



Engaging with the community

2016 annual report

FRESH  THINKING 

About this report

The 2016 annual report is a review of our performance for the financial year ended 30 June 2016.

This report is produced in accordance with the provisions of the *Water Corporations Act 1995* and other relevant legislation, which governs our operations.

Provided to the Minister for Water; Sport and Recreation; Forestry the Hon Mia Davies MLA, the report is tabled in the Parliament of Western Australia.

The objective of this report is to provide our owner, the State Government, as well as our customers, community and stakeholders with information about our operational and financial performance and our contribution to the State's economy for the 2015-16 financial year.

To provide feedback on this report please email report@watercorporation.com.au

Previous annual reports can be found at watercorporation.com.au

For customer enquiries or feedback about our services, visit watercorporation.com.au/contact

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How much water is that?



1 gigalitre (GL)
or one billion litres

Volume of Domain Stadium filled to the goal posts ≈ 1 GL



1 megalitre (ML)
or one million litres

Volume of Olympic size swimming pool ≈ 2.5 ML



1 kilolitre (kL)
or one thousand litres

Volume of four wheelie bins ≈ 1 kL

Chairman's report

January 1, 2016, marked the 20th anniversary of the corporatisation of our business – an eventful period that witnessed extensive change in the State's water industry.

Dominating all of our activities were two broad phenomena: a drastically drying climate and strong State economic growth. These combined to severely test the new Corporation's mettle, and it is gratifying to everyone involved in the journey so far that the job has been done very well.

In achieving this, the Corporation has attained ever higher levels of competency in operations and governance. This has been made clear to me having been a member of the Board in some of the formative years, then returning in 2011 to become Chairman in January, 2012.

The Corporation performs effectively in the key areas of governance, strategic planning, technology and innovation. While our fundamentals have not changed, our economic modelling is more sophisticated, we have a sounder decision making process, and our capital program is much improved. In addition, detailed planning of water services well into the future is clearly set out while our understanding of, and engagement with our customers continues to evolve.

How we handle continuous change over the next few years – let alone the next 20 – will be critical to the Corporation's continued successful operation, which enables the growth of our State and helps maintain the highly valued Western Australian lifestyle.



That task is brought home when we consider the extent of our operations. For example, we now supply more than 370 billion litres of water annually to more than one million properties across the State, compared with about 315 billion litres to 728,000 properties when the Water Corporation began operating.

In that time we have built 7,000 kilometres of water and wastewater mains.

I acknowledge the commitment and diligence of my fellow directors during the year under review and thank our CEO Sue Murphy and her executive team for their continued excellent work. I also recognise the Minister for Water, Hon. Mia Davies MLA, for her continued leadership and guidance.

Ms Eva Skira, Chairman

The year under review can best be summed as "doing more with less" – less people, less operating cost and less water.

The implementation I forecast last year of the redesign of our organisation is now largely complete. This has not been simple, but is reinvigorating and streamlining our operations enabling us to lift our performance and respond better to our customers.

Like almost every business in the State, we continue to pursue financial efficiencies and look hard at all expenditure to keep our operating costs as low as possible.

The long and successful campaign we have run since 2001 to respond to a rapidly drying climate was dealt a monumental challenge in 2015 when Perth's dams received their lowest inflow since records began more than 100 years ago.

This was compounded by the warmest and driest spring on record which sent consumption on the Integrated Water Supply Scheme soaring, with nearly nine billion litres used above target by December 2015.

CEO's year in review

In response, we launched a series of measures to curb demand and maximise production. These included the high-profile 'Whatever you do, just drop 2' marketing campaign and running our seawater desalination plants at full capacity.

The coordinated efforts and the strong response from our customers resulted in water use returning to predicted levels by the end of April, and as a bonus we achieved more than three billion litres of water savings by the end of May.

Once again, as occurred when our 'big dry' hit in 2001, our people worked together as one team to manage the situation.

We could not have achieved our successes throughout the year without unwavering support from our partners, especially the Department of Water with whom we worked hand-in-hand to optimise water outcomes for the people of Western Australia.

As we acknowledge the first 20 years of our corporatised existence, I reflect with gratitude on the efforts of our dedicated and talented employees. I thank them for their continued efforts as we begin the next 20 years and embrace the digital and social media revolution that will help us deliver the water utility of the future.

Mrs Sue Murphy
Chief Executive Officer

Who we are

Organisational profile

Serving our customers

Water Corporation is the principal supplier of water, wastewater, drainage and bulk irrigation services in Western Australia to hundreds of thousands of homes, businesses and farms.

We directly employ approximately 2,650 people located in offices in Perth, Bunbury, Albany, Karratha, Geraldton, Northam and Kalgoorlie, and a number of depots, providing a high level of expertise and a strong commitment to communities across the State.

We manage \$36 billion (replacement value) of assets to deliver water and wastewater services across the 2.6 million square kilometre expanse of the State, part of which is undertaken in alliances with the private sector.

Our environment

We strive for Zero Footprint. We take water from the environment and return drainage water, treated wastewater and its by-products to the environment. We are committed to protecting and enhancing the environment.

Our owner

Water Corporation is owned by the State Government and accountable to the Minister for Water; Sport and Recreation;

Forestry, the Hon Mia Davies MLA, for the delivery of our services. Most of our financial surplus is returned to the State Government as a dividend to contribute to the development of the State, with the remainder reinvested in capital infrastructure.

Our stakeholders

Our key stakeholders include relevant State and Federal Government agencies and regulators, local government and industry associations. The support and trust of our stakeholders and the broader community is critical to the achievement of our business objectives. We are proactive in ensuring that we engage our stakeholders and the community, as we work to effectively manage current and future water services.

Our regulators

We deliver water to our customers and dispose of it within conditions set by the Departments of Water, Health, Environment Regulation, Parks and Wildlife, and the Environmental Protection Authority. The Economic Regulation Authority monitors our performance against its Water Services Licence. The State Government determines the prices of our regulated services each year through the State Budget process.



