaro's position also includes the role of Company Secretary of Western Power.

Mr Barbaro has been practicing law since the 1990s and has extensive experience in the energy and electricity sectors. After obtaining a law degree from the University of Western Australia, Mr Barbaro spent a decade practicing law in top tier firms, with specific expertise in corporate law, energy and resources, administrative law, compliance and regulatory, and governance. He then spent eight years in senior in-house corporate counsel positions, which included governance and company secretary functions.

Mr Barbaro is a non-executive director of the Fiona Wood Foundation, a member of the Association of Corporate Counsel Australia, an associate member of the Australian Institute of Management and a fellow of Leadership Western Australia.

Directors' report (continued)

Western Power's principal activities

The principal continuing functions of Western Power are to:

- manage, plan, develop, expand, enhance, improve and reinforce the electricity transmission and distribution networks known as the South West Interconnected Network (SWIN)
- provide and improve electricity transmission and distribution services
- provide access to services of network infrastructure facilities as required and authorised by Part 8 of the *Electricity Industry Act 2004 (WA)* (which relates to network access)
- provide ancillary services.

In performing its functions, Western Power must act in accordance with prudent commercial principles and endeavour to make a profit consistent with maximising its long-term value.

There have been no significant changes in the nature of Western Power's principal activities during the reporting year ended 30 June 2018.

Dividends

Details of the dividends Western Power paid to the Western Australian State Government during the reporting years presented, are below:

	2017/18		2016/17	
Dividends paid	\$M	Payment date	\$M	Payment date
Final dividend	245	19/12/2017	83	21/12/2016
Special dividend	2	19/12/2017	19	21/12/2016
Interim dividend	172	27/06/2018	-	-
Total dividends paid	419		102	

Since the end of the 30 June 2018 reporting year the directors have resolved to recommend, subject to the approval of the Minister for Energy (Minister), a dividend of \$269 million for the year ended 30 June 2018, being:

- a final dividend of \$264 million in line with Western Power's current dividend policy (75 per cent of net profit after income tax equivalent); plus
- a special dividend of \$5 million for the sale of land surplus to requirements.

For more details refer to note 23 'dividends' in the financial statements within this financial report.

Review of operations

To avoid duplication of content, please refer to the front section within this annual report, including the 'Chief Executive Officer's report', for information on the operations and financial position of Western Power, and its business strategies.

Western Power's operating results

For the reporting year ended 30 June 2018:

- Western Power achieved a net profit after income tax equivalent of \$351 million (30 June 2017: \$327 million)
- Western Power's net cash flows before borrowings were \$24 million surplus (30 June 2017: \$124 million surplus). The cash surplus was used to repay \$1 million in borrowings (30 June 2017: cash surplus was used to repay borrowings of \$144 million).

Directors' report (continued)

Matters subsequent to the end of the reporting year

There are no matters or circumstances that have arisen since 30 June 2018 and the date of this report that are likely, in the opinion of the directors, to affect significantly the operations of Western Power, the results of those operations, or the state of affairs of Western Power in subsequent reporting years.

Likely developments and expected results of operations

Likely developments in Western Power's future operations and their expected results are set out below.

Access arrangement 4

On 2 October 2017, Western Power submitted its fourth access arrangement (AA4) to the Economic Regulation Authority (ERA) for approval. This was an extension to the legislatively mandated submission date of December 2016 in accordance with an amendment to the *Electricity Network Access Code 2004 (WA)* (Access Code). The extension was required after enabling legislation did not pass in State Parliament in time for Western Power to transition from the current Western Australian regulatory regime to the National Electricity Rules, a reform initiative under the previous State Government's Electricity Market Review.

Western Power's AA4 submission covers the period 1 July 2017 to 30 June 2022 and has been developed in consultation with customers and other key stakeholders. It presents Western Power's five year financial business plan (2017/18 - 2021/22) and supporting strategies, including the services to be delivered, service levels to be achieved, conditions for network access and proposed customer charges. Underpinning the submission is a balance between the delivery of a safe, reliable and secure network, whilst pursuing new technologies to deliver electricity to customers in innovative and more efficient ways. In support of this, new solutions and tariff structures are proposed, as well as reinforcements to the fastest growing

parts of the network and enhanced connections for large commercial customers and generators. Efficiencies already embedded through Western Power's Business Transformation Program mean the proposal includes an investment program to be delivered at a lower cost.

Using the extensions allowable under the Access Code and after public consultation, the ERA released its draft AA4 decision on 2 May 2018. The draft decision contained reductions (less than 10 per cent) to Western Power's targeted revenue and forecast capital expenditure, as well as a number of policy and contract amendments. Western Power provided a response to the ERA on 14 June 2018 accepting the majority of the required amendments with some modifications. Further information and clarification was also provided regarding Western Power's new advanced metering infrastructure, which is consistent with good electricity practice and projected to enhance network safety by identifying and addressing electrical hazards, and asset management via improved data analytics including outage patterns and customer usage behaviour. A number of public submissions to the ERA strongly supported the advanced metering infrastructure program.

Utilising the remaining extensions allowable under the Access Code, commencement of Western Power's AA4 could potentially be deferred to 1 March 2019. In the meantime, the third access arrangement remains in effect including the 2016/17 network access price list approved by the ERA on 20 May 2016.

In conjunction with the AA4 submission, Western Power continues to work with the State Government and ERA to achieve a regulatory framework that reflects modern expectations of consumers, supports greater customer choice and enables energy providers to fully participate in the market. This is particularly in relation to constrained network access and the deployment of non-traditional grid solutions (such as microgrids and stand-alone power systems) as alternatives to rebuilding traditional overhead networks. To achieve this,

Directors' report (continued)

broad reforms are necessary considering the current framework was developed before these non-traditional grid solutions and distributed energy resources (such as solar photovoltaic (PV) systems and battery storage) existed.

Future revenue

Western Power's future regulated revenue base remains uncertain due to the reset of the regulatory period. Clarity is expected once the ERA publishes its further final decision on Western Power's AA4 revised proposal - expected by November 2018.

Irrespective of this, Western Power's revenue base is expected to decline as the natural monopoly of the centralised network erodes due to continued:

- changes in consumption patterns as customers respond to cost influences, environmental factors and product efficiencies
- deployment of evolving technologies such as solar PV systems, energy storage, stand-alone power systems and electric vehicles.

This decline in revenue will present challenges to Western Power, including:

- upwards pressure on network tariffs to offset this fall - this could encourage some customers to leave the grid to generate their own power, meaning remaining customers would bear a greater share of the cost of maintaining the network under the current regulatory framework
- lower dividends to the owner (being the Western Australian State Government) due to net profits also falling - this could result in increased reliance on borrowings where current dividend returns (and asset investment) are required, meaning potentially higher State debt.

Without appropriate mitigating strategies, a decline in revenue could have a significant impact on Western Power's value and sustainability.

New technologies and customer demands

The operating model of the traditional electricity network service provider including Western Power's, continues to evolve due to:

- technological advances in energy generation
- options for customers to take more control of their energy supply and use
- transformation of energy utilities into interconnected, dynamic and responsive "digital enterprises".

This has the potential to not only fundamentally change the energy value chain, but may also drive increasingly complex consumption and production patterns that will challenge the historical approach of delivering electricity one-way across a centralised network.

Integrating these new technologies into the traditional electricity network service represents an opportunity to benefit Western Power's customers as a whole with better service, reliability and efficiency. This is a key focus of Western Power's current five year Corporate Strategy (2017/18 - 2021/22), being the interaction of new technologies and customer demands with the network while maintaining a high level of service for the community. In support of this, Western Power continues to work with customers to explore potential benefits and future deployment of innovative network technologies. This includes a battery-based energy storage system in Perenjori and stand-alone power systems at edge-of-grid locations.

Over the next five years, Western Power expects to move beyond pilots to deployment, including in partnership with other providers, maximising opportunities to fund programs in substitution of network investments. Evidencing this is the Minister's February 2018 announcement of a joint venture between Energy Made Clean and Lend Lease to construct and connect the 100 per cent renewable energy-powered microgrid Western Power has engineered and designed at Kalbarri since a feasibility study commenced in 2016. Full operation of this five megawatt microgrid is expected by mid-2019.

Directors' report (continued)

Ageing network assets

The Western Power Network was largely built prior to 1965 with a high proportion of assets in the second half of their expected life. In general, older networks pose a greater risk, with the frequency and severity of failures expected to increase as the assets age.

On average Western Power's network assets will continue to age. The annual 'state of the infrastructure' report published on the Western Power website details the current state and level of performance of the network, and highlights the associated risks.

To mitigate these risks, Western Power's approach to network asset management has matured over the past four years with the Network Risk Management Tool (NRMT) seen as best practice within the industry. This risk-based tool not only provides analysis of the consequences of risk at the asset level, but can also be used to support long-term asset investment decisions in the light of potential future cost reductions of new network technologies. The latter is particularly relevant as Western Power continues to explore how the future network might evolve and the opportunities for non-network solutions.

Public safety

Western Power is required to maintain and replace network assets in a way that acceptably delivers to customers a safe, reliable and efficient connection to electricity. All overhead electrical networks in Australia including the SWIN, have an inherent level of risk in operation. This risk arises from environmental and weather related factors, which are outside of the operator's control, as well as from risks that are identified as part of the operation's strategies.

Western Power's asset management system aligns to *Australian Standard (AS) 5577 Electricity network safety management systems* to ensure continued management of the network in a reasonable and appropriate manner considering the risk posed.

Environmental performance

Western Power's activities are subject to State and Commonwealth environmental legislation, with some locations and projects covered by specific approval conditions and environmental licences and permits issued by the State.

Western Power holds a purpose permit until 2021 to allow self-assessment for the clearing of native vegetation under certain circumstances. During 2017/18, 20 internal clearing permits were issued, with none classified as having a significant impact on biodiversity values. While data is still being finalised for reporting to the Department of Water and Environmental Regulation (DWER), indicative numbers suggest that a total of 1.21 hectares of native vegetation was cleared during the year under 14 separate internal clearing permits.

The purpose permit conditions require an annual internal audit, which was completed during the year with no high-risk non-compliances identified. An external audit was also completed during 2017/18 (required on a biennial basis), which found partial-compliance against six conditions, substantial compliance for 10 conditions and compliance with 38 conditions. These reports have been provided to the DWER.

Western Power holds a licence for the bulk storage of oil at Kewdale Depot. No significant incidents occurred at this site and no complaints were received during the 2017/18 financial year.

Following a recent change to legislation, Western Power is no longer required to hold licences for the storage of transformer oil and as such now only holds licences for six sites under the *Dangerous Goods Safety Act 2004 (WA)*, all for the storage of sulfur hexafluoride which is an insulating gas used in electrical equipment. This is a reduction from 33 licences held in the previous year.

Directors' report (continued)

Western Power worked with the Department of Mines, Industry Regulation and Safety to undertake licence inspections for three of our dangerous goods sites this year. Two remedial notices were issued (in relation to labelling, manifests and a query regarding buffers) each of which have been closed out.

Due to the low level humming noise associated with power transformers, Western Power assets operate under a number of approvals issued under the *Environmental Protection (Noise) Regulations 1997* (WA). During 2017/18, Western Power submitted an application to the Minister for Environment to extend the timeframes required for six sites operating under the *Environmental Protection (Western Power Transmission Substation Noise Emissions) Approval 2005 (amended 2012)* and to defer mitigation at one site where no cost-effective mitigation options exist. The application remains under consideration at the time of this report.

Western Power is required to report significant environmental incidents to its regulators as soon as practicable. During the 2017/18 financial year Western Power reported six environmental incidents related to oil leaks from assets. Half of these incidents were outside of Western Power's control and caused by third parties. Remediation and rehabilitation of each of the sites is undertaken in liaison with environmental regulators.

In agreement with the DWER, Western Power prepares a six-monthly report of any spills or leaks in Underground Water Pollution Control Areas (UWPCAs), which are in place to protect Perth's drinking water. The two submissions from the 2017/18 financial year described a total of 22 oil leaks within UWPCAs, the majority of which were very small.

Western Power reported six suspected or known contaminated sites to the DWER during the year, although two of these were classified by the Department as 'decontaminated'. Western Power also conducted one site investigation, two remediation projects and two groundwater monitoring events associated with our contaminated sites legacy.

Western Power has not been notified by the Western Australian Planning Commission or any other relevant planning bodies of any non-compliance related to section 60(6) of the Act.

Indemnity and insurance of directors and officers

Western Power has entered into a deed of indemnity with each non-executive director. The respective deeds provide that:

- Western Power indemnifies the non-executive director against all liabilities and costs relating to proceedings that are anticipated, threatened or commenced against the director in relation to matters arising in the course of the director acting in connection with the affairs of Western Power, or otherwise concerning the director holding office as a director of Western Power
- the indemnity does not extend to claims against the director by Western Power or a subsidiary, or to any liability or claim arising out of conduct involving a criminal act, dishonesty or lack of good faith.

Western Power holds a directors' and officers' liability insurance policy. Subject to the applicable terms and conditions, the policy will pay to or on behalf of an insured person, or reimburse Western Power for any loss paid to an insured person, in relation to a claim or claims made against them jointly or severally during the period of insurance by reason of any wrongful act (as defined by the policy) in their capacity as a director or officer of Western Power.

Directors' report (continued)

At the date of this report no claims have been made against the directors and officers component of the policy.

Western Power has not entered into a deed of indemnity with, and does not hold an insurance policy for, the external auditor.

Other required legislative disclosures

Observance of Western Power's Code of Conduct

Western Power's Code of Conduct has been established to provide guidance to all personnel on acting responsibly and ethically when completing tasks on behalf of Western Power. The Code of Conduct applies to directors, executive officers and employees of Western Power, and to all contractors performing activities on behalf of Western Power. All personnel have access to Western Power's Code of Conduct.

Section 33 of the Act requires the Board to report to the Minister on observance of the Code of Conduct by all Western Power personnel. This report is submitted at the same time as Western Power's annual report.

Western Power has also established processes and procedures to ensure observance of the Code of Conduct. In support of this, all Western Power personnel receive annual code of conduct and conflicts of interest training.

Record-keeping

Western Power maintains and supports quality record keeping practices in its day-to-day business activities. Records are managed in accordance with the *State Records Act 2000 (WA)* and Western Power's approved record-keeping plan. Regular reviews of Western Power's record-keeping systems and practices are conducted to ensure they remain efficient, effective and reflect business requirements.

Personnel, including contractors, are required to complete online record-keeping training prior to accessing the enterprise document management system. Training programs are reviewed on an ongoing basis to ensure they reflect evolving business processes.