One Team

We are one team. We work together in the best interests of Water Corporation and the community.

Think Safe, Act Safe

We put safety first in everything we do. We are responsible for ourselves and others.

Customer Focussed

We value our customers. We understand their needs and deliver great service.

Value Every Dollar

We add value to our customers. We manage every hour we work, every dollar we spend.

Future Thinking

We find clever and innovative ways to do things. We plan and deliver for the future.

Take Personal Ownership

We hold ourselves and each other to account. We each take responsibility for our own decisions and actions.

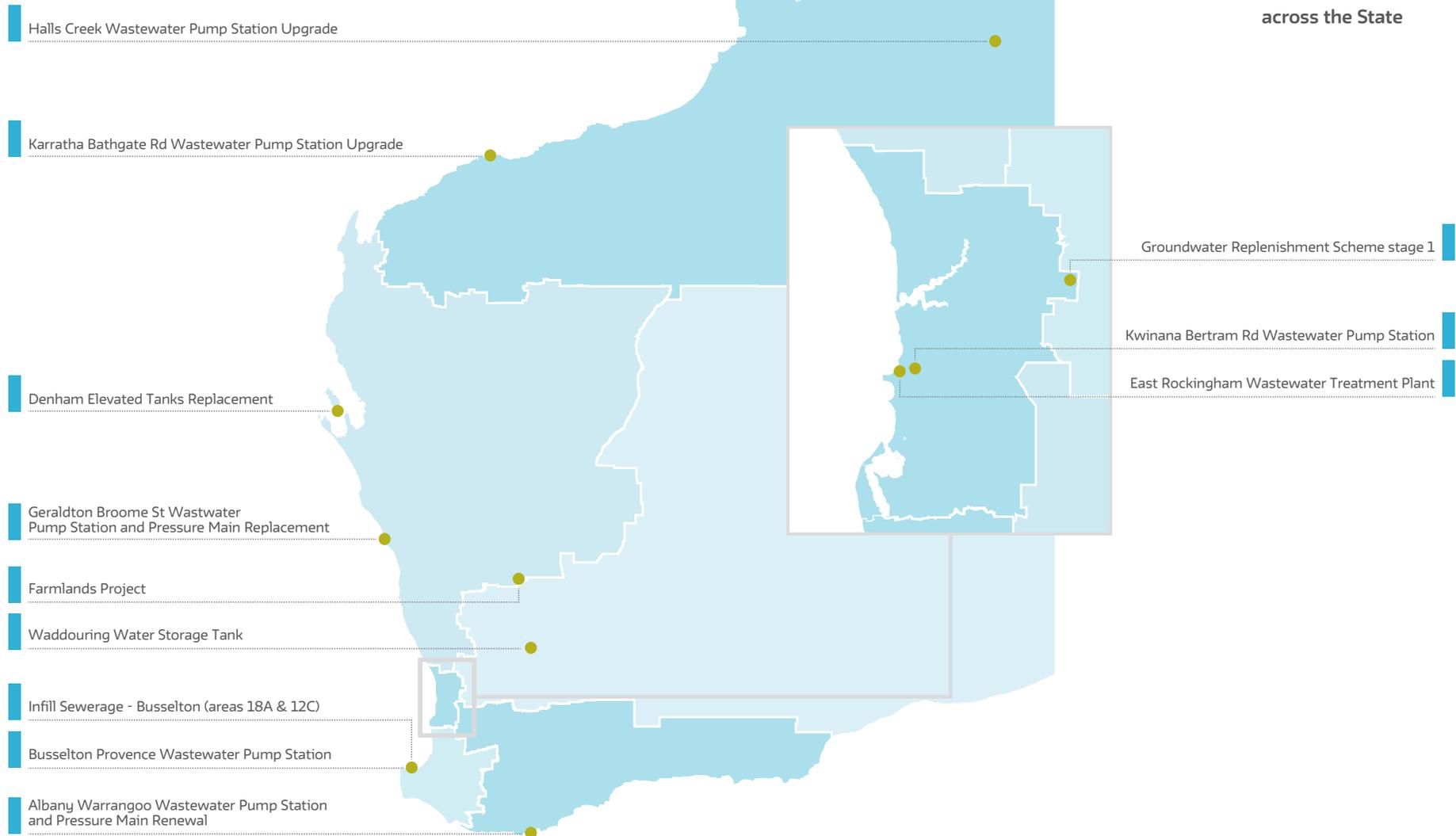
Key capital projects

Our capital investment program for 2015-16 was \$579 million. Some of the projects with large financial contributions are profiled in the map below.

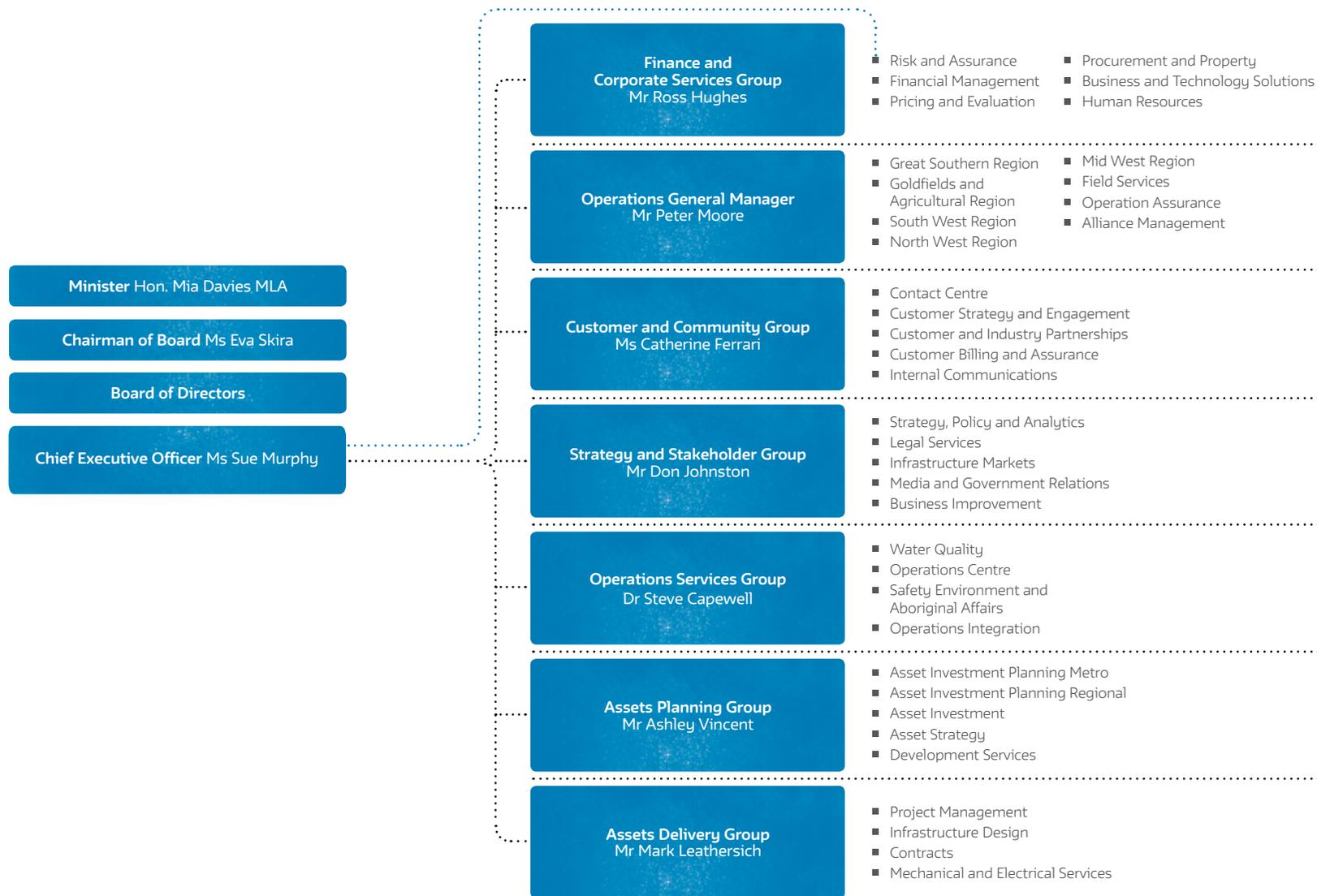
Our services, projects and activities span

2.6

million square kilometres
across the State



Organisational structure



Board profiles



Back row (l to r) Mr David Rowe, Mrs Nicole Lockwood, Mr David Lock, Mr Ross Holt and Mr Michael Hollett
Sitting front row (l to r) Ms Eva Skira and Ms Sue Murphy

Ms Eva Skira Chairman

MBA, BA (Hons), SF Fin, FAICD, FAIM, FGIA, FCIS

Ms Eva Skira has more than two decades of experience as Chair and Board Member in business, government and not-for-profit sectors. She has Australian and overseas educational qualifications and a background in banking, stockbroking and finance. Ms Skira also has extensive experience in the engineering, construction, infrastructure, health and education industries. Ms Skira is a Non-Executive Director of RCR Tomlinson Ltd and Macmahon Holdings, and Chairman of Trustees of St John of God Health Care Group.

Appointed 4 October 2011, appointed Chairman 1 January 2012, term expires 31 December 2016.

Chair: Remuneration Committee
Member: Audit and Compliance Committee

Ms Sue Murphy Chief Executive Officer

BEng (Hons), CP Eng, FIE Aust, GAICD

Ms Sue Murphy was appointed Chief Executive Officer of Water Corporation in November 2008. Ms Murphy is a Member of The University of Western Australia (UWA) Senate and Board Member of UWA's Business School, Board Member of the Water Services Association of Australia, Chairman and Trustee of the Navy Clearance Diver Trust, Member of the General Council of the Chamber of Commerce and Industry and Fellow of the Australian Academy of Technological Sciences and Engineering.

Appointed 6 October 2008, term expires 31 December 2017.

Mr Michael Hollett

Deputy Chairman

MAICD

Mr Michael Hollett has extensive water industry and property development experience and consults in both business and property development. Mr Hollett is a Director and Board Member of Ocean Gardens Inc and Director at H&H Development Enterprises Pty Ltd. Prior to this, he was the Chief Executive Officer of the National Lifestyle Villages Group. Mr Hollett is a qualified Hydrographer and worked in a variety of roles including regional and metropolitan land development. He forged new pathways in water recycling and efficiency and strategic planning for Water Corporation and its predecessors from 1982 to 2004.

Appointed 1 January 2012, appointed Deputy Chairman 1 March 2016, term expires 31 December 2017.

Chair: Safety Committee

Member: Remuneration Committee

Mr Ross Holt

B.Econs (Hons)

Mr Ross Holt has been an integral part of the State Government finance and development landscape for almost 40 years. Previously the CEO of the Western Australian Land Authority (LandCorp), Mr Holt retired in 2014, and is currently the Deputy Chancellor of Murdoch University, Chair of Forest Products Commission, Non-executive Chair of Ralph & Beatty Bosworth and Non-executive Director of NS Projects.

Appointed 8 June 2016, term expires 31 December 2018.

Mr David Lock

B.Comm (UNSW); ACA; FAICD

Mr David Lock is CEO and Managing Director of Mareterram Limited, a listed agribusiness company. Mr Lock brings significant finance skills to the Board, as well as a deep understanding of the Australian agribusiness industry. He is also the Chairman of the Western Australian Meat Industry Authority and a member of the Advisory Council of the Curtin Business School. In 2012, Mr Lock was named NAB Agribusiness Leader of the Year and received the Australian Export Heroes Award in 2013.