Directors' report (continued)

Electoral Act 1907 (WA)

In accordance with section 175ZE of the *Electoral Act 1907 (WA)*, the below expenditure (exclusive of goods and services tax) was incurred by Western Power during the reporting year ended 30 June 2018. The expenditure includes costs associated with public safety and education campaigns, planned outage notifications, self-read meter mail outs and billing.

Category	Amount (\$)	Recipient	Nature of work
Advertising agencies	678,032	303 Mullenlowe Australia	'Value of the grid' campaign
	40,727	Adcorp Australia	Media bookings
	242,509	Brand Agency	Public safety campaigns
	14,300	Crocmedia	Media producing and bookings
	53,640	Equilibrium Interactive	Digital, creative, strategic, website and mobile work
	757,892	Optimum Media Decisions	Public safety campaign
	69,963	Walter J Thompson Australia	Media bookings
	29,403	Workhouse Advertising	Customer communications
Sub-total	1,886,466		
Market research organisations	326,055	Faster Horses	Public safety campaigns
	580,757	Forethought	Defection modelling
Sub-total	906,812		
Polling organisation	231	Western Australian Electoral Commission	Supply extension refunds
Sub-total	231		
Direct mail organisations	106,034	Bing Technologies	Planned outage notifications
	966,838	Fuji Xerox BusinessForce	Customer self-reader cards, notifications and invoicing
	16,530	Quickmail	Community engagement notifications
Sub-total	1,089,402		
Total expenditure	3,882,911		

Rounding of amounts

Amounts presented in the directors' report have been rounded off to the nearest million dollars (\$M), unless otherwise stated.

Directors' report – remuneration

Principles used to determine the nature and amount of remuneration

Western Power's remuneration policy has been formulated to:

- provide a market competitive remuneration framework designed to attract, retain and motivate a skilled workforce with the capabilities and skills required to effectively achieve Western Power's corporate objectives
- adopt a commercial approach to the management of remuneration, including the capacity to pay, provide a clear governance framework and address associated risks
- ensure employees are appropriately compensated according to the value of the work performed, the services they provide to the company and their personal performance.

Non-executive directors

The Minister approves the remuneration of all non-executive directors. The remuneration framework for non-executive directors incorporates both a fixed remuneration and superannuation component. Non-executive directors do not participate in any variable reward or 'at-risk' plan.

Chief Executive Officer and executives

The remuneration of the Chief Executive Officer is determined in accordance with the Act and the *Salaries and Allowances Act 1975 (WA)*.

The remuneration of the Chief Executive Officer's direct reports is set by the Chief Executive Officer in consultation with the Board.

The Chief Executive Officer and executives remuneration framework is based upon a total remuneration approach that includes base salary, superannuation and benefits to reflect the level of work, accountability and personal competency in the role. The Chief Executive Officer and executives do not participate in any variable reward or 'at-risk' plan.

Remuneration for executives is reviewed annually to ensure the level is market competitive while providing flexibility to recognise high performing and high potential employees. Total remuneration is reviewed on the basis of government policy, competitive market movement and personal performance. There are no guaranteed remuneration increases included in any executive contracts.

Directors' report – remuneration (continued)

Details of remuneration

Key management personnel: non-executive directors

In accordance with Schedule 4, clause 13(c) of the Act, details of the nature and amount of each element of remuneration for the directors during the reporting years presented, are below:

Total remuneration band \$'000	Number of directors*		Salary and fees [^]		Post-employment superannuation benefits [^]		Total [^]	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
	#	#	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
\$21 - \$30	2	-	19	-	10	-	29	-
\$31 - \$40	2	-	31	-	3	-	34	-
\$51 - \$60	2	3	55	55	5	5	60	60
\$71 - \$80	-	1	-	45	-	26	-	71
\$81 - \$90	1	1	75	75	7	7	82	82
\$131 - \$140	1	1	120	120	11	11	131	131

* During the reporting year the composition of the Board changed

[^] Where there is more than one director in a remuneration band the average remuneration is shown

Key management personnel: executive officers

Western Power provides the below additional disclosure, being total remuneration to executive officers (where key management personnel (KMP)) during the reporting years presented.

	2017/18 \$'000	2016/17 \$'000
Total remuneration	3,132	3,476

Total remuneration (\$'000)	Number of KMP: executive officers	
	2017/18	2016/17
\$ 51 - \$100	1	-
\$101 - \$150	-	1
\$151 - \$200	3	-
\$351 - \$400	3	2
\$401 - \$450	1	1
\$451 - \$500	1	1
\$501 - \$550	1	2
\$601 - \$650	-	1
Total number of KMP: executive officers	10*	8[^]

* Includes the Executive Manager Customer and Corporate Services - until his resignation (July 2017), and the acting Executive Manager Customer and Corporate Services - until the position was no longer required (January 2018)

[^] Includes the Executive Manager Transformation - until the position was no longer required (May 2017)

Directors' report – remuneration (continued)

Five highest paid officers

In accordance with Schedule 4, clause 13(c) of the Act, details of the nature and amount of each element of remuneration for the five highest remunerated officers (being employees of Western Power) during the reporting year ended 30 June 2018, are below:

Name	Years of service #	Salary and fees \$'000	Non-monetary benefits \$'000	Post-employment superannuation benefits \$'000	Other long-term benefits \$'000	Benefits on termination* \$'000	Total \$'000
A Ziatas	36	111	-	89	-	403	603
R Fry	43	88	-	110	-	356	554
S Furness	11	234	20	20	-	274	548
G Chalkley	active	504	-	25	12	-	541
M Nankerville	37	54	5	13	-	419	491
Total		991	25	257	12	1,452	2,737

* Benefits on termination include accrued annual and long service leave entitlements, and are subject to taxation deductions required by law

Employment agreements

Non-executive directors are subject to the duties and obligations prescribed by the Act. Under the Act, the Minister determines their remuneration.

Directors' appointments (as at 30 June 2018)

Position	Term of agreement
C Beckett Board Chair and non-executive director	Appointed by the Governor of Western Australia (Governor) for a term commencing on 29/04/2015 and reappointed for a further term expiring on 28/04/2021
G Martin Deputy Board Chair and non-executive director	Appointed by the Governor for a term commencing on 29/04/2015 and reappointed for a further term expiring on 28/04/2021
D Goldsworthy Non-executive director	Appointed by the Governor for a term commencing on 01/01/2018 and expiring on 31/12/2019
P Iancov Non-executive director	Appointed by the Governor for a term commencing on 29/04/2015 and reappointed for a further term expiring on 31/10/2020
V Krause Non-executive director	Appointed by the Governor for a term commencing on 01/10/2015 and reappointed for a further term expiring on 31/12/2019
E Skira Non-executive director	Appointed by the Governor for a term commencing on 22/11/2017 and expiring on 31/10/2020

Directors' report – remuneration (continued)

The remuneration and other terms of employment for the Chief Executive Officer and all other executive officers are formalised in ongoing employment agreements.

Executive officers' employment agreements (as at 30 June 2018#)

Position	Term of agreement
G Chalkley Chief Executive Officer	Ongoing employment agreement commencing from 01/07/2016
S Barbaro Executive Manager Governance and Assurance	Ongoing employment agreement commencing from 01/12/2014
F Bishop Executive Manager Change and Innovation	Ongoing employment agreement commencing from 01/05/2017
T Brooker Executive Manager Business and Customer Service	Ongoing employment agreement commencing from 22/01/2018
M Crevola Chief Financial Officer	Ongoing employment agreement commencing from 01/10/2016
D Fyfe Executive Manager Asset Operations	Ongoing employment agreement commencing from 05/08/2013
P Kerr Executive Manager Growth	Ongoing employment agreement commencing from 22/01/2018
S Mc Goldrick Executive Manager Asset Management	Ongoing employment agreement commencing from 01/06/2015

For details of the executive officers as at the date of this report refer to the corporate directory within this financial report

Directors' report – confirmation

This directors' report is authorised for issue in accordance with a resolution of the directors on 7 August 2018.

Signed on: 9 August 2018

A handwritten signature in black ink, appearing to read 'C Beckett', with a horizontal line underneath.

C Beckett
Board Chair

A handwritten signature in black ink, appearing to read 'G Martin', with a horizontal line underneath.

G Martin
Deputy Board Chair

Corporate governance disclosures

Corporate governance at Western Power

The Board of Western Power is committed to a high level of corporate governance and fostering a culture that values safety, ethical behaviour, integrity, diversity and respect.

Western Power's corporate governance disclosures are published on the Western Power website at:

westernpower.com.au/about/governance/

Financial statements

Streamlined financial statements

Western Power's financial statements have been presented in a style which endeavours to make them user-friendly, tailored and less complex for the reader. In support of this, the note disclosures have been grouped to logically align with Western Power's financial performance being: 'basis of preparation'; 'profit for the reporting years presented'; 'operational assets and liabilities'; 'debt and equity'; 'other information'. Each section sets out the accounting policies applied in preparing the relevant notes. The purpose of this format is to provide readers with a clearer understanding of Western Power's financial performance.

Statement of comprehensive income	35
Statement of financial position	36
Statement of changes in equity	37
Statement of cash flows	38
Notes to the financial statements	39
Section 1: Basis of preparation	39
1. Reporting entity	39
2. Basis of accounting	39
3. Critical accounting estimates and judgements	44
Section 2: Profit for the reporting years presented	45
4. Income	45
5. Expenses	46
6. Net finance costs	47
7. Income tax equivalent expense	48
Section 3: Operational assets and liabilities	50
8. Financial assets and financial liabilities	50
9. Cash and cash equivalents	51
10. Trade and other receivables	52
11. Inventories	53
12. Property, plant and equipment, and intangible assets	54
13. Trade and other payables	57
14. Provisions	58
15. Deferred income	61
16. Deferred tax equivalent liabilities	62
Section 4: Debt and equity	64
17. Financial risk management	64
18. Borrowings	70
19. Derivative financial instruments	70
20. Recognised fair value measurements	73
21. Contributed equity	74
22. Reserve and retained earnings	74
23. Dividends	75
Section 5: Other information	76
24. Related party transactions	76
25. Remuneration of auditors	78
26. Contingencies	78
27. Commitments	79
28. Events occurring after the reporting date	79
Directors' declaration	80
Corporate directory	81
Independent auditor's report	82

Financial statements (continued)

Statement of comprehensive income for the year ended 30 June 2018

	Note	2017/18 \$M	2016/17 \$M
Profit or loss			
Income			
Revenue from rendering of services	4	1,719	1,770
Other income	4	5	6
Total income		1,724	1,776
Expenses			
Materials and services		(187)	(210)
Employee related expenses	5	(207)	(252)
Depreciation and amortisation expense	5	(346)	(337)
Other expenses	5	(191)	(182)
Total expenses		(931)	(981)
Net finance costs	6	(291)	(327)
Profit before income tax equivalent expense		502	468
Income tax equivalent expense	7	(151)	(141)
Profit for the reporting year, net of tax equivalent		351	327
Other comprehensive income			
<i>Items that may be re-classified to profit or loss:</i>	22		
Fair value of cash flow hedges		20	42
Tax equivalent on fair value of cash flow hedges		(6)	(13)
Total other comprehensive income for the reporting year, net of tax equivalent		14	29
Total comprehensive income for the reporting year, net of tax equivalent		365	356

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

Financial statements (continued)

Statement of financial position as at 30 June 2018

	Note	2017/18 \$M	2016/17 \$M
Assets			
Current assets			
Cash and cash equivalents	9	34	11
Trade and other receivables	10	252	239
Inventories	11	86	92
Total current assets		372	342
Non-current assets			
Derivative financial instruments	19	3	4
Property, plant and equipment	12	10,365	10,070
Intangible assets	12	142	123
Total non-current assets		10,510	10,197
Total assets		10,882	10,539
Liabilities			
Current liabilities			
Trade and other payables	13	149	138
Borrowings	18	7	17
Derivative financial instruments	19	-	2
Current tax equivalent liabilities		64	8
Provisions	14	74	74
Deferred income	15	161	89
Total current liabilities		455	328
Non-current liabilities			
Trade and other payables	13	3	5
Borrowings	18	7,273	7,270
Derivative financial instruments	19	23	22
Deferred tax equivalent liabilities	16	839	763
Provisions	14	20	20
Deferred income	15	25	2
Total non-current liabilities		8,183	8,082
Total liabilities		8,638	8,410
Net assets		2,244	2,129
Equity			
Contributed equity	21	1,411	1,242
Hedging reserve	22	(42)	(56)
Retained earnings	22	875	943
Total equity		2,244	2,129

The above statement of financial position should be read in conjunction with the accompanying notes

Financial statements (continued)

Statement of changes in equity for the year ended 30 June 2018

	Note	Contributed equity \$M	Hedging reserve \$M	Retained earnings \$M	Total equity \$M
At 1 July 2017		1,242	(56)	943	2,129
Comprehensive income	22				
Profit, net of tax equivalent		-	-	351	351
Other comprehensive income, net of tax equivalent		-	14	-	14
Other comprehensive income, net of tax equivalent		-	14	351	365
Transactions with owners in their capacity as owners					
Contributions of equity	21	169	-	-	169
Dividends provided for or paid	23	-	-	(419)	(419)
Total transactions with owners		169	-	(419)	(250)
At 30 June 2018		1,411	(42)	875	2,244
At 1 July 2016		1,190	(85)	718	1,823
Comprehensive income	22				
Profit, net of tax equivalent		-	-	327	327
Other comprehensive income, net of tax equivalent		-	29	-	29
Other comprehensive income, net of tax equivalent		-	29	327	356
Transactions with owners in their capacity as owners					
Contributions of equity	21	52	-	-	52
Dividends provided for or paid	23	-	-	(102)	(102)
Total transactions with owners		52	-	(102)	(50)
At 30 June 2017		1,242	(56)	943	2,129

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

Financial statements (continued)

Statement of cash flows for the year ended 30 June 2018

	Note	2017/18 \$M	2016/17 \$M
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		1,708	1,751
Capital contributions from developers and customers		179	109
Payments to suppliers and employees (inclusive of goods and services tax)		(548)	(704)
Contributions to tariff equalisation fund		(167)	(150)
Other income		2	4
Income tax equivalents paid		(25)	-
Net cash inflows from operating activities	9	1,149	1,010
Cash flows from investing activities			
Payments for property, plant and equipment, and intangible assets		(607)	(560)
Proceeds on disposal of property, plant and equipment		10	29
Net cash outflows from investing activities		(597)	(531)
Cash flows from financing activities			
Proceeds from borrowings		2,341	2,090
Repayments of borrowings		(2,342)	(2,234)
Net finance costs paid		(278)	(305)
Proceeds from contributed equity		169	52
Distributions to equity holder		(419)	(102)
Net cash outflows from financing activities		(529)	(499)
Net increase/(decrease) in cash and cash equivalents		23	(20)
Cash and cash equivalents at beginning of the reporting year		11	31
Cash and cash equivalents at end of the reporting year	9	34	11

Refer to note 9(d) for details of the non-cash investing and financing activities.