Appointed 1 January 2014, term expires 31 December 2016.

Chair: Audit and Compliance Committee

Mrs Nicole Lockwood

LLB; BBus (Environ); GAICD

Mrs Nicole Lockwood is owner and principal of Lockwood Advisory, providing advice to government and industry in the areas of regional development, infrastructure and stakeholder engagement. Prior to the establishment of Lockwood Advisory, Mrs Lockwood was a Director at KPMG. Currently a Board Member of Tourism WA, Infrastructure Australia and Leadership WA, Mrs Lockwood's previous board roles include Pilbara Development Commission, WA Planning Commission and Horizon Power.

Appointed 1 March 2016, term expires 31 December 2017.

Member: Audit and Compliance Committee

Mr David Rowe

BA (Soc Sc) Curtin, GAICD

Mr David Rowe is Executive General Manager - Corporate Affairs of BGC (Australia) Pty Ltd. Prior to this role he was Managing Director of David Rowe Pty Ltd and Satterley Property Group Pty Ltd. Mr Rowe has also worked in executive positions for the Western Australian, Victorian and Commonwealth Governments. He is an Interim Board Member of the South Metropolitan Health Service and was previously Deputy Chairman of the Western Australian Land Authority (LandCorp) and a member of the South Metropolitan Health Service Governing Council.

Appointed 1 March 2016, term expires 31 December 2018.

Member: Safety Committee

Executive profiles



Back row (l to r) Mr Ashley Vincent, Mr Ross Hughes, Mr Don Johnston, Mr Mark Leathersich, Mr Peter Moore
Sitting front row (l to r) Ms Sue Murphy, Dr Steve Capewell and Ms Catherine Ferrari

Dr Steve Capewell General Manager Operations Services

Bsc (Hons), PhD, GAICD

Dr Capewell is on the Perth Seawater Desalination Plant and Southern Seawater Desalination Plant Lead Teams, and is the Chairman of the Pilbara Clearwater Alliance.

Ms Catherine Ferrari General Manager Customer and Community

BBus, PGradDipBus, MLM, FCPA, GAICD

Ms Ferrari is Deputy Chair of the West Australian Opera; a Board Member of Water Aid Australia (until May 2016); the John Curtin Gallery, ScreenWest WA (since January 2016); Energy and Water Ombudsman (since October 2015); a trustee of the Legal Contribution Trust; and Director of Water Corporation Superannuation Pty Ltd.

Mr Ross Hughes Chief Financial Officer

BBus, FCPA, FAICD

Mr Hughes is a member of the Water Services Association of Australia's Customer and Industry Leadership Committee and Chair of its Commercial Performance Network. He is also Chairman of the East Rockingham Wastewater Treatment Plant Alliance Lead Team.

Mr Don Johnston General Manager Strategy and Stakeholders

BSc/Comm (Hons), MBA

Mr Johnston draws on experience from a wide variety of industries, with a proven track record in strategy and performance improvement. He previously worked with Bain & Co, and was a co-founder of Azure Consulting.

Mr Mark Leathersich General Manager Assets Delivery

BSc (Hons), MSc

Mr Leathersich is Chair of the KEP Recharge Alliance and a member of the Perth Region Alliance Lead Team.

Mr Peter Moore PSM General Manager Operations

Assoc Civil Eng, GradDip Mgmt, CP Eng, FIE Aust, GAICD, MAWA

Mr Moore is the President of the Australian Water Association and Chair of their Succession Planning Committee. He is also a General Councillor with HBF.

Mr Ashley Vincent General Manager Assets Planning

BE (Env), GradCert BusMgmt, MBA

Mr Vincent is a member of the KEP Recharge and Aroona Alliance Lead Teams.

Sustainability performance

As the principal supplier of water, wastewater and drainage services in Western Australia, our services are vital to maintaining the lifestyle of more than 2 million customers.

We are committed to meeting the expectations and needs of our customers, and supporting sustainable development through:

Economic outcomes

Environmental achievements

Social responsibility

This document broadly aligns with sustainability reporting principles.

Initiatives and projects outlined in this report are generally categorised into one of the above pillars.



Economic outcomes

A significant proportion of our financial surplus is returned to the State Government as a dividend, contributing to a range of programs benefiting the Western Australian community. Our commitment to achieving economic outcomes serves our customers in their everyday lives, through the State Government's reinvestment in infrastructure and support for programs and initiatives at a State and local level.

Alliance savings reinvestment plan

Our alliancing strategy adopted in 2012, sees Water Corporation working collaboratively with the private sector (our alliance partners) to deliver water, wastewater and drainage services across the Perth metropolitan area. This innovative approach has enabled us, together with our alliance partners, to deliver sustainable savings in operating expenses that have been reinvested into our metropolitan reticulation network for additional planned maintenance, providing a more efficient and reliable service for our customers.

Financial highlights

The surplus we achieved in 2015-16 was influenced by the strong levels of housing development activity experienced across the State. Our operating business delivered a surplus of \$520 million and contributions from developers towards infrastructure for new housing developments contributed a further \$217 million. These contributions were received either as cash from developers' fees or non-cash in the form of infrastructure handed over. In 2015-16, developers' fees represented \$135 million of the surplus, which will be invested in our future capital expenditure program, main and pump infrastructure assets handed over contributed a further \$82 million of surplus.

In a year when we continued to invest heavily in infrastructure, with \$579 million of new capital expenditure, the results featured total revenue of \$2.7 billion and returns to the State Government by way of net accruals of \$362 million.

Excluding the impact from development activity, total revenue grew by 3.7 per cent during the year driven by additional revenue from the State's population growth. Drying climate has seen an increasing proportion of our water delivered from sources which are independent of rainfall such as recycling and desalination, which

increases the cost of supplying into the scheme and influences customer prices. Despite this, our customer tariffs continue to be among the lowest in Australia, and water in Western Australia remains one of the few commodities which can be delivered into our homes for less than \$1.60 per tonne^{1,2}.

Total expenditure increased by 4.7 per cent to \$1.4 billion, reflecting the cost of operating and maintaining our increasing and diverse infrastructure. The increase also included a one off write-down to the value of water entitlements due to climate change. Excluding this write-down, on a per property basis, costs reduced 2.8 per cent reflecting savings from business transformation and continuous improvement activities. Our Operating Cost per Property remains one of the lowest in the Australian water industry for large scale supply¹. A continuing focus on cost management supported the achievement of our long-term average annual efficiency target of 2 per cent.

¹ Australian Government Bureau of Meteorology, 2016, National performance report 2014-15: Urban water utilities Part A

² Based on water demand charges for a typical 200L p.a. household

Returns to the State

The Board approved dividend payments totalling \$567 million to the State Government.

We are also required by the Australian Tax Office to lodge an income tax return and pay tax equivalents to the State. Inclusive of local government rates, and taxation payments made to the State in 2015-16, amounted to \$342 million.

We received an operating subsidy payment from the Government of \$547 million for the provision of non-profitable services, mostly in regional and remote areas of Western Australia, and concessions to customers.

When operating subsidies are offset against the dividends and taxes paid to Government, the resulting Net Accrual to Government (NATG) came to \$362 million in 2015-16.

The net returns form part of the State's consolidated revenue and are used to meet broader Government commitments.

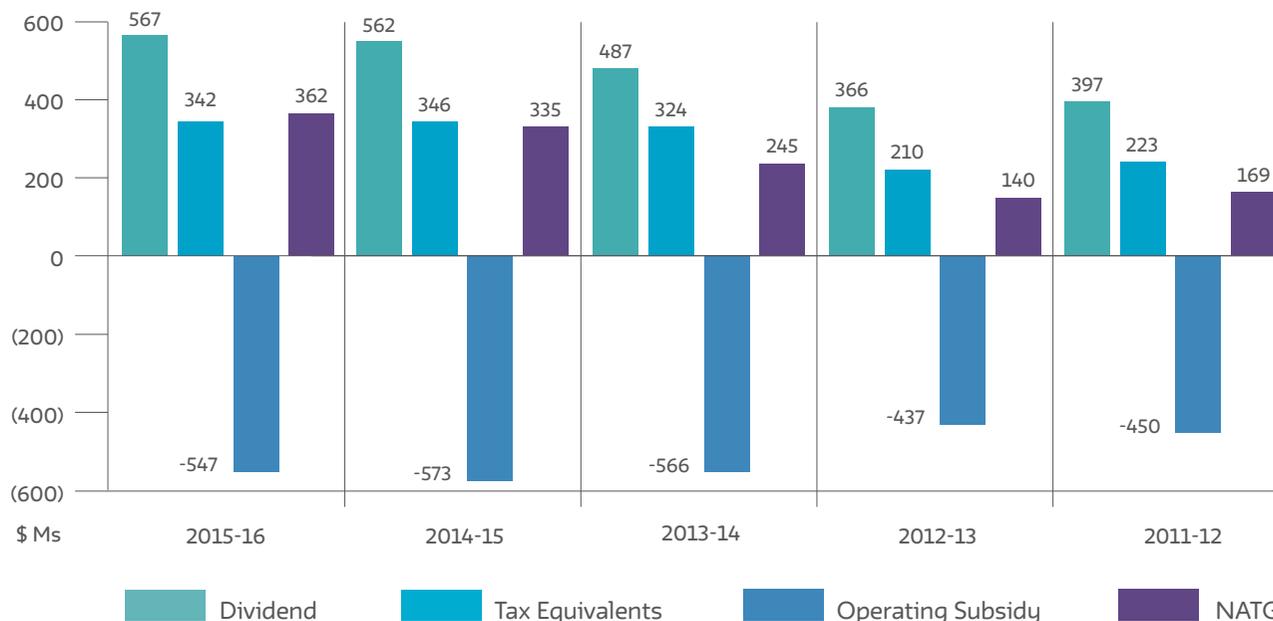
Investing in infrastructure

Our capital investment program benefits the community and the wide range of local private industry partners, who assist us in our construction, maintenance and operations. In doing so, we employ both

directly and indirectly, a significant number of Western Australians. The \$579 million capital investment program for 2015-16 included \$259 million in our water business, \$172 million in our wastewater business, and the remainder on irrigation, drainage, property and facilities.

Supporting regional growth

In 2015-16, the value of our regional assets was in excess of \$6 billion. During the year we spent over \$212 million on the delivery of projects for regional Western Australia.



Net Accrual to Government (NATG)

The figures in the graph above have been rounded to the nearest whole number.

Summary of performance

Our corporate performance against financial outcomes and targets detailed in the Statement of Corporate Intent (SCI)

Our community targets	2015-16 SCI target	2015-16 actual
Water Forever		
Perth total per capita consumption	129 kL	127 kL
Great Place		
Customer Performance Index	6.75	6.85
Total cost per property	\$1,981	\$2,004
Safety Index (%)	80.0	88.1



579 million

investment in capital works

212 million

investment in regional projects

897 million

in direct operating expenditure

	Units	2015-16 SCI target	2015-16 actual
Financial outcomes			
Operating Surplus before income tax			
Operating business before tax	\$m	729	744
Developer asset handover before tax	\$m	72	117
Developer cash contributions before tax	\$m	150	193
Operating Surplus after income tax			
Operating business after tax	\$m	510	520
Developer asset handover after tax	\$m	50	82
Developer cash contributions after tax	\$m	105	135
Capital expenditure (including capitalised interest)	\$m	713	579
Borrowings taken (repaid)	\$m	215	82
Financial Performance Measures			
Return on equity	%	6.6	7.2
Return on assets	%	5.8	5.8
Debt to total assets ratio	%	35.2	34.0
Accruals to Government			
Indirect tax equivalents	\$m	6	6
Income tax equivalents (net of deferred tax adjustments)	\$m	302	336
Dividends provided	\$m	520	567
Total	\$m	828	909
Payments from Government			
Operating Subsidies			
Non-commercial country services	\$m	411	390
Revenue concessions	\$m	142	144
Infill Sewerage Program	\$m	13	13
Total operating subsidies	\$m	566	547
Net Accrual to Government	\$m	262	362



Stakeholders and members of the Community Reference Group at a site tour of the East Rockingham Wastewater Treatment Plant.