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

Financial statements (continued)

Notes to the financial statements

In this section

This section presents the significant accounting policies adopted by Western Power in the preparation of these financial statements. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. All principal policies have been consistently applied to the reporting years presented, unless otherwise stated.

Section 1: Basis of preparation

1. Reporting entity

Electricity Networks Corporation trading as Western Power (Western Power) is incorporated under the *Electricity Corporations Act 2005 (WA)* (Act) and domiciled in Australia. The registered office and principal place of business is 363 Wellington Street, Perth, Western Australia 6000.

Western Power is primarily involved in the building, maintenance and operation of the electricity network throughout the majority of southern Western Australia. (For a more detailed description of Western Power's operations and principal activities refer to the 'review of operations' and 'principal activities' sections of the directors' report within this financial report).

These financial statements cover Western Power as an individual entity and were authorised for issue in accordance with a resolution of the directors on 7 August 2018. The directors have the power to amend and reissue the financial report.

2. Basis of accounting

These financial statements are general purpose financial statements that have been prepared in accordance with Australian accounting standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) (including Australian interpretations) and Schedule 4 of the Act. On operation of the Act, Schedule 4 was aligned and cross referenced to the relevant sections of the *Corporations Act 2001 (Cth)*.

Western Power has been classified as a not-for-profit entity for the purpose of applying accounting standards, and accordingly applies the not-for-profit elections available in the Australian accounting standards (where applicable).

New and amended accounting standards adopted

Western Power has applied the below amendment for the first time in the reporting year commencing 1 July 2017:

- AASB 2016-4 Amendments to Australian accounting standards - recoverable amount of non-cash-generating specialised assets of not-for-profit entities

This has resulted in changes to note disclosures only, being note 12(c) 'Impairment of non-financial assets' (property, plant and equipment, and intangible assets).

Financial statements (continued)

Section 1: Basis of preparation (continued)

2. Basis of accounting (continued)

New accounting standards and interpretations not yet adopted

The below accounting standards and amendments effective after the 30 June 2018 reporting year end have been identified as those which may have a material impact on Western Power in the reporting year of initial application.

Standard	<i>AASB 9 Financial instruments (AASB 9)</i>
Nature of change:	<ul style="list-style-type: none"> Replaces components of <i>AASB 139 Financial instruments: recognition and measurement</i> (AASB 139) Addresses the classification, measurement and derecognition of financial assets and financial liabilities Introduces new rules for hedge accounting and a new impairment model for financial assets
Effective date to Western Power:	<ul style="list-style-type: none"> The mandatory application date for Western Power is 1 July 2018 - being the 2018/19 reporting year Western Power expects to apply <i>AASB 9</i> retrospectively with any material cumulative impact on adoption recognised as an opening balance adjustment to retained earnings (at 1 July 2018). 2017/18 comparatives will not be restated.
Expected impact to Western Power:	<p>Western Power has reviewed its financial assets and financial liabilities and expects the following impact on adoption of <i>AASB 9</i>:</p> <ul style="list-style-type: none"> Accounting for financial assets: there is expected to be no material impact - this is because: <ol style="list-style-type: none"> Western Power's financial assets measured at amortised cost and fair value under <i>AASB 139</i>, are expected to continue to be measured at amortised cost and fair value under <i>AASB 9</i> (albeit with a change in the AASB classification from 'loans and receivables' to 'financial assets at amortised cost') Western Power does not classify financial assets that on adoption of <i>AASB 9</i> are removed, i.e. 'available-for-sale' or 'held to maturity'. Accounting for financial liabilities: there is expected to be no impact - this is because: <ol style="list-style-type: none"> Western Power's financial liabilities classified and measured at amortised cost and fair value under <i>AASB 139</i>, are expected to continue to be classified and measured at amortised cost and fair value under <i>AASB 9</i> Western Power does not classify financial liabilities that on adoption of <i>AASB 9</i> are likely to require re-classification or re-measurement, e.g. derivatives that are not cash flow hedges. Hedge accounting: there is expected to be no impact - this is because Western Power's existing hedging relationships assessed to qualify for hedge accounting under <i>AASB 139</i> are expected to continue to qualify for hedge accounting under the simpler <i>AASB 9</i> rules (as continuing hedges with no rebalancing impact to profit or loss) Impairment of financial assets (allowance and expense): there is expected to be an immaterial impact - this is for application of the new <i>AASB 9</i> 'lifetime expected credit loss' impairment model, rather than the <i>AASB 139</i> 'incurred loss' model. Under the simplified <i>AASB 9</i> model approach (being Western Power's trade receivables have no financing component) the following will be recognised: <ol style="list-style-type: none"> a loss allowance for all trade receivables - rather than just receivables where a credit event and/or default has occurred as currently under <i>AASB 139</i>; and a forward-looking estimate for current and forecast economic conditions - rather than just past events as currently under <i>AASB 139</i>. Disclosures: these are expected to be more extensive, e.g. transitional impacts (where material); credit risk management practices; basis of inputs, assumptions and estimation techniques for measuring 'lifetime expected credit losses'; risk management strategy and the impact on financial statements and hedge accounting.

Financial statements (continued)

Section 1: Basis of preparation (continued)

2. Basis of accounting (continued)

New accounting standards and interpretations not yet adopted (continued)

Standard	<i>AASB 15 Revenue from contracts with customers and AASB 1058 Income of not-for-profit entities</i>
Nature of change:	<p>AASB 15 Revenue from contracts with customers (AASB 15)</p> <ul style="list-style-type: none"> • Replaces a number of different accounting standards and interpretations including <i>AASB 118 Revenue</i> which covers revenue arising from the sale of goods and the rendering of services, <i>AASB 111 Construction contracts</i> which covers revenue arising from construction contracts and <i>AASB Interpretation 18 Transfers of assets from customers</i> which covers capital contributions • Addresses the recognition, measurement, presentation and disclosure of revenue • Introduces a new pattern of revenue and profit recognition by: <ol style="list-style-type: none"> a) establishing the principle revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, i.e. so the notion of control replaces the current notion of risks and rewards b) providing more substantial application guidance and examples, including a comprehensive five-step recognition and measurement model. <p>AASB 1058 Income of not-for-profit entities (AASB 1058)</p> <ul style="list-style-type: none"> • Largely replaces <i>AASB 1004 Contributions</i> - limiting its scope to parliamentary appropriations to Government departments, administrative arrangements and contributions to/by owners • Addresses the recognition, measurement and disclosure of donation transactions and volunteer services
Effective date to Western Power:	<ul style="list-style-type: none"> • The mandatory application date for Western Power is 1 July 2019 - being the 2019/20 reporting year. Western Power does not expect to early adopt this standard. • Western Power expects to adopt <i>AASB 15</i> and <i>AASB 1058</i> using the modified retrospective option with any material cumulative impact on adoption recognised as an opening balance adjustment to retained earnings (at 1 July 2019). 2018/19 comparatives will not be restated.
Expected impact to Western Power:	<p>Western Power has completed a preliminary impact assessment of <i>AASB 15</i> and <i>AASB 1058</i> and expects no material impact on adoption. This is supported as follows:</p> <p>AASB 15 Revenue from contracts with customers (AASB 15)</p> <p>The adoption of <i>AASB 15</i> is assumed to apply to Western Power's regulated network tariff services and unregulated sales of materials (being approximately 85 per cent of total income). The impact on adoption is not expected to be material - this is because:</p> <ul style="list-style-type: none"> • Western Power's right to consideration from the customer continues to directly correspond to when the promised goods or services are provided, i.e. when the network is accessed and used, and the materials are sold • the consideration Western Power receives in exchange for promised goods or services continues to be significantly fixed at observable stand-alone selling prices (i.e. regulated tariffs and published materials price lists), and it remains highly probable any variable consideration (i.e. unread network tariff services at the reporting date) will not be reversed. <p>AASB 1058 Income of not-for-profit entities (AASB 1058)</p> <p>The adoption of <i>AASB 1058</i> is assumed to apply to Western Power's capital contributions* (being approximately ten per cent of total income) and equity contributions. The impact on adoption is not expected to be material - this is because:</p> <ul style="list-style-type: none"> • Western Power's capital and equity contributions continue to be recognised at a point in time, i.e. when the contribution is received or the customer is connected to the network • the consideration Western Power receives for capital and equity contributions continues to be measured in accordance with existing accounting standards, i.e. at the received and fair value amounts. <p>* <i>AASB 1058 is assumed to apply to Western Power's capital contributions because:</i></p> <ol style="list-style-type: none"> a) <i>the consideration for network assets funded by capital contributions is significantly less than the network assets' fair values, i.e. these assets are provided at no cost to Western Power</i> b) <i>network assets are funded by capital contributions principally to enable Western Power to further business objectives, e.g. to connect customers to the network and/or improve network supply</i> c) <i>the network assets funded by capital contributions remain owned and operationally controlled by Western Power, i.e. control of these assets is not transferred to those who provided the capital contributions.</i> <p><i>This assumption however, is subject to on-going international and professional accounting deliberations. Final advice is expected no later than December 2018 - being the first reporting date for mandatory adoption of AASB 15 by for-profit entities.</i></p> <p>Disclosures are expected to more extensive on adoption of <i>AASB 15</i> and <i>AASB 1058</i>.</p> <p>Western Power will continue to assess the potential impact of <i>AASB 15</i> and <i>AASB 1058</i> on its financial statements, including the impact for updated adoption advice provided by international and large professional accounting bodies.</p>

Financial statements (continued)

Section 1: Basis of preparation (continued)

2. Basis of accounting (continued)

New accounting standards and interpretations not yet adopted (continued)

Standard	<i>AASB 16 Leases (AASB 16)</i>
Nature of change:	<ul style="list-style-type: none"> • Replaces <i>AASB 117 Leases (AASB 117)</i> • Significantly reforms lessee accounting requirements, while making only minor changes to the lessor requirements • Introduces a single lessee accounting model (i.e. removing the distinction between operating and finance leases), which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value
Effective date to Western Power:	<ul style="list-style-type: none"> • The mandatory application date for Western Power is 1 July 2019 - being the 2019/20 reporting year. Western Power does not expect to early adopt this standard. • Western Power expects to adopt <i>AASB 16</i> using the modified retrospective option with any material cumulative impact on adoption recognised as an opening balance adjustment to retained earnings (at 1 July 2019). 2018/19 comparatives will not be restated.
Expected impact to Western Power:	<p>Western Power has completed a preliminary impact assessment of <i>AASB 16</i> - identifying the new standard will primarily affect the accounting of Western Power's current operating leases.</p> <p>As at 30 June 2018, Western Power disclosed non-cancellable operating lease commitments of \$20 million - refer to note 27(a). It is expected this amount will be recognised in Western Power's statement of financial position per below and measured on the present value basis (discounted):</p> <ul style="list-style-type: none"> • Lease assets: reflecting the right of use to the leased assets • Lease liabilities: being the obligation to pay for the right of use to the leased assets. <p>In recognition of this, Western Power expects an acceleration in the following lease related expenses in the statement of comprehensive income - replacing the current straight line recognition of operating lease costs under <i>AASB 117</i> (2017/18: \$9 million - refer to note 5(c)):</p> <ul style="list-style-type: none"> • Depreciation expense: recognising the charges to use the leased assets (expected to be on a straight line basis consistent with current estimated useful lives) • Finance costs: recognising the interest paid on the lease liabilities (expected to be on a reducing balance basis). <p>Western Power will continue to assess what other adjustments, if any, are necessary on adoption of <i>AASB 16</i>, for example due to the identification of additional right of use assets (including those under peppercorn leases), changes in the definition of lease terms, and the different treatment of variable lease payments and of extension and/or termination options. It is therefore not yet possible to further quantify the impact of the above.</p> <p>Disclosures are expected to more extensive on adoption of <i>AASB 16</i>.</p>

Financial statements (continued)

Section 1: Basis of preparation (continued)

2. Basis of accounting (continued)

Accrual accounting and historical cost convention

These financial statements are prepared on the accrual accounting basis except for cash flow information prepared on the cash accounting basis, and in accordance with the historical cost convention except for:

- derivative financial instruments measured at fair value
- certain employee benefit liabilities measured at present value, less the fair value of any defined benefit plan assets.

Comparatives

Comparative amounts are for the previous reporting year from 1 July 2016 to 30 June 2017. Where appropriate, these amounts have been re-presented and re-classified to ensure comparability with the 2017/18 reporting year. This includes rounding off to the nearest million dollars (\$M) rather than the nearest thousand dollars (\$'000) unless otherwise stated, as presented in Western Power's 2016/17 financial statements.

Going concern

These financial statements are prepared on the going concern basis. Western Power has reasonable grounds to believe it is able to pay its debts as and when they become due and payable, considering the unused portion of the available facility agreement (refer to note 17(d)(i)) and the forecasted net profits and positive operating cash flows in 2018/19.

Working capital

As at 30 June 2018, Western Power reported a working capital deficit of \$83 million (30 June 2017: \$14 million surplus). Current liabilities include deferred income relating to developer and customer contributions to the value of \$161 million (30 June 2017: \$89 million) which usually do not require an outflow of cash resources. When these amounts are excluded, working capital shows current assets exceeding current liabilities by \$78 million (30 June 2017: \$103 million).

Foreign currency translation

Presentation and functional currency:

These financial statements are presented in Australian dollars, which is also the functional currency of Western Power. All financial information presented in Australian dollars has been rounded off to the nearest million (\$M), unless otherwise stated.

Transactions and balances:

Transactions in currencies other than the functional currency of Western Power are translated into Australian dollars using the exchange rates at the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

All foreign currency translation differences are recognised on a net basis in 'other expenses' in profit or loss, except:

- when deferred in equity for translation differences of qualifying cash flow hedges, to the extent the hedge is effective
- when the translation differences deferred to equity for qualifying cash flow hedges are transferred to the carrying value of non-financial assets.

Financial statements (continued)

Section 1: Basis of preparation (continued)

2. Basis of accounting (continued)

Goods and services tax (GST)

Income, expenses and assets are recognised net of the amount of associated GST, except when the GST incurred is not recoverable from the taxation authority. In this case, the GST is recognised as part of the cost acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included in other receivables or payables in the statement of financial position.

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

3. Critical accounting estimates and judgements

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

Estimates, judgements and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on Western Power and that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the reporting year in which the estimate is revised and any future reporting years affected.

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

Critical accounting estimates and judgements	Note
Unbilled network tariff revenue	4(c) and 10(c)
Impairment of non-financial assets	12(f)
Present value of employee benefit liabilities	14(c)
Fair values of derivative financial instruments	20(b)

Financial statements (continued)

Notes to the financial statements (continued)

In this section

This section presents details of Western Power's profit results and performance by reference to the services rendered and operating expenses incurred.