Environmental achievements

Consideration for the environment forms the foundation of our operations. Our work covers a range of areas, from water efficiency strategies and wastewater treatment, to upgrades of stormwater systems within the metropolitan area, and enhancements to water supply for farmlands in regional Western Australia.

Many key initiatives within this section of the report are wastewater improvements which work in harmony with the environment.

Improving metropolitan water services

East Rockingham Wastewater Treatment Plant

In February 2016, Perth's newest wastewater treatment plant in East Rockingham was completed. The plant will play a vital role in catering for the rapidly growing population of Perth's south west metropolitan corridor by treating up to 20 million litres of wastewater each day.

Engagement with the local community was a critical component to the success of building the plant on time and under budget. The latest wastewater and odour treatment technology was used, which will minimise any odours produced through the treatment process.

White Gum Valley (WGV) by LandCorp residential development

In October 2015, WGV by LandCorp in White Gum Valley became the latest development in Western Australia to be endorsed by Water Corporation as a Waterwise Development. Key water efficiency initiatives will include integrated stormwater management and rainwater harvesting systems, the use of water efficient fixtures, real time monitoring and low water use landscaping.

The water saving initiatives at WGV are the result of a collaborative effort by LandCorp, Water Corporation and Josh Byrne & Associates, working with the Department of Water, Urban Development Institute of Australia, the City of Fremantle and the Cooperative Research Centre for Water Sensitive Cities.



We supply
370 billion litres
of water to 1.25 million properties
and collected 163 billion litres
of wastewater.



Kwinana wastewater system upgrade

A suite of wastewater system upgrades totalling \$15.2 million were completed during the year in the areas of Bertram, Parmelia and Orelia, located within the City of Kwinana. The work included 4.2 kilometres of new wastewater main, a storage tank and an upgrade to the Bertram Road pump station.

Secret Harbour and Port Kennedy wastewater system upgrade

The wastewater system in the City of Rockingham was the focus of a \$10 million upgrade during the first half of 2016. The population of Secret Harbour and Port Kennedy is expected to double by 2025, and this improvement ensures our wastewater system can accommodate existing and future development. The project included construction of 6.2 kilometres of new wastewater main in Port Kennedy and Secret Harbour, and upgrades to the pump stations located on Warnbro Sound Avenue, Samson Way and Naples Place in Secret Harbour.

Victoria Park sewer relining

A \$6 million project to renew 6 kilometres of wastewater main in the Town of Victoria Park was completed in April 2016. The eight month project refurbished mains in the suburbs of Victoria Park and East Victoria Park, extending the life of our vital infrastructure by at least 50 years. This work forms part of our ongoing wastewater main refurbishment program, which has successfully refurbished around 110 kilometres of wastewater main across Western Australia since 2006.

Beenyup energy recovery

In 2015-16, planning started for a project to provide a significant reduction in operating costs and greenhouse gas emissions by offsetting most of the power consumed by the Beenyup Wastewater Treatment Plant. The new energy recovery facility demonstrates our ability to harness innovative and sustainable energy solutions. Delivery of this \$19.3 million project is expected to be complete in 2018.

New water infrastructure for Perth's growing suburbs

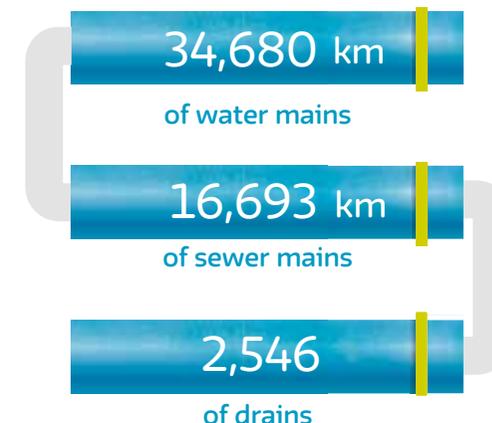
In late 2015, we finished construction of a new 4 kilometre water main in Byford and a new 1.3 kilometre water main in Alkimos and Eglinton. These mains, which were delivered on time and under budget, represent important pieces of water infrastructure to allow continued development in these growing suburbs.

In Byford, we used trenchless technology to tunnel underneath major road crossings at Wungong Brook, Thomas Road and South Western Highway - minimising both environmental and community impacts.

Central Business District (CBD) mains renewal program

We renewed 13 water mains in and around the Perth CBD during 2015-16, including sections in Adelaide Terrace, Murray Street and Wellington Street. The mains were identified for renewal following a program of water main condition assessments, based on material, age and the potential for community inconvenience if a leak occurred. We worked closely with the City of Perth and other key stakeholders to deliver these projects efficiently, often coordinating this work with other utilities and streetscape projects, minimising inconvenience to the community. These upgrades improve the reliability and efficiency of water supply for Perth's CBD, as we progressively renew all cast iron mains.

The water travels through



Enhancing services across regional Western Australia

Our work in the Goldfields and Agricultural region

In July 2015, we began a \$32 million, three-year project to improve the Farmlands water supply located across the Goldfields and Agricultural region. The Farmland Project involves main replacements, increased preventative maintenance through an expanded repair program, smart water meters for all Farmlands customers, and a major main condition assessment program. Our objective is to minimise disruption to water supplies for customers and save water. A large number of suppliers are local contractors, and a joint venture between Underground Services Australia and AACT, a 50 per cent Aboriginal owned and operated company, has been successful in bidding for components of this work.