Section 2: Profit for the reporting years presented

4. Income

(a) Accounting policy

Revenues are recognised to the extent it is probable that future economic benefits will flow to Western Power and the revenue can be measured reliably. It is measured at the fair value of the consideration received or receivable, being the invoiced amount including interest on overdue amounts, net of the amount of goods and services tax. Revenue also includes an estimate for the value of unbilled network tariff services.

The below specific recognition criteria must also be met before revenue is recognised:

Network services revenue

Western Power receives network services revenue from the transmission and distribution of electricity, and provision of other related services including sales of materials. Network services revenue is recognised when the service is provided. As at each reporting date, network services revenue and trade receivables include amounts attributable to 'unbilled network tariff revenue'. Unbilled network tariff revenue is an estimate of electricity transported to customers that has not been invoiced at the reporting date.

Western Power is subject to an access arrangement, which determines the revenues receivable for its network services through a revenue cap. No liabilities are recognised when revenues received or receivable exceed the maximum amount permitted by the revenue cap and adjustments will be made to future prices to reflect this over-recovery. Similarly, no assets are recognised when the access arrangement permits adjustments to be made to future prices in respect of an under-recovery of the revenue cap.

Developer and customer contributions

Western Power receives developer and customer contributions toward the extension or augmentation of electricity infrastructure to facilitate network connection. Contributions can be in the form of either cash contributions or gifted network assets. Cash contributions received are initially deferred and subsequently recognised as revenue when the developers or customers are connected to the network in accordance with the terms of the contributions. Gifted network assets are recognised as revenue at the point the assets are energised and are measured at their fair value. The network assets resulting from contributions received or gifted are recognised as property, plant and equipment and depreciated over their estimated useful life.

Other income

Western Power receives other income from the provision of services incidental to the core activities of the business. Other income is recognised when the service is provided.

Financial statements (continued)

Section 2: Profit for the reporting years presented (continued)

4. Income (continued)

(b) Amounts recognised in profit or loss

(i) Revenue from rendering of services

	Note	2017/18 \$M	2016/17 \$M
Network services revenue:			
Transmission tariff services	4(c)	286	294
Distribution tariff services	4(c)	1,210	1,218
Other services		77	74
		1,573	1,586
Developer and customer contributions			
		146	184
Total revenue from rendering of services		1,719	1,770

(ii) Other income

	2017/18 \$M	2016/17 \$M
Insurance recoveries	3	2
Rent	1	1
Net gain on disposal of property, plant and equipment	-	3
Other	1	-
	5	6

(c) Critical accounting estimates and judgements: unbilled network tariff revenue

For the year ended 30 June 2018, transmission and distribution network tariff revenue included \$153 million for unbilled services (30 June 2017: \$142 million). This is consistent with the revenue recognition methodology adopted in previous reporting years and reflects the billing profile of Western Power customers. The unbilled network tariff revenue is calculated using projected revenue assumptions based on historical and budget data for unread, and as such unbilled meters as at the end of the reporting date.

5. Expenses

(a) Employee related expenses

	2017/18 \$M	2016/17 \$M
Wages, salaries and other employee benefits	(167)	(184)
Termination benefits	(8)	(35)
Superannuation	(32)	(33)
Total employee related expenses	(207)	(252)

Refer to note 24(b) for details of total compensation to Western Power's key management personnel.

Financial statements (continued)

Section 2: Profit for the reporting years presented (continued)

5. Expenses (continued)

(b) Depreciation and amortisation expense

	Note	2017/18 \$M	2016/17 \$M
Depreciation expense:	12(e)		
Buildings		(5)	(5)
Plant and equipment		(323)	(310)
Capitalised depreciation		12	7
		(316)	(308)
Amortisation expense:	12(e)		
Computer software		(28)	(28)
Intellectual property		(2)	(1)
		(30)	(29)
Total depreciation and amortisation expense		(346)	(337)

Refer to notes 12(a) and 12(b) respectively for details of the depreciation and amortisation methods and estimated useful lives applied.

(c) Other expenses

(i) Accounting policy: operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed to profit or loss in the reporting years in which they are incurred, being representative of the pattern of benefits derived from the leased assets.

(ii) Amounts recognised in profit or loss

	Note	2017/18 \$M	2016/17 \$M
Tariff equalisation contribution		(167)	(150)
Insurance		(11)	(13)
Operating lease costs		(9)	(18)
Net loss on disposal of property, plant and equipment		(3)	-
Impairment of trade receivables	17(c)(i)	(1)	(1)
		(191)	(182)

Refer to note 25 for details on the remuneration of auditors.

6. Net finance costs

(a) Accounting policy

Finance costs directly attributable to the acquisition, construction or production of qualifying assets (being assets that necessarily take a substantial period of time to be ready for their intended use) are capitalised to form part of the cost of that asset. All other finance costs are expensed in the reporting years in which they are incurred. 'Net finance costs paid' in the statement of cash flows is prior to the effect of capitalisation.

Financial statements (continued)

Section 2: Profit for the reporting years presented (continued)

6. Net finance costs (continued)

(b) Amounts recognised in profit or loss

	2017/18 \$M	2016/17 \$M
Finance income:		
Interest	-	-
Finance costs:		
Domestic currency loans not at fair value through profit or loss	(262)	(304)
Fair value loss on cash flow hedges	(19)	(18)
Interest rate swaps	(10)	(3)
Unwinding of discount on contributory extension scheme	(1)	(1)
Amortisation of premium on restructured borrowings	-	(2)
Capitalised finance costs	1	1
	(291)	(327)
Net finance costs	(291)	(327)

Refer to note 12(e)(i) for the weighted average interest rate used to capitalise finance costs.

7. Income tax equivalent expense

(a) Accounting policy

National taxation equivalent regime

Western Power operates under the National Taxation Equivalent Regime (NTER). While income tax equivalent payments under the NTER are remitted to the Western Australian State Government, Western Power's tax equivalent is subject to Australian Taxation Office (ATO) administration. The calculation of the liability in respect of these taxes is governed by the Income Tax Administration Acts and the NTER guidelines as agreed by the State Government.

Current tax equivalent

The income tax equivalent expense for a reporting year comprises current and deferred tax equivalents. It is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax too is recognised in other comprehensive income or directly in equity, respectively.

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

Deferred tax equivalent

Deferred tax equivalent is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax equivalent is measured at the tax rates that are expected to be applied when the asset is realised or the liability is settled, based on the laws that have been enacted or substantially enacted as at the reporting date.

A deferred tax equivalent asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax equivalent assets are reviewed at the end of each reporting year and are reduced to the extent it is no longer probable that the related tax equivalent benefit will be realised. Unrecognised deferred tax equivalent assets are reassessed at each reporting date and are recognised to the extent that it has become probable future taxable profits will allow the deferred tax equivalent asset to be recovered.

Deferred tax equivalent assets and liabilities are offset when there is a legally enforceable right to offset current tax equivalent assets and liabilities, and when the deferred tax equivalent balances relate to the same taxation authority.

Financial statements (continued)

Section 2: Profit for the reporting years presented (continued)

7. Income tax equivalent expense (continued)

(b) Amounts recognised in profit or loss

	2017/18			2016/17		
	Current \$M	Deferred \$M	Total \$M	Current \$M	Deferred \$M	Total \$M
Income tax equivalent expense	(82)	(69)	(151)	(8)	(134)	(142)
Adjustment for income tax equivalent of previous years	1	(1)	-	-	1	1
	(81)	(70)	(151)	(8)	(133)	(141)

As at 30 June 2018, Western Power's current tax equivalent was \$82 million (30 June 2017: \$8 million largely reflecting the utilisation of \$49 million in carried forward tax equivalent losses - refer to note 16(c)).

	2017/18 \$M	2016/17 \$M
Income tax equivalent expense is attributable to:		
Profit for the reporting year	(151)	(141)
Deferred tax equivalents included in income tax equivalent expense comprises:		
Decrease in deferred tax equivalent assets (note 16)	-	(80)
Increase in deferred tax equivalent liabilities (note 16)	(70)	(53)
	(70)	(133)

(c) Numerical reconciliation of income tax equivalent expense to prima facie tax equivalent payable

	2017/18 \$M	2016/17 \$M
Profit before income tax equivalent expense	502	468
Income tax equivalent expense at the Australian tax rate of 30% (30 June 2017: 30%)	(151)	(141)
Income tax equivalent effect of amounts not (taxable)/deductible in calculating taxable income:		
Non deductible expenses	1	-
Research and development incentives	(1)	(1)
Current income tax equivalent expense	(151)	(142)
Adjustment for current tax equivalent of previous years	1	-
Adjustment for deferred tax equivalent of previous years	(1)	1
Total income tax equivalent expense	(151)	(141)

(d) Amounts recognised in other comprehensive income

	2017/18 \$M	2016/17 \$M
Changes in the fair value of cash flow hedges	-	(7)
Re-classifications of cash flow hedges to profit or loss	(6)	(6)
	(6)	(13)

Financial statements (continued)

Notes to the financial statements (continued)

In this section

This section identifies the assets used to generate Western Power's operating profit and the liabilities incurred as a result. (Refer to section 4 for the liabilities relating to Western Power's financing activities).

Section 3: Operational assets and liabilities

8. Financial assets and financial liabilities

Western Power uses a range of financial instruments to support the operations of the business. The carrying amounts recognised as at the reporting dates presented, are below:

	Note	2017/18			2016/17		
		Current \$M	Non-current \$M	Total \$M	Current \$M	Non-current \$M	Total \$M
Cash and cash equivalents	9	34	-	34	11	-	11
Trade and other receivables (excluding prepayments)	10	246	-	246	223	-	223
Derivative financial instruments	19	-	3	3	-	4	4
Total financial assets		280	3	283	234	4	238
Trade and other payables:	13	149	3	152	138	5	143
Trade payables and accruals		103	-	103	100	-	100
Other payables		42	-	42	35	-	35
Contributory extension scheme		4	3	7	3	5	8
Borrowings:	18	7	7,273	7,280	17	7,270	7,287
Domestic working capital facility		7	-	7	17	-	17
Domestic currency loans		-	7,215	7,215	-	7,209	7,209
Accrued interest		-	58	58	-	61	61
Derivative financial instruments	19	-	23	23	2	22	24
Total financial liabilities		156	7,299	7,455	157	7,297	7,454

Details on the accounting policies for the recognition, measurement and impairment of the above instruments are set out in the relevant notes.

(a) Fair values of financial assets and financial liabilities

Other than below, the fair values of Western Power's financial assets and financial liabilities are assumed to approximate the above carrying amounts. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

	Note	2017/18		2016/17	
		Carrying amount \$M	Fair value \$M	Carrying amount \$M	Fair value \$M
Contributory extension scheme (current financial liabilities)	13	4	4	3	3
Contributory extension scheme (non-current financial liabilities)	13	3	3	5	6
Domestic currency loans (non-current financial liabilities)	18	7,215	7,385	7,209	7,364

(i) Trade and other receivables and payables

The fair value of receivables and payables with a remaining life of less than one year is deemed to be the notional amount due to their short-term nature. The fair value of all other receivables and payables is estimated as the present value of future cash flows, discounted using the current market rates of interest available for similar receivables and payables, unless the effect of discounting would be immaterial.

Financial statements (continued)

Section 3: Operational assets and liabilities (continued)

8. Financial assets and financial liabilities (continued)

(a) Fair values of financial assets and financial liabilities (continued)

(ii) Derivative financial instruments

The fair value of derivative financial instruments in active markets is based on quoted market prices at the end of the reporting year. For derivatives not traded in active markets the valuation techniques in note 20(b) are used. These techniques result in fair values classified as level 2 in the fair value hierarchy (as defined in note 20(a)) because either the inputs are based on observable market data or the valuation is independently calculated by the provider of the instrument.

(iii) Contributory extension scheme

The fair value of the contributory extension scheme is calculated by discounting the expected future payments using the Western Australian Treasury Corporation (WATC) zero coupon rates whose terms most closely match the terms of the related payables. The average coupon rate used for discounting at 30 June 2018 was 2.3 per cent (30 June 2017: 2.3 per cent). The fair value is classified as level 2 in the fair value hierarchy (as defined in note 20(a)) because the inputs are based on observable market data.

(iv) Domestic currency loans

The fair value of domestic currency loans is calculated by discounting the expected future principal and interest cash flows using the interest rates below. This is except for loans linked to the consumer price index (CPI), which are independently fair valued by the WATC, the provider of these instruments.

	2017/18	2016/17
WATC yield curve	2.28% - 3.36%	1.9% - 3.4%
Bank bill swap (BBSW) reference rate	2.1%	1.8%
Australian dollar (AUD) interest rate swap curve	2.0% - 2.8%	1.8% - 2.9%

The fair value of domestic currency loans is classified as level 2 in the fair value hierarchy (as defined in note 20(a)) because either the inputs are based on observable market data or the valuation is independently calculated by the provider of the borrowings.

(b) Recognised fair value measurements

Refer to note 20 for details of the assets and liabilities recognised and measured at fair value in the financial statements as at the reporting dates presented.

9. Cash and cash equivalents

(a) Accounting policy

Cash and cash equivalents comprise cash at bank, deposits held at call with financial institutions and other short-term deposits that have an original maturity of three months or less that are readily convertible to known amounts of cash. As at 30 June 2018, Western Power did not have any short-term deposits (30 June 2017: nil).

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and deposits as defined above, net of outstanding bank overdrafts. As at 30 June 2018, Western Power did not have a bank overdraft (30 June 2017: nil).

(b) Amounts recognised in statement of financial position

	2017/18	2016/17
	\$M	\$M
Current		
Cash at bank	34	11
	34	11

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Financial statements (continued)

Section 3: Operational assets and liabilities (continued)

9. Cash and cash equivalents (continued)

(c) Reconciliation of profit to net cash inflows from operating activities

	Note	2017/18 \$M	2016/17 \$M
Profit for the reporting year, net of tax equivalent		351	327
Non-cash items:			
Depreciation and amortisation expense	5	346	337
Written down value on disposal of property, plant and equipment		13	26
Non-cash capital contributions	9(d)	(56)	(82)
Items classified as investing and financing activities:			
Proceeds on disposal of property, plant and equipment		(10)	(29)
Net finance costs	6	291	327
Movements in operating assets and liabilities:			
Movement in trade and other receivables		(14)	6
Movement in inventories		6	2
Movement in provisions		1	(56)
Movement in deferred income		95	11
Movement in tax equivalent liabilities		126	141
Net cash inflows from operating activities		1,149	1,010

(d) Non-cash investing and financing activities

	Note	2017/18 \$M	2016/17 \$M
Gifted network assets	12(e)(i)	56	82

10. Trade and other receivables

(a) Accounting policy

Trade and other receivables are initially recognised at fair value, being the value of the invoice sent to the customer, and subsequently measured at amortised cost less an allowance for impairment. Trade receivables also include an estimate for the value of unbilled network tariff revenue.

Trade and other receivables are classified as current assets unless collection is not expected for more than 12 months after the reporting date. Where payments are due after one year, they are measured at their net present value to reflect the economic cost of the delayed payment.

Impairment

Trade and other receivables are determined to be impaired when objective evidence exists that Western Power will not be able to collect all amounts due. The amount impaired is the difference between the carrying value of the receivable and the net present value of estimated future cash flows discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting would be immaterial. Amounts impaired are recognised in profit or loss.

When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent reporting year it is written off against the allowance account. Subsequent recoveries of amounts written off are credited to profit or loss.

Financial statements (continued)

Section 3: Operational assets and liabilities (continued)

10. Trade and other receivables (continued)

(b) Amounts recognised in statement of financial position

Trade and other receivables represent amounts due from customers for services provided or goods sold in the ordinary course of business. They are usually settled on 14 or 30 day payment terms, unless contractually agreed otherwise.

	Note	2017/18			2016/17		
		Current \$M	Non- current \$M	Total \$M	Current \$M	Non- current \$M	Total \$M
Trade receivables	10(c)	245	-	245	224	-	224
Allowance for impairment of trade receivables	10(d)	(3)	-	(3)	(2)	-	(2)
		242	-	242	222	-	222
Prepayments		6	-	6	16	-	16
Other receivables		4	-	4	1	-	1
Total trade and other receivables		252	-	252	239	-	239

(c) Critical accounting estimates and judgements: unbilled trade receivables

As at 30 June 2018, trade receivables included unbilled network tariff revenue of \$153 million (30 June 2017: \$142 million). Refer to note 4(c) for further details on the estimation of this amount.

(d) Impaired trade receivables

Refer to notes 17(c)(i) and 17(c)(ii) respectively for details of the trade receivables 'impaired' and 'past due but not impaired' as at the reporting dates presented.

11. Inventories

(a) Accounting policy

Inventories are valued at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated completion and selling costs.

(b) Amounts recognised in statement of financial position

Inventories consist of materials required for the maintenance and operation of the network, as well as for general construction works.

	2017/18 \$M	2016/17 \$M
Current		
Raw materials and stores	86	92
	86	92

(c) Amounts recognised in profit or loss

Inventories expensed to profit or loss during the year ended 30 June 2018 were \$39 million (30 June 2017: \$39 million).

As at 30 June 2018, the write down of inventory to net realisable value was \$2 million (30 June 2017: \$0.3 million). This expense has been recognised in 'materials and services' in profit or loss.

Financial statements (continued)

Section 3: Operational assets and liabilities (continued)

12. Property, plant and equipment, and intangible assets

(a) Accounting policy: property, plant and equipment

Cost

Property, plant and equipment represents the capital works and plant required for the operation of the business, and is recognised at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost is determined as the fair value of the asset at the date of acquisition or construction, and includes all expenditure directly attributable to the acquisition or construction of the asset. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

The cost of self-constructed assets includes the cost of materials and labour, and any other costs, directly attributable to bringing the asset to a working condition for its intended use. Gifted network assets are recognised at fair value at the point the assets are energised.

Subsequent costs are included in property, plant and equipment only when it is probable the item associated with the cost will generate future economic benefits and the cost can be measured reliably. The carrying amounts of items replaced are derecognised. All other repairs and maintenance, plus minor capital assets less than \$5,000, are expensed to profit or loss in the reporting years in which they are incurred.

Depreciation

In order to recognise the loss of service potential of property, plant and equipment, depreciation is calculated using the straight-line method over the estimated useful lives below, making allowances where appropriate for residual values.

Category of property, plant and equipment	Estimated useful life (years)
Substations, transformers, poles and cables	45 - 50
Buildings	40
Land improvements and infrastructure	25
Meters, streetlights	20 - 25
Stand-alone power systems	10 - 20
Pole reinforcements, advance meters	15
Furniture and fittings, refurbishments, other plant and equipment	10
Communications	7 - 10
Fleet	5 - 10
Computer hardware	4
Leasehold improvements	lease life

Property, plant and equipment received on disaggregation of Western Power Corporation is depreciated over the estimated residual useful lives. No depreciation is provided on freehold land, easements and assets in the course of construction.

The residual values, estimated useful lives and depreciation methods of property, plant and equipment are reviewed annually, and adjusted as appropriate at the end of each reporting year, with any changes recognised as a change in accounting estimate. As at 30 June 2018, Western Power did not recognise any changes in depreciation estimates (30 June 2017: nil).

Rehabilitation costs

Upon recognition of an item of property, plant and equipment, the cost of the item includes the present value of the anticipated costs of rehabilitating the site on which it is located.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses arising from the derecognition of an asset are determined by comparing proceeds with carrying amount and are recognised in profit or loss.

Leases

Leases where the lessee retains substantially all the risks and benefits of ownership of the asset are classified as finance leases. As at 30 June 2018, Western Power did not have any finance leases (30 June 2017: nil).

Financial statements (continued)

Section 3: Operational assets and liabilities (continued)

12. Property, plant and equipment, and intangible assets (continued)

(b) Accounting policy: intangible assets

Cost

Intangible assets represent identifiable capitalised software costs and intellectual property, and are recognised at historical cost less accumulated amortisation and any accumulated impairment losses. Subsequent costs are included in intangible assets only when it is probable the item associated with the cost will generate future economic benefits and the cost can be measured reliably.

Internally generated intangible assets are recognised only if an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and that the development cost of the asset can be measured reliably. Where no internally generated asset can be recognised the development expenditure is expensed to profit or loss.

Amortisation

In order to recognise the loss of service potential of intangible assets, amortisation is calculated using the straight-line method over the estimated useful lives below, making allowances where appropriate for residual values.

Category of intangible assets	Estimated useful life (years)
Intellectual property	3 - 25
Software (major developments/enhancements)	5 - 10
Software (minor purchases/enhancements)	2.5

Intangible assets received on disaggregation of Western Power Corporation are amortised over their estimated residual useful lives.

The residual values, estimated useful lives and amortisation methods of intangible assets are reviewed annually, and adjusted as appropriate at the end of each reporting year, with any changes recognised as a change in accounting estimate. As at 30 June 2018, Western Power did not recognise any changes in amortisation estimates (30 June 2017: nil).

Derecognition

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses arising from the derecognition of an asset are determined by comparing proceeds with carrying amount and are recognised in profit or loss.

(c) Impairment of non-financial assets

At each reporting date, Western Power considers any indicators of impairment to its non-financial assets, that is, events or changes in circumstances that indicate the carrying value may not be fully recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of an asset's or groups of assets (being cash generating units (CGU)) value in use and its fair value less costs to sell. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

As a not-for-profit entity, Western Power determines value in use using the current 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 Western Power would, if deprived of the asset, replace its remaining future economic benefits.

Impairment losses are recognised in profit or loss and, where material, are disclosed separately. Any impairment losses recognised in previous years are assessed at the end of each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial statements (continued)

Section 3: Operational assets and liabilities (continued)

12. Property, plant and equipment, and intangible assets (continued)

(d) Amounts recognised in statement of financial position

	Freehold land \$M	Buildings \$M	Plant and equipment \$M	Works under construction \$M	Total property, plant and equipment \$M	Computer software \$M	Intellectual property \$M	Total intangible assets \$M
Cost	101	182	12,229	385	12,897	377	18	395
Accumulated depreciation and amortisation	-	(54)	(2,478)	-	(2,532)	(240)	(13)	(253)
Carrying amount at 30 June 2018	101	128	9,751	385	10,365	137	5	142
Cost	104	176	11,680	317	12,277	328	18	346
Accumulated depreciation and amortisation	-	(49)	(2,158)	-	(2,207)	(212)	(11)	(223)
Carrying amount at 30 June 2017	104	127	9,522	317	10,070	116	7	123

(e) Movements in each class of property, plant and equipment, and intangible assets during the reporting years presented, are below:

	Freehold land \$M	Buildings \$M	Plant and equipment \$M	Works under construction \$M	Total property, plant and equipment \$M	Computer software \$M	Intellectual property \$M	Total intangible assets \$M
Carrying amount at 1 July 2017	104	127	9,522	317	10,070	116	7	123
Cost:								
Additions (note 12(e)(i))	-	-	-	691	691	-	-	-
Transfers to inventory	-	-	-	(6)	(6)	-	-	-
Transfers in/(out)	-	7	561	(617)	(49)	49	-	49
Disposals	(3)	(1)	(12)	-	(16)	-	-	-
Accumulated depreciation and amortisation:								
Disposals	-	-	3	-	3	-	-	-
Depreciation and amortisation (note 12(e)(ii))	-	(5)	(323)	-	(328)	(28)	(2)	(30)
Carrying amount at 30 June 2018	101	128	9,751	385	10,365	137	5	142
Carrying amount at 1 July 2016	106	130	9,309	230	9,775	124	2	126
Cost:								
Additions (note 12(e)(i))	-	-	-	671	671	-	-	-
Transfers to inventory	-	-	-	(8)	(8)	-	-	-
Transfers in/(out)	-	2	546	(576)	(28)	22	6	28
Issues of strategic spares	-	-	(1)	-	(1)	-	-	-
Disposals	(2)	-	(53)	-	(55)	-	-	-
Accumulated depreciation and amortisation:								
Transfers in/(out)	-	-	2	-	2	(2)	-	(2)
Issues of strategic spares	-	-	-	-	-	-	-	-
Disposals	-	-	29	-	29	-	-	-
Depreciation and amortisation (note 12(e)(ii))	-	(5)	(310)	-	(315)	(28)	(1)	(29)
Carrying amount at 30 June 2017	104	127	9,522	317	10,070	116	7	123

Financial statements (continued)

Section 3: Operational assets and liabilities (continued)

12. Property, plant and equipment, and intangible assets (continued)

- (e) Movements in each class of property, plant and equipment, and intangible assets during the reporting years presented (continued)

(i) *Additions to works under construction*

Contributed assets

Western Power recognises non-cash capital contributions in the form of gifted network assets in accordance with the accounting policy in note 4(a). For the year ended 30 June 2018, the fair value of gifted network assets included in additions was \$56 million (30 June 2017: \$82 million).

Capitalised finance costs

Western Power capitalises finance costs in accordance with the accounting policy in note 6(a). For the year ended 30 June 2018, additions included finance costs of \$1 million attributable to assets in the course of construction (30 June 2017: \$1 million), and capitalised at a weighted average interest rate of 4.2 per cent (30 June 2017: 4.5 per cent).

(ii) *Depreciation and amortisation*

For the year ended 30 June 2018, depreciation and amortisation represented charges to the 'depreciation and amortisation expense' in profit or loss of \$346 million (30 June 2017: \$337 million), together with capitalised depreciation for fleet assets used in the course of construction of \$12 million (30 June 2017: \$7 million).

Refer to notes 12(a) and 12(b) respectively for details of the depreciation and amortisation methods and estimated useful lives applied.

- (f) **Critical accounting estimates and judgements: impairment of non-financial assets**

Western Power assesses the impairment of property, plant and equipment, and intangible assets at least annually in accordance with the accounting policy in note 12(c). This involves evaluating impairment indicators specific to Western Power and the particular asset or CGU that may differ from actual results including market values; changes in technical, economic or legal environments; obsolescence or physical damage.

There were no indicators of impairment to property, plant and equipment, and intangible assets as at 30 June 2018 (30 June 2017: no indicators).

13. Trade and other payables

- (a) **Accounting policy**

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost. Trade and other payables are classified as current liabilities unless payment is not due for at least 12 months after the reporting date.

Financial statements (continued)

Section 3: Operational assets and liabilities (continued)

13. Trade and other payables (continued)

(b) Amounts recognised in statement of financial position

Trade and other payables represent liabilities for goods and services provided to Western Power prior to the end of the reporting year which are unpaid. They are usually settled between 30 and 45 days of recognition.

Note	2017/18			2016/17		
	Current \$M	Non- current \$M	Total \$M	Current \$M	Non- current \$M	Total \$M
Trade payables and accruals	103	-	103	100	-	100
Other payables	42	-	42	35	-	35
Contributory extension scheme	4	3	7	3	5	8
	149	3	152	138	5	143

(i) Contributory extension scheme

Contributory extension scheme payables represent contributions received from customers to extend specific electricity supplies. These non-interest bearing deposits are refunded at the end of the contribution period unless other customers connect to the extensions. By 2023, when the scheme finishes, all scheme members will have had their contributions refunded.

14. Provisions

(a) Accounting policy

Provisions are recognised when Western Power has either a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting date. The discount rate used to determine the present value reflects the market assessments of the time value of money and the risks specific to the liability. The movement in the provision due to the passage of time is recognised as a finance cost.

Employee benefits

Provisions for the below employee benefit liabilities are recognised as a result of services rendered up to the reporting date.

Wages and salaries:

Liabilities arising in respect of employee benefits that are expected to be settled wholly within 12 months of the reporting date are measured at their nominal amount based on remuneration rates that are expected to be paid when the liabilities are settled. The liability for wages and salaries is recognised in 'trade payables and accruals'. The liability for all other short-term employee benefits is recognised in the provision for employee benefits.

Annual and long service leave:

The liabilities arising in respect of annual and long service leave are not expected to be settled wholly within 12 months of the reporting date. They are recognised in the provision for employee benefits, and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to factors including the expected future wages and salaries levels, experience of employee departures and settlement dates. Expected future payments are discounted using the Commonwealth bond rates whose terms most closely match the terms of the related liabilities. Independent actuarial valuations are carried out at each reporting date. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

Leave obligations are presented as current liabilities in the statement of financial position where there is no unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when actual settlement is expected to occur.

Financial statements (continued)

Section 3: Operational assets and liabilities (continued)

14. Provisions (continued)

(a) Accounting policy (continued)

Employee benefits (continued)

Retirement benefit obligations:

All employees of Western Power are entitled to benefits upon retirement, disability or death from any number of superannuation plans, which may include a defined contribution section, a defined benefit section, or both.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which Western Power pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Contributions to defined contribution plans are recognised as an expense in the reporting years in which the services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit other than a defined contribution plan. A liability or asset in respect of defined benefit superannuation plans is recognised in the statement of financial position, and is measured separately for each plan as the present value of the defined benefit obligation in respect of services provided by employees up to the reporting date, less the fair value of any plan assets at that date.