We have started work on an \$8.8 million upgrade to improve the water supply for people living in the Shire of Narembeen, replacing 12.5 kilometres of the existing above ground main with an underground main.

We have started the construction of a new 6 million litre storage tank in Waddouring and a 5 million litre tank in Barbalin, to replace the existing water storage reservoirs at these sites. Both tanks will improve water quality and water pressure for more than 1,500 customers within the Shires of Mt Marshall, Mukinbudin, Nungarin, Trayning and surrounding farmlands connected to the scheme supply.

Customers in the Shire of Koorda and nearby farmlands will benefit from a \$1.8 million project to upgrade 1.2 kilometres of water main.

Delivering improved services in the Great Southern region

In January 2016, we completed a \$9 million upgrade to Gnowangerup's water supply scheme to improve water quality and provide a more secure water supply for the town. This included construction of two new water storage tanks with a combined capacity of 2.3 million litres of water - more than double the capacity of the previous water storage tanks.

We have improved Albany's wastewater services with a \$3.5 million upgrade to existing infrastructure. We replaced 2.5 kilometres of wastewater main, from Warrangoo Road pump station to the existing pressure main along Lower King Road.

Following Denmark's driest year on record, we are planning to secure the town's water supplies. In the short-term, portable desalination units have been installed at the Denmark Water Treatment Plant which can be used if the town's secondary source, Denmark River, has high salinity levels. Work finished on a 3.4 kilometre main between the Denmark River Dam and Quickup Dam to allow more water to be used from Denmark River Dam in times of low rainfall.

We are working closely with the community while we investigate long-term planning options, through a series of community engagement forums.

Work is also progressing on a \$15 million, Royalties for Regions funded, water recycling scheme in Denmark. Routes for the main will facilitate increased community use of recycled water.

Upgrades in our Mid West region

In 2015, we completed a \$2.8 million upgrade to double the capacity of the Jurien Bay Wastewater Treatment Plant. This upgrade allows the Plant to comfortably manage significant spikes in the town's wastewater flows during peak summer tourist periods, and caters for future growth in the town to 2021.

We constructed a unique water tank in Denham, which is segmented to hold 100,000 litres of both drinking water and non-potable saline water. The tank provides a significant increase in water storage capacity for the town, replacing the existing 20,000 litre and 43,000 litre storage tanks, which were built in the 1970's. This was the final stage of a \$7.8 million investment over two years to upgrade Denham's water supply.

In January 2016, we began a \$7.2 million project to improve the supply capacity to the towns of Dongara and Port Denison. In March, we began duplication of a 13.6 kilometre water main from Allanooka Reservoir to Wyefarm Borefield, installing a main that is double the size of the existing main. Once complete, this new main will ensure peak demand periods can be adequately met without compromising reserve storage, while also catering for future population growth.

A \$2.82 million project to upgrade wastewater mains in the Geraldton suburb of Spalding was completed in May, and will cater for future growth in the area.



*Our Water Forever: South West plan was launched in July 2015, which recommends use of recycled water for recreational spaces.
Location: Binningup Country Club*

Projects in the North West region

We have invested \$18 million for major wastewater upgrades in Halls Creek, Karratha, and Derby. This involved constructing new pump stations and wastewater mains to connect to existing infrastructure in these towns. In Karratha, the new pump station and main will divert flows to our new advanced wastewater treatment facility. This maximises the volume of high quality recycled water we can produce, which is used to irrigate the golf course, public open space, ovals and school grounds.

Meeting growth in the South West region

In July 2015, we released *Water Forever: South West*. This is a comprehensive report that provides a long-term outlook on town scheme water supplies in the region, and recommends plans to develop new water sources, reduce water use and increase water recycling to achieve water security in the face of a drying climate.

The new \$13.8 million Pemberton Wastewater Treatment Plant will use a multi-stage, advanced technology, biological treatment process. Recycled water from the facility is used to irrigate the Pemberton sports grounds in the summer months.

We replaced 1.3 kilometres of water main in the centre of Bridgetown, along the South West Highway. We worked with local businesses and community members to minimise impact, including planning construction around the popular Bridgetown Blues Festival.

Work was completed on a \$14.4 million project to upgrade Busselton's wastewater system catering for increased growth in the area. Work included construction of a new wastewater main to connect the new wastewater pump station in Provence Estate to the Busselton Wastewater Treatment Plant.

Responding to emergencies

In response to the devastating bushfires in the Shires of Waroona and Harvey, we worked closely with emergency management agencies to assist in maintaining water supply to towns impacted by the fire. Our crews were able to maintain supply to all towns in the fire zone with the exception of Yarloop, as the catastrophic nature of the fire in the town caused the power to be lost, and we were unable to pump water to the town's tank. Immediately afterwards, we offered additional assistance to our customers impacted by the fire, including the cancellation of their most recent bill, a 20,000 litre allowance, and waiving service fees until January 2017.

Our work in water supply

Supply of safe drinking water

Ensuring supply of safe drinking water is our core business. The drinking water we supply achieved full compliance with the requirements as set out by the Department of Health. In accordance with the Australian Drinking Water Guidelines (ADWG), we run an extensive drinking water quality monitoring program to ensure the safety of the water we provide to our customers. We take more than 66,000 water samples each year from water sources, treatment plants and main networks which supply our customers, and have in excess of 200,000 individual samples analysed by our contracted laboratories. We pride ourselves on the quality of water we provide and have rigorous processes in place to ensure the continued delivery of safe drinking water to our customers. We are continually working towards implementing the Framework as described in the current ADWG (2011). Our drinking water compliance is thoroughly regulated in accordance with our Memorandum of Understanding with the Department of Health. Annual reports for drinking water quality are available online.