The present value of defined benefit superannuation plans is based upon expected future payments and is calculated using discounted cash flows consistent with the projected unit credit method. Consideration is given to factors including the expected future wages and salaries level, experience of employee departures and periods of service. Expected future payments are discounted using the Commonwealth bond rates whose terms most closely match the terms of the related liabilities. An independent actuarial valuation is carried out at each reporting date.

The annual net defined benefit interest expense and/or income is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting year to the net defined benefit liability and/or asset. It is recognised immediately along with all other defined benefit plan expenses including past services costs, in 'employee related expenses' in profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions (including changes in the bond rate) are recognised in the reporting years in which they occur, directly in other comprehensive income. They are included in 'retained earnings' in the statements of changes in equity and financial position.

Changes in the present value of defined benefit obligations resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

Termination benefits:

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for those benefits. Western Power recognises a provision for termination benefits at the earlier of the following dates: (i) when Western Power can no longer withdraw the offer of those benefits; and (ii) when Western Power recognises the costs for a restructuring that is within the scope of *AASB 137 Provisions, contingent liabilities and contingent assets* and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancies, the termination benefits are measured based on the number of employees expected to accept the offer. Where material, benefits falling due more than 12 months after the reporting date are discounted to present value.

Rehabilitation costs

A provision for site rehabilitation costs is recognised when there is either a legal or constructive obligation to rehabilitate a site as a result of a past event; it is probable a rehabilitation expense will be incurred to settle the obligation; and the obligation costs can be reliably estimated. The amount of the provision for future rehabilitation costs is capitalised into the cost of the related property, plant and equipment, and depreciated over the estimated useful life.

Rehabilitation costs that relate to an existing condition caused by past operations, but that do not have a future economic benefit are expensed to profit or loss.

Financial statements (continued)

Section 3: Operational assets and liabilities (continued)

14. Provisions (continued)

(b) Amounts recognised in statement of financial position

	Note	2017/18			2016/17		
		Current \$M	Non- current \$M	Total \$M	Current \$M	Non- current \$M	Total \$M
Employee benefits:							
Annual leave	14(e)	31	-	31	31	-	31
Long service leave	14(e)	40	9	49	36	10	46
Other	14(b)(i)	1	-	1	1	-	1
		72	9	81	68	10	78
Rehabilitation costs		2	9	11	4	9	13
Environmental costs	14(b)(ii)	-	2	2	2	1	3
		74	20	94	74	20	94

(i) Retirement benefit obligations

Nature of benefits provided

Western Power contributes to the defined benefit pension scheme (Scheme) in which members receive pension benefits payable on retirement, death or invalidity, or a lump sum benefit on resignation. The Scheme is closed to new members. There are no assets in the Scheme.

For the reporting years presented, the below provision and expenses were recognised for the Scheme:

	2017/18 \$'000	2016/17 \$'000
Provision		
Defined benefit retirement obligations	41	171
Employee related expense		
Net defined benefit expense	(44)	(199)

Description of regulatory framework

The Scheme operates under the *State Superannuation Act 2000 (WA)* and the *State Superannuation Regulations 2001 (WA)*.

Although the Scheme is not formally subject to the Superannuation Industry (Supervision) (SIS) legislation, the Western Australian State Government has undertaken (in the Heads of Government Agreement) to operate the Scheme in accordance with the spirit of the SIS legislation.

As an exempt public sector superannuation scheme (as defined in the SIS legislation), the Scheme is not subject to any minimum funding requirements.

As a constitutionally protected superannuation fund (as defined in the Income Tax Assessment legislation), the Scheme is not required to pay tax.

Description of other entities' responsibilities for governance of the Scheme

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

- Administration of the Scheme and payments to the beneficiaries when required in accordance with the Scheme rules
- Management and investment of the Scheme assets (where relevant)
- Compliance with the Heads of Government Agreement

(ii) Environmental costs

Environmental provisions relate to estimated costs on essential safety expenditure.

Financial statements (continued)

Section 3: Operational assets and liabilities (continued)

14. Provisions (continued)

(c) Critical accounting estimates and judgments: employee benefits

The present value of employee benefits, including annual and long service leave and retirement benefit obligations, is determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual results including the discount rate, future wages and salaries levels, employee departures and settlement dates. All assumptions are reviewed at each reporting date.

(d) Movements in provisions

Movements in each class of provision during the reporting year presented, other than employee benefits, are below:

	Rehabilitation costs \$M	Environmental costs \$M
At 1 July 2017	13	3
Provided for in the reporting year	-	1
Charged in the reporting year	(1)	(1)
Reversed in the reporting year	(1)	(1)
At 30 June 2018	11	2

(e) Amounts not expected to be settled within the next 12 months

The annual and long service leave benefits reported as current because Western Power does not have an unconditional right to defer settlement, but that based on past experience are not expected to be taken or paid within the next 12 months of the reporting dates presented, are below:

	2017/18 \$M	2016/17 \$M
Current annual leave:		
Annual leave expected to be settled within 12 months	20	20
Annual leave expected to be settled after 12 months	11	11
	31	31
Current long service leave:		
Long service leave expected to be settled within 12 months	9	4
Long service leave expected to be settled after 12 months	31	32
	40	36

15. Deferred income

(a) Accounting policy

Contributions received in advance are deferred and subsequently recognised as revenue when the developers or customers are connected to the network in accordance with the terms of the contributions.

Contributions are classified as current liabilities unless connection to the network is not due for at least 12 months after the reporting date.

(b) Amounts recognised in statement of financial position

Deferred income largely relates to contributions received in advance from developers and customers.

	2017/18			2016/17		
	Current \$M	Non-current \$M	Total \$M	Current \$M	Non-current \$M	Total \$M
Deferred income	161	25	186	89	2	91

Financial statements (continued)

Section 3: Operational assets and liabilities (continued)

15. Deferred income (continued)

(c) Movements in deferred income

Movements in deferred income during the reporting years presented, are below:

	2017/18 \$M	2016/17 \$M
At 1 July	91	80
Received in the reporting year	195	114
Earned in the reporting year	(100)	(103)
At 30 June	186	91

16. Deferred tax equivalent liabilities

(a) Accounting policy

Refer to note 7(a) for details of Western Power's 'deferred tax equivalent' accounting policy.

(b) Amounts recognised in statement of financial position

The temporary differences attributable to deferred tax equivalent assets and liabilities as at the reporting dates presented, are below:

	2017/18			2016/17		
	Deferred tax asset \$M	Deferred tax liability \$M	Net (liability less asset) \$M	Deferred tax asset \$M	Deferred tax liability \$M	Net (liability less asset) \$M
Non-current						
Property, plant and equipment (PPE), and intangible assets	-	887	887	-	817	817
Derivative financial instruments	18	-	(18)	24	-	(24)
Provisions for employee benefits	24	-	(24)	24	-	(24)
Other temporary differences	6	-	(6)	6	-	(6)
Total deferred tax equivalent	48	887	839	54	817	763
Set-off deferred tax equivalent assets pursuant to set-off provisions	(48)	(48)	-	(54)	(54)	-
Net deferred tax equivalent	-	839	839	-	763	763
Net deferred tax equivalent:						
Expected to be recovered within 12 months	24	-	(24)	25	-	(25)
Expected to be recovered after more than 12 months	24	887	863	29	817	788
	48	887	839	54	817	763

Financial statements (continued)

Section 3: Operational assets and liabilities (continued)

16. Deferred tax equivalent liabilities (continued)

(c) Movements in deferred tax equivalent assets

Movements in deferred tax equivalent assets during the reporting years presented, are below:

	Derivative financial instruments \$M	Provisions for employee benefits \$M	Tax equivalent losses \$M	Non refundable R&D tax offsets \$M	Other temporary differences \$M	Deferred tax equivalent assets \$M
At 1 July 2017	24	24	-	-	6	54
Charged to profit or loss	-	-	-	-	-	-
Charged to other comprehensive income	(6)	-	-	-	-	(6)
Adjustment to income tax equivalent provided in previous years	-	-	-	-	-	-
At 30 June 2018	18	24	-	-	6	48
At 1 July 2016	37	38	49	15	8	147
Charged to profit or loss	-	(14)	(49)	(17)	(2)	(82)
Charged to other comprehensive income	(13)	-	-	-	-	(13)
Adjustment to income tax equivalent provided in previous years	-	-	-	2	-	2
At 30 June 2017	24	24	-	-	6	54

(d) Movements in deferred tax equivalent liabilities

Movements in deferred tax equivalent liabilities during the reporting years presented, are below:

	PPE, and intangible assets \$M	Contributory extension scheme \$M	Deferred tax equivalent liabilities \$M
At 1 July 2017	817	-	817
Charged to profit or loss	69	-	69
Adjustment to income tax equivalent provided in previous years	1	-	1
At 30 June 2018	887	-	887
At 1 July 2016	763	1	764
Charged to profit or loss	52	-	52
Adjustment to income tax equivalent provided in previous years	2	(1)	1
At 30 June 2017	817	-	817

Financial statements (continued)

In this section

This section presents the liabilities relating to Western Power's financing activities, as well as the key financial risks and equity of the business.

Section 4: Debt and equity

17. Financial risk management

(a) Overview

The Western Power Board has overall responsibility for financial risk management. To assist in the performance of this responsibility, the Board has established a Finance and Risk Committee (FRC). The FRC is supported in its oversight role by the Treasury Management Committee (TMC) and the Internal Audit area. The TMC, comprising senior business experts, considers all financial risk management policies and activities. The specialist Internal Audit area undertakes regular and ad-hoc reviews of financial risk management controls and procedures.

The Western Power financial management policy sets the principles and framework for governing financial risks arising from business operations. Adherence to this policy ensures that at all times, Western Power maintains an appropriate level of control over financial and associated risks that accords with strategic objectives and legal responsibilities.

The principal financial risks arising from Western Power's current operations as described in this note are summarised below:

Risk	Note	Arises from:	Measured by:	Managed by:
Market risk				
Interest rate risk	17(b)(i)	<ul style="list-style-type: none"> Borrowing obligations 	<ul style="list-style-type: none"> Sensitivity analysis 	<ul style="list-style-type: none"> Interest rate swaps Forward borrowing commitments
Foreign currency risk	17(b)(ii)	<ul style="list-style-type: none"> Commercial transactions 	<ul style="list-style-type: none"> Sensitivity analysis 	<ul style="list-style-type: none"> Forward exchange contracts
Credit risk	17(c)	<ul style="list-style-type: none"> Cash and cash equivalents Derivative financial instruments Trade and other receivables (excluding prepayments) 	<ul style="list-style-type: none"> Carrying amounts Ageing analysis 	<ul style="list-style-type: none"> Credit ratings Counterparty limits Exposure monitoring Legal collection of debts Bank guarantees, insurance bonds or cash deposits
Liquidity risk	17(d)	<ul style="list-style-type: none"> Trade and other payables Borrowings Derivative financial instruments 	<ul style="list-style-type: none"> Contractual maturities 	<ul style="list-style-type: none"> Available cash and borrowing facilities

Financial statements (continued)

Section 4: Debt and equity (continued)

17. Financial risk management (continued)

(b) Market risk

Market risk is the risk to Western Power that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Western Power has exposures to movements in interest and foreign exchange rates.

(i) Interest rate risk

Interest rate risk is the risk to Western Power that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk in Western Power arises from borrowing obligations.

Western Power has an interest rate risk management strategy which aims to manage exposures to interest rate movements. Debt portfolio structure guidelines are set to manage the interest rate risks arising from Western Power's commercial and regulatory environment. Interest rate exposure mix guidelines are set to ensure that Western Power is not exposed to excess risk from interest rate volatility. Interest rate forecasts are continuously monitored and, where appropriate, exposures to interest rates are managed through the use of Board approved hedging instruments such as interest rate swaps and forward domestic borrowing commitments. Forward domestic borrowing commitments are entered into with the WATC in order to borrow specified amounts in the future at pre-determined interest rates.

(ii) Foreign currency risk

Foreign currency risk is the risk to Western Power that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency risk in Western Power arises from commercial transactions denominated in foreign currency, principally for the purchase of capital equipment from foreign suppliers.

Western Power's foreign currency risk management strategy aims to manage significant exposures through the use of Board approved hedging instruments, such as forward exchange contracts that provide certainty on costs.

Western Power's managed foreign currency risk as at the reporting dates presented, is below:

	2017/18			2016/17		
	Canadian dollar	Euro	United States dollar	Canadian dollar	Euro	United States dollar
Weighted average foreign exchange rate (per cent)	0.9764	0.6437	0.7538	-	0.6437	0.7402
<i>Forward exchange contract maturing (\$'000):</i>						
within one year	306	859	1,244	-	-	764
later than one year but not later than five years	-	-	234	-	859	-

Financial statements (continued)

Section 4: Debt and equity (continued)

17. Financial risk management (continued)

(b) Market risk (continued)

Sensitivity analysis

The below table summarises the potential impact to the annual post-tax profit and other comprehensive income of Western Power as at the reporting dates presented, due to movements in interest and foreign exchange rates. The assumptions used are based on management's best estimate of a reasonably possible movement given current market conditions.

	Carrying amount \$M	Interest rate risk				Foreign currency risk			
		Impact on post-tax profit +/-1%		Impact on other comprehensive income +/-1%		Impact on post-tax profit +/-10%		Impact on other comprehensive income +/-10%	
		\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
At 30 June 2018									
Cash and cash equivalents	34	-	-	-	-	-	-	-	-
Trade and other receivables	246	-	-	-	-	-	-	-	-
Derivatives-interest rate swaps ²	3	-	-	6	(6)	-	-	-	-
Total financial assets	283	-	-	6	(6)	-	-	-	-
Trade and other payables	152	-	-	-	-	-	-	-	-
Borrowings ¹	7,280	(16)	16	-	-	-	-	-	-
Derivatives-interest rate swaps ²	23	-	-	35	(37)	-	-	-	-
Derivatives-forward borrowings ³	-	-	-	8	(8)	-	-	-	-
Total financial liabilities	7,455	(16)	16	43	(45)	-	-	-	-
At 30 June 2017									
Cash and cash equivalents	11	-	-	-	-	-	-	-	-
Trade and other receivables	223	-	-	-	-	-	-	-	-
Derivatives-interest rate swaps ²	4	-	-	7	(8)	-	-	-	-
Total financial assets	238	-	-	7	(8)	-	-	-	-
Trade and other payables	143	-	-	-	-	-	-	-	-
Borrowings ¹	7,287	(18)	18	-	-	-	-	-	-
Derivatives-interest rate swaps ²	22	-	-	39	(42)	-	-	-	-
Derivatives-forward borrowings ³	2	-	-	54	(54)	-	-	-	-
Total financial liabilities	7,454	(18)	18	93	(96)	-	-	-	-

As at 30 June 2018, the sensitivity analysis of interest rate risk is based on Western Power's:

- floating rate borrowings of \$2,523 million (30 June 2017: \$2,323 million) and variable rate working capital borrowings of \$7 million (30 June 2017: \$17 million). The majority of Western Power's borrowings are at fixed interest rates as allowable under the Board approved treasury management standard.
- 27 interest rate swap agreements (30 June 2017: 30) at an aggregate principal value of \$900 million (30 June 2017: \$975 million). These agreements are entered into to hedge against floating interest rate exposures arising from borrowing obligations.
- one fixed rate forward domestic borrowing commitment (30 June 2017: six) at an aggregate principal value of \$100 million (30 June 2017: \$812 million). These commitments are entered into to mitigate refinancing risk and to hedge against floating interest rate exposures arising from future borrowing obligations. They are recognised as derivative financial instruments in the reporting years between entering into the forward domestic borrowing agreements and draw downs of the loan principal.

Financial statements (continued)

Section 4: Debt and equity (continued)

17. Financial risk management (continued)

(c) Credit risk

Credit risk is the risk of financial loss to Western Power if a customer or counterparty to a financial instrument fails to discharge its contractual obligation. The maximum exposure to credit risk for Western Power is best represented by the carrying amounts of financial assets recognised in the statement of financial position as at the reporting dates (refer to note 8).

Western Power generally provides credit on 14 or 30 day payment terms, unless contractually agreed otherwise. Credit risk is actively managed through the adherence of Western Power's credit risk and treasury management standards, the use of credit ratings and monthly reporting to the Board. Western Power manages the quality of financial assets and its concentrations of credit risk by reference to external credit ratings, where available, or to historic information on counterparty default rates. Bank guarantees, insurance bonds or cash deposits are also obtained as security where necessary.

(i) Impaired trade receivables

Western Power uses a formalised process to manage the collection of debts which allows appropriate legal action to be taken where necessary. Where there is objective evidence trade receivables will not be collectable, an allowance for impairment is recognised. Objective evidence includes known financial difficulty of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue).

As at 30 June 2018, trade receivables with a nominal value of \$3 million were recognised as impaired and fully allowed for in the 'allowance for impairment of trade receivables' (30 June 2017: \$2 million). The creation and release of this allowance is recognised in 'other expenses' in profit or loss. Amounts charged to the allowance are generally written off when there is no expectation of recovering additional cash.

Movements in the allowance for impairment of trade receivables during the reporting years presented, are below:

	2017/18 \$M	2016/17 \$M
At 1 July	2	1
Allowed for in the reporting year	1	1
At 30 June	3	2

There is no collateral security in place in respect of these amounts.

(ii) Trade receivables past due but not impaired

As at 30 June 2018, trade receivables of \$4 million were past due but not impaired (30 June 2017: \$6 million). These receivables relate to a number of independent customers for which there is no recent history of default and hence, no allowance for impairment is deemed necessary.

The ageing analysis of trade receivables past due but not impaired as at the reporting dates presented, is below:

	2017/18 \$M	2016/17 \$M
between 1 and 59 days	2	3
between 60 and 89 days	-	-
more than 90 days	2	3
	4	6

Financial statements (continued)

Section 4: Debt and equity (continued)

17. Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk Western Power will encounter difficulty in meeting obligations associated with financial liabilities as they fall due. Western Power is governed by the treasury management standard which requires active management of cash and ensures adequate facilities are in place to satisfy ongoing funding requirements. This includes actively managing working capital for immediate needs, and the debt portfolio within maturity guidelines to mitigate refinancing risk.

(i) Financing arrangements

Western Power has in place a borrowing facility with the WATC. Included in this, is a working capital facility that can be drawn down to meet short-term financing needs. The facility's borrowing limit is set through the annual State Budget or as amended from time to time by a formal process, including the mid-year budget review or via a letter of amendment.

As approved in the 2019 State Budget handed down in May 2018, the maximum amount of borrowings permitted by Western Power for the reporting year ended 30 June 2018 was \$7,453 million (30 June 2017: \$7,398 million).

The unused portion of Western Power's borrowing facility for the reporting years presented, is below:

	Note	2017/18 \$M	2016/17 \$M
Borrowing limit		7,453	7,398
Used portion of borrowing limit:			
Domestic working capital facility	18	(7)	(17)
Domestic currency loans	18	(7,215)	(7,209)
Total used portion of borrowing limit		(7,222)	(7,226)
Unused portion of borrowing limit		231	172

As approved in the 2019 State Budget handed down in May 2018, the maximum amount of borrowings permitted for Western Power in the reporting year ended 30 June 2019 is \$7,721 million.

Financial statements (continued)

Section 4: Debt and equity (continued)

17. Financial risk management (continued)

(d) Liquidity risk (continued)

(ii) Maturities of financial liabilities

The below table presents the maturity profile of Western Power's financial liabilities as at the reporting dates presented, based on contractual undiscounted cash flows, including estimated interest payments and cash flows associated with derivatives that are designated and qualify as cash flow hedges.

	Note	Within one year \$M	Between one and five years \$M	Later than five years \$M	Total contractual cash flows (undiscounted) \$M	Carrying amount \$M
At 30 June 2018						
Interest rate swaps:	19					
Net settled		9	15	(2)	22	20
Forward exchange contract:	19					
(Inflow)		(3)	-	-	(3)	
Outflow		3	-	-	3	-
Total derivative financial liabilities		9	15	(2)	22	20
Trade and other payables:	13	147	5	-	152	152
Trade payables and accruals		103	-	-	103	103
Other payables		42	-	-	42	42
Contributory extension scheme		2	5	-	7	7
Borrowings:	18	1,405	3,978	3,163	8,546	7,280
Domestic working capital facility		7	-	-	7	7
Domestic currency loans		1,395	3,962	3,046	8,403	7,273
Forward domestic borrowing commitments ¹		3	16	117	136	-
Total non-derivatives financial liabilities		1,552	3,983	3,163	8,698	7,432
At 30 June 2017						
Interest rate swaps:	19					
Net settled		10	16	(5)	21	18
Forward exchange contract:	19					
(Inflow)		(1)	(1)	-	(2)	
Outflow		1	1	-	2	-
Forward domestic borrowing commitments ¹	19	-	-	-	-	2
Total derivative financial liabilities		10	16	(5)	21	20
Trade and other payables:	13	137	7	-	144	143
Trade payables and accruals		100	-	-	100	100
Other payables		35	-	-	35	35
Contributory extension scheme		2	7	-	9	8
Borrowings:	18	2,700	3,953	2,465	9,118	7,287
Domestic working capital facility		17	-	-	17	17
Domestic currency loans		2,658	3,727	1,579	7,964	7,270
Forward domestic borrowing commitments ¹		25	226	886	1,137	-
Total non-derivatives financial liabilities		2,837	3,960	2,465	9,262	7,430

¹ There are no contractual cash flows for forward domestic borrowing commitments in the period between entering into the forward domestic borrowing agreement and draw down of the loan principal. The contractual cash flows after draw down of the agreed loan principal are presented in the 'borrowings' section of this table.

Borrowing facilities are in Australian dollars. Funds may be drawn down subject to the borrowings facility and master lending agreement with the WATC at varying maturities. As at 30 June 2018, the average maturity was 4.0 years (30 June 2017: 2.6 years).

Financial statements (continued)

Section 4: Debt and equity (continued)

18. Borrowings

(a) Accounting policy

Borrowings are initially recognised at fair value net of transaction costs incurred and subsequently measured at amortised cost using the effective interest method.

Forward domestic borrowing commitments

Forward domestic borrowing commitments are recognised as derivative financial instruments in the period between entering into the forward domestic borrowing agreement and draw down of the loan principal. Once the loan is drawn down, the principal is accounted for at fair value like any other borrowing. Any fair value gain or loss recognised in the hedging reserve is re-classified to profit or loss over the term of the loan.

Borrowings are classified as current liabilities unless Western Power has an agreement with the lender that allows refinancing of the liability for at least 12 months after the reporting date. This includes where a forward domestic borrowing commitment exists that replaces the existing borrowing on the date of maturity, and where this extends the maturity of the original borrowing to greater than 12 months after the reporting date.

(b) Amounts recognised in statement of financial position

	Note	2017/18			2016/17		
		Current \$M	Non- current \$M	Total \$M	Current \$M	Non- current \$M	Total \$M
Domestic working capital facility		7	-	7	17	-	17
Domestic currency loans	18(c)	-	7,215	7,215	-	7,209	7,209
Accrued interest		-	58	58	-	61	61
		7	7,273	7,280	17	7,270	7,287

Western Power's domestic borrowings are all provided by the WATC, an entity owned by the Western Australian State Government.

(c) Classification of borrowings

As at 30 June 2018, the non-current domestic currency loans of \$7,215 million (30 June 2017: \$7,209 million) included an amount of \$1,147 million that will become due and payable during the 2018/19 reporting year (30 June 2017: \$2,427 million that became due and payable during the 2017/18 reporting year). It is Western Power's expectation and discretion that this amount will be refinanced under the master lending agreement with the WATC rather than repaid, and therefore has been classified as non-current. This is supported by:

- a master lending agreement with the WATC that allows Western Power to refinance all or any part of maturing debt at regular intervals; and
- the approval of Western Power's forecast borrowing requirements for the next four years, including no repayment of amounts classified as non-current above, in the 2019 Western Australian State Budget handed down in May 2018.

19. Derivative financial instruments

(a) Accounting policy

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value as at each reporting date. The valuation techniques used to measure fair value are further described in note 20(b). Derivative financial instruments are presented as assets when the fair value is positive and as liabilities when the fair value is negative.

Financial statements (continued)

Section 4: Debt and equity (continued)

19. Derivative financial instruments (continued)

(a) Accounting policy (continued)

Hedge accounting

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction, or the foreign currency risk in an unrecognised firm commitment

On entering into a hedge relationship, Western Power determines whether hedge accounting is applied. Where hedge accounting applies, Western Power formally designates and documents the relationship between the hedging instrument and the hedged item, as well as its risk management objective and strategy for undertaking the hedge. Western Power also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the derivative that is used in the hedging transaction has been, and will continue to be, highly effective in offsetting changes in fair value or cash flows of the hedged item.

Fair value hedges:

For all derivative transactions designated as a fair value hedge, the portion of gain or loss on the hedging instrument is recognised in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. There is no impact in other comprehensive income or the hedging reserve. During the year ended 30 June 2018, Western Power had not accounted for any derivative financial instruments that qualified for hedge accounting as fair value hedges (30 June 2017: nil).

Cash flow hedges:

For all derivative transactions designated as a cash flow hedge, the portion of gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and accumulated in the hedging reserve. The ineffective portion is recognised in profit or loss immediately. When the cash flows occur, the amount that has been deferred to equity is transferred either to the carrying value of the asset, in the case of non-financial assets, or re-classified to profit or loss as appropriate in the same reporting year as the hedged item affects the profit or loss.

When a hedging instrument expires, is sold or is terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity, and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately re-classified to profit or loss.

Derivatives that do not qualify for hedge accounting

For all derivative transactions that do not qualify for hedge accounting, any changes in fair value are recognised immediately in profit or loss. During the year ended 30 June 2018, all Western Power's derivative transactions qualified for hedge accounting (30 June 2017: all qualified).

Derecognition

Derivative financial instruments are derecognised when Western Power no longer controls the contractual rights that comprise the financial instrument. During the year ended 30 June 2018, Western Power did not derecognise any derivative financial instruments (30 June 2017: nil derecognised).

Financial statements (continued)

Section 4: Debt and equity (continued)

19. Derivative financial instruments (continued)

(b) Amounts recognised in statement of financial position

	Note	2017/18			2016/17		
		Current \$M	Non- current \$M	Total \$M	Current \$M	Non- current \$M	Total \$M
Assets	19(b)(i)						
Interest rate swaps		-	3	3	-	4	4
		-	3	3	-	4	4
Liabilities	19(b)(i)						
Interest rate swaps		-	23	23	-	22	22
Forward domestic borrowing commitments		-	-	-	2	-	2
		-	23	23	2	22	24

(i) Nature of derivatives

Derivative financial instruments are used to hedge exposures to movements in interest and foreign exchange rates. Western Power uses derivative financial instruments in accordance with Board approved policy. Speculative trading where a derivative is entered into without an underlying business exposure is strictly prohibited. All derivative activities are carried out by a specialist group within Western Power that has the appropriate skills, experience and supervision.

As at the reporting dates presented, Western Power used the below derivative financial instruments. All qualified for hedge accounting in accordance with the accounting policy in note 19(a) and remained effective, minimising the volatility to profit or loss.

Instrument	Exposure hedged
Interest rate swaps	Western Power enters into interest rate swaps in order to hedge against floating interest rate exposures arising from borrowing obligations.
Forward exchange contracts	Western Power enters into forward exchange contracts in order to hedge against foreign currency risk, principally arising from the future purchase of capital equipment in foreign currencies.
Forward domestic borrowing commitments	Western Power enters into forward domestic borrowing commitments in order to mitigate refinancing risk and to hedge against interest rate exposures arising from future borrowing obligations.

Financial statements (continued)

Section 4: Debt and equity (continued)

20. Recognised fair value measurements

(a) Fair value hierarchy

The assets and liabilities of Western Power that are measured and recognised at fair value as at the reporting dates presented, are below, and disclosed by the following fair value hierarchy levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs from the asset or liability that are not based on observable market data (unobservable inputs).

	2017/18				2016/17			
	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Financial assets								
Derivative financial instruments	-	3	-	3	-	4	-	4
Financial liabilities								
Derivative financial instruments	-	23	-	23	-	24	-	24

It is Western Power's policy to recognise transfers into and out of the fair value hierarchy levels at the end of each reporting year. As at 30 June 2018, there were no transfers between levels for recurring fair value measurements (30 June 2017: no transfers).

(b) Critical accounting estimates and judgements: valuation techniques used to derive level 2 fair values

Recurring fair value measurements

The fair value of derivatives in active markets is based on quoted market prices at the end of the reporting year. Where derivatives are entered into that are not traded in active markets the fair value is determined using valuation techniques. These techniques maximise the use of observable market data where it is available and rely as little as possible on specific estimates. In some instances, independent valuations from the provider of the instrument are used.

If all significant inputs required to fair value an instrument are based on observable market data, or the valuation is independently calculated by the provider of the instrument, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data the instrument is included in level 3. During the year ended 30 June 2018, level 3 valuation techniques were not used (30 June 2017: not used).

Specific valuation techniques used to value derivative financial instruments (where relevant) include:

- The fair value of interest rate swaps is calculated at the present value of the estimated future cash flows based on a combination of observable BBSW reference rates and AUD interest rate swap curves.
- The fair value of forward exchange contracts is determined using a combination of observable forward foreign exchange rates, BBSW reference rates and AUD interest rate swap curves as at the reporting date.
- The fair value of forward domestic borrowing commitments is independently calculated by the WATC, the provider of these instruments.

All of the resulting fair value estimates are included in level 2. For the potential impact to Western Power's annual post-tax profit and other comprehensive income due to movements in the key observable inputs being interest and foreign exchange rates, refer to the sensitivity analysis in note 17(b).

Financial statements (continued)

Section 4: Debt and equity (continued)

21. Contributed equity

(a) Accounting policy

Contributions made by the owner are recognised as a direct adjustment to equity when received.

(b) Nature of contributions

Contributed equity represents the initial and subsequent contributions made by Western Power's sole owner, the Western Australian State Government. No shares have been allotted.

The owner's initial contribution comprised the assets of Western Power Corporation, after deducting liabilities, transferred to Western Power on 1 April 2006. The owner has made subsequent contributions including to the edge of grid and regional power investment programs, to offset dividends paid on capital contributions, the sale of land surplus to requirements, and for the recovery of income tax equivalent expense on residential capital contributions.

(c) Movements in contributed equity

Movements in contributed equity during the reporting years presented, are below:

	Note	2017/18 \$M	2016/17 \$M
At 1 July		1,242	1,190
Contributions received to offset:	21(c)(i)		
Final dividend		108	52
Interim dividend		61	-
Total contributions received		169	52
At 30 June		1,411	1,242

(i) Contributed equity

During the reporting years presented, the State Government made contributions to offset dividends paid by Western Power on capital contributions, the sale of land surplus to requirements and for the recovery of income tax equivalent expense on residential capital contributions.

22. Reserve and retained earnings

(a) Accounting policy

The hedging reserve represents the effective portion of the cumulative net changes in the fair value of derivative financial instruments that are designated, and qualify as cash flow hedges in accordance with the accounting policy in note 19(a). Amounts are re-classified to profit or loss when the associated hedge transaction affects profit or loss.

(b) Movements in hedging reserve

Movements in the hedging reserve during the reporting years presented, are below:

	Note	2017/18 \$M	2016/17 \$M
At 1 July		(56)	(85)
Other comprehensive income for the reporting year:			
<i>Fair value of cash flow hedges</i>			
Changes in the fair value of cash flow hedges		1	24
Re-classifications of cash flow hedges to profit or loss		19	18
Total fair value of cash flow hedges		20	42
<i>Tax equivalent on fair value of cash flow hedges</i>			
Tax equivalent on changes in the fair value of cash flow hedges	7(d)	-	(7)
Tax equivalent on re-classifications of cash flow hedges to profit or loss	7(d)	(6)	(6)
Total tax equivalent on fair value of cash flow hedges		(6)	(13)
Total other comprehensive income for the reporting year		14	29
At 30 June		(42)	(56)

Financial statements (continued)

Section 4: Debt and equity (continued)

22. Reserve and retained earnings (continued)

(c) Movements in retained earnings

Movements in retained earnings during the reporting years presented, are below:

	Note	2017/18 \$M	2016/17 \$M
At 1 July		943	718
Profit for the reporting year, net of tax equivalent		351	327
Dividends provided for or paid	23	(419)	(102)
At 30 June		875	943

23. Dividends

(a) Accounting policy

Dividends are provided for in the reporting year in which the dividends recommended by the Board are accepted by the Minister for Energy, with the concurrence of the Treasurer of Western Australia. A corresponding amount is recognised directly in equity.

(b) Dividends recognised in the reporting years

During the reporting years presented, the below dividends were declared and paid to the Western Australian State Government:

	Note	2017/18 \$M	2016/17 \$M
Final dividend		(245)	(83)
Special dividend	23(b)(i)	(2)	(19)
Interim dividend		(172)	-
		(419)	(102)

(i) Special dividend

During the year ended 30 June 2018, Western Power paid a special dividend of \$2 million to the State Government for the sale of land surplus to requirements (30 June 2017: \$19 million).

(c) Dividends not recognised at the end of the reporting year

Since the end of the 30 June 2018 reporting year the directors have resolved to recommend, subject to the approval of the Minister for Energy, a dividend of \$269 million for the year ended 30 June 2018, being:

- a final dividend of \$264 million in line with Western Power's current dividend policy (75 per cent of net profit after income tax equivalent); plus
- a special dividend of \$5 million for the sale of land surplus to requirements.

This dividend will be provided for in the accounts once accepted by the Minister for Energy, with the concurrence of the Treasurer of Western Australia. It is to be offset by an equity contribution from the Western Australian Government subject to approval in the 2019/20 mid-year State Budget review.

Financial statements (continued)

In this section

This section presents other information that must be disclosed in compliance with Australian accounting standards and other AASB pronouncements, but that are not immediately related to individual line items in the financial statements.

Section 5: Other information

24. Related party transactions

(a) Owner

Although Western Power operates as a corporatised enterprise under the Act, it is accountable to and controlled by the Western Australian State Government, via the Minister for Energy, as Western Power's sole owner and shareholder.

Related parties of Western Power include:

- All Cabinet Ministers of the Western Australian State Government (Cabinet Ministers) and their close family members, and entities controlled or jointly controlled by them
- All Western Power directors and executive officers (unless employed for a limited period during the reporting year - being three months or less) and their close family members, and entities controlled or jointly controlled by them
- Other Western Australian statutory authorities and departments, including their related bodies, that are included in the State's whole of government consolidated financial statements
- Associates and joint ventures of any entities that are included in the State's whole of government consolidated financial statements
- The Government Employees Superannuation Board (GESB)

(b) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity, either directly or indirectly. Western Power's key management personnel has been determined to be the State's Cabinet Ministers, and the directors and executive officers of Western Power.

Total compensation to Western Power's key management personnel (excluding State Cabinet Ministers), for the reporting years presented, is below:

	2017/18 \$'000	2016/17 \$'000
Short-term employee benefits	3,270	3,317
Post-employment superannuation benefits	218	245
Long-term benefits	67	61
Termination benefits	36	317
	3,591	3,940

For more detailed Western Power remuneration disclosures refer to the 'remuneration' section of the directors' report within this financial report.

Total compensation to the State's Cabinet Ministers is not disclosed because there is no obligation for Western Power to reimburse this amount. Details however, can be found in the '2017/18 annual report on state finances' published on the Western Australian Department of Treasury's website.

Financial statements (continued)

Section 5: Other information (continued)

24. Related party transactions (continued)

(c) Transactions with related parties

(i) Key management personnel

Western Power's key management personnel and their related parties, conduct transactions with Western Power within normal employee and customer relationships. The terms and conditions are no different to those it is reasonable to expect Western Power would adopt if dealing with the Cabinet Minister, director, executive officer and/or their related party in an arm's length transaction in similar circumstances.

Western Power is not aware of material related party transactions with the State's Cabinet Ministers, the directors and executive officers of Western Power and/or their close family members or entities controlled or jointly controlled by them.

(ii) Government-related entities

During the reporting years presented, Western Power engaged in the below transactions, being significant in terms of size (total annual transaction was in excess of \$20 million), with other public sector entities controlled by the Western Australian State Government:

	Note	2017/18 \$M	2016/17 \$M
Receipts			
Synergy:			
Transmission and distribution network tariff revenue		1,140	1,169
Western Australian Treasury Corporation:			
Proceeds from borrowings		2,341	2,090
Department of Treasury:			
Proceeds from contributed equity	21	169	52
Payments			
Western Australian Treasury Corporation:			
Repayments of borrowings		(2,342)	(2,234)
Net finance costs paid		(268)	(302)
Department of Treasury:			
Contributions to tariff equalisation fund		(167)	(150)
Income tax equivalent paid		(25)	-
Distributions to equity holder	23	(419)	(102)
Department of Finance:			
Payroll tax		(22)	(22)
Outstanding receivables (current)			
Synergy:			
Network tariff receivables		169	164
Outstanding payables (current and non-current)			
Department of Finance:			
Tax equivalent liabilities			
Current		(64)	(8)
Deferred	16	(839)	(763)
Western Australian Treasury Corporation:			
Borrowings (including accrued interest)		(7,279)	(7,286)
Future commitments			
Department of Treasury:			
Tariff equalisation contribution	27(c)	(678)	(167)

Financial statements (continued)

Section 5: Other information (continued)

25. Remuneration of auditors

(a) Audit services

Under the Act, the Auditor General for Western Australia has been appointed Western Power's independent auditor. For the reporting years presented, the indicative fee for the audit services provided by the Office of the Auditor General are below:

	2017/18 \$'000	2016/17 \$'000
Annual audit of financial statements and other assurance services	442	434

(b) Non-audit services

Neither the Office of the Auditor General nor her agent provided any non-audit services during the year ended 30 June 2018 (30 June 2017: nil). Non-audit services represent engagements in addition to the statutory and regulatory audit duties of the external auditor.

26. Contingencies

Western Power's policy is to disclose details of contingencies where the probability of future receipts and/or payments is not considered remote, as well as details of contingencies, which although considered remote, the directors consider should be disclosed.

(a) Contingent assets

Western Power did not have any contingent assets at 30 June 2018.

(b) Contingent liabilities

Contaminated sites

Western Power has 110 known or suspected contaminated sites that have been reported to the Department of Water and Environmental Regulation (DWER) under the *Contaminated Sites Act 2003 (WA)*, although eight of these have shared responsibility with adjacent landowners. Until Western Power conducts an investigation to determine the presence and scope of contamination, assesses the risk and agrees with the DWER the need and criteria for remediation, Western Power is unable to accurately quantify its clean-up liabilities for all known or suspected contaminated sites. Western Power is continuing to monitor the sites and progressively undertakes site investigations and remediation on a risk-based approach. This approach is consistent with the DWER guidelines.

Other

Western Power is currently 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 Western Power.

In the opinion of the directors, provisions or further disclosures are not required in respect of these contingencies, as it is not probable a future sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement.

Financial statements (continued)

Section 5: Other information (continued)

27. Commitments

(a) Lease commitments

Non-cancellable operating leases

Future commitments to minimum lease payments under non-cancellable operating leases as at the reporting dates presented (including for light and heavy fleet, properties and information technology equipment), are below:

	2017/18 \$M	2016/17 \$M
Payable within one year	8	8
Payable later than one year but not later than five years	12	11
	20	19

For the year ended 30 June 2018, Western Power expensed operating lease costs of \$9 million to 'other expenses' in profit or loss (30 June 2017: \$18 million) (refer to note 5(c)(ii)).

(b) Capital commitments

Future capital commitments contracted for as at the reporting dates presented, but for which no amounts have been provided for in the financial statements are below. They include major transmission and distribution capital expenditure largely associated with customer-funded work, asset replacements and undergrounding, plus information technology initiatives.

	2017/18 \$M	2016/17 \$M
Payable within one year	152	85
Payable later than one year but not later than five years	3	70
	155	155

(c) Other expenditure commitments

As at the reporting dates presented, the State Government requires Western Power to make, by notice published in the gazette, the below future annual payments into the tariff equalisation fund for the benefit of the Regional Power Corporation. The 2017/18 reported commitments were gazetted on 29 May 2018.

	2017/18 \$M	2016/17 \$M
Payable within one year	198	167
Payable later than one year but not later than five years	480	-
	678	167

For the year ended 30 June 2018, Western Power made payments of \$167 million into the tariff equalisation fund (30 June 2017: \$150 million). This expense has been recognised in 'other expenses' in profit or loss (refer to note 5(c)(ii)).

28. Events occurring after the reporting date

There are no matters or circumstances that have arisen since 30 June 2018 and the date of this report that are likely, in the opinion of the directors, to affect significantly the operations of Western Power, the results of those operations, or the state of affairs of Western Power in subsequent reporting years.

Financial statements (continued)

Directors' declaration

In the directors' opinion:

- (a) The financial statements and notes comply with Australian accounting standards, other authoritative pronouncements and Schedule 4 of the *Electricity Corporations Act 2005 (WA)*
- (b) The financial statements and notes give a true and fair view of the financial position of Western Power as at 30 June 2018 and of its performance for the reporting year ended on that date
- (c) There are reasonable grounds to believe that Western Power will be able to pay its debts as and when they become due and payable

The directors' have been given the declaration by the Chief Executive Officer and Chief Financial Officer for the reporting year ended 30 June 2018. This is pursuant to section 295(4)(e) of the *Corporations Act 2001 (Cth)* despite being not mandatory for Western Power.

This declaration is made in accordance with a resolution of the directors on 7 August 2018.



C Beckett
Board Chair

9 August 2018



G Martin
Deputy Board Chair

Financial statements (continued)

Corporate directory

Directors	Colin Beckett <i>Board Chair</i> Greg Martin <i>Deputy Board Chair</i> Denise Goldsworthy Peter Iancov Vicki Krause Eva Skira
Chief Executive Officer	Guy Chalkley
Company Secretary	Sam Barbaro
Executive (as at 7 August 2018)	Sam Barbaro <i>Executive Manager Governance and Assurance</i> Fiona Bishop <i>Executive Manager Change and Innovation</i> Tamara Brooker <i>Executive Manager Business and Customer Service</i> Michael Crevola <i>Chief Financial Officer</i> David Fyfe <i>Executive Manager Asset Operations</i> Peter Kerr <i>Executive Manager Growth</i> Seán Mc Goldrick <i>Executive Manager Asset Management</i>
Principal registered office in Australia	363 Wellington Street Perth, Western Australia 6000 Telephone 13 10 87 (general enquiries)
Auditor	The Auditor General for Western Australia 469 Wellington Street Perth, Western Australia 6000
Transactional bankers	Commonwealth Bank of Australia 150 St Georges Terrace Perth, Western Australia 6000
Website address	westernpower.com.au

Financial statements (continued)

Independent auditor's report



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

ELECTRICITY NETWORKS CORPORATION (TRADING AS WESTERN POWER)

Opinion

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

In my opinion, the financial report of Electricity Networks Corporation is in accordance with schedule 4 of the *Electricity Corporations Act 2005*, including:

- (a) giving a true and fair view of the Corporation'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 Electricity Networks Corporation in accordance with the *Auditor General Act 2005* 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 4 of the *Electricity Corporations Act 2005*. 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 Corporation'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 Corporation.

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.

Financial statements (continued)
Independent auditor's report (continued)

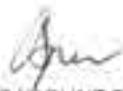
As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- 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 Corporation'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 Corporation'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.

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 Electricity Networks Corporation 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
9 August 2018



363 Wellington Street
Perth WA 6000
GPO Box L921 Perth WA 6842

General enquiries 13 10 87
TTY (for those who are speech
or hearing impaired) 1800 13 13 51
TIS (interpreter services) 13 14 50
enquiry@westernpower.com.au
westernpower.com.au

Electricity Networks Corporation
trading as Western Power
ABN 18 540 492 861