Water is treated at

81

water treatment plants

and pumped through

483

pump stations

127

dams and weirs

around the State

Integrated Water Supply Scheme

There was no let up from the drying climate over the past 12 months and during the winter of 2015, Perth's dams received their lowest inflow since records began in 1911. Combined with our warmest spring on record, we saw a spike in water use to nearly 9 billion litres above target by December 2015. Our response included increasing our demand management and water loss management initiatives, maximising production from our desalination plants, and applying for temporary additional groundwater.

Our largest scheme, the Integrated Water Supply Scheme (IWSS) delivered

298

billion litres of water.

This consisted of:
47 per cent
from desalinated water

46 per cent
from groundwater

7 per cent
from surface water

Other projects

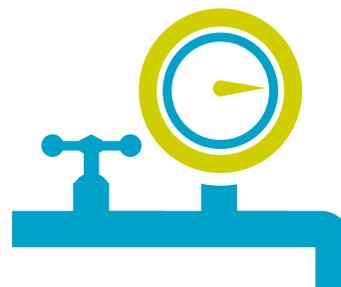
Pressure management program

We are continuing to deliver our water pressure management program, which once fully implemented will help save more than 10 billion litres of water each year. The program, which forms part of our water loss management strategy, works by creating separate water supply zones. This allows us to better monitor and manage each zone, and reduce pressure in areas where it is significantly higher than the Perth average. In June 2016, we selected suburbs throughout the State to be part of the program, after initial investigations of their suitability. Pressure management will be implemented in some remaining parts of Beckenham as well as Bentley, Cannington, East Cannington, Erskine, Falcon, Kenwick, Maddington, Martin, Queens Park, Wilson and Welshpool.

We will continue the program across 2016-17, working closely with our customers in the areas under investigation through a dedicated community consultation team.

Fire hydrant infill program

We are nearing completion of stage two of a \$12.5 million, five-year program to deliver an additional 2,900 fire hydrants across the State. Once stage two is complete, we will have installed some 1,650 new fire hydrants across metropolitan and regional Western Australia. Planning for stage three is currently underway. We work closely with local government authorities, Main Roads WA and the Department of Fire and Emergency Services to determine locations for the new fire hydrants.



Once fully implemented the pressure management program will help save more than

10 billion

litres of water each year.

Implementing innovative technology

We are committed to ensuring we stay current with innovative technology.

In November 2015, we conducted a number of aerial surveys using Unmanned Aerial Vehicles (UAVs) along the Goldfields and Farmland mains. The surveys resulted in high resolution photographs which were uploaded into our corporate mapping system. The imagery was analysed for the indicators of main deterioration, enabling a greater understanding of the condition of the asset to be obtained. UAV technology is advancing at an impressive rate, and during 2016 this work will continue. The future of UAV technology will include the development of fully autonomous systems, allowing remote water mains to be examined in fine detail and at low cost. We will be making full use of this emerging technology.

Enhancing our focus on the service we provide to our customers, our integrated partner, Perth Region Alliance (PRA), introduced technology to reduce the inconvenience to customers during leak repairs and valve replacements. The specialised 'no disruption technology', allows maintenance to be carried out without interrupting supplies to nearby customers.

A variety of this specialised equipment has been purchased, including a type to enable the replacement of fire hydrants without affecting customers' water supplies. They are also used when undertaking high priority maintenance in bushfire prone suburbs. These may reduce the occurrence of water main faults, as opening and closing valves can cause pressure surges when water in motion is forced to stop or change directions to travel through mains, potentially weakening them.

During the year, we also installed acoustic sensors on water mains and hydrants in the Perth CBD, designed to identify leaks in our mains early, enabling proactive repairs. By June 2016, 350 sensors were installed on around 110 kilometres of CBD water main. The sensors will listen for changes to noises in mains to detect a leak, reducing potential water losses and disruption to CBD traffic. The cutting edge technology will also ensure that should a break occur; repairs can be planned during off peak times.

Water recycling to achieve climate resilience

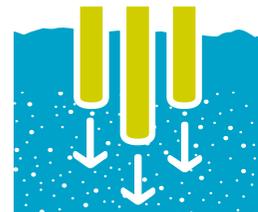
We have set a target to recycle 30 per cent of WA's wastewater by 2030. We operate 75 recycling schemes across the State, which supply recycled water for a range of purposes including industrial reuse, public open space and woodlot irrigation. Four of our largest metropolitan wastewater treatment plants use recycled water for most of their process water needs.



We operate 75 water recycling schemes. Four of our largest wastewater treatment plants use recycled water for most of their process water needs.

Groundwater replenishment

Australia's first full-scale Groundwater Replenishment Scheme is nearing completion, with recycled water expected to be recharged into groundwater supplies in December 2016. Stage one of the Scheme will have the capacity to recharge 14 billion litres of water each year, and will provide a new climate independent water source to Perth's drinking water supplies. Construction of the Advanced Water Recycling Plant, which forms part of the Scheme, was substantially completed in March, with the commissioning phase to be finalised by the end of 2016. Construction has achieved over 500,000 hours, lost time injury free to June 2016. The Minister for Water the Hon. Mia Davies MLA, announced in July 2016 the Scheme's capacity will be doubled to 28 billion litres a year. Expanding the capacity will be subject to regulatory and environmental approvals.



Stage one of the \$125 million scheme will have the capacity to recharge

14 billion litres
of water per year.

Infill Sewerage Program

In 2015-16, as part of the State Government's Infill Sewerage Program, we completed work in parts of Bunbury, Busselton, Dawesville and Dunsborough. These projects allow more than 1,000 lots to connect to the central wastewater system. This work removes the need for septic tanks in environmentally sensitive areas, promotes development, and protects public health.

The Program is also delivering a Septic Tank Effluent Disposal (STED) scheme in Bruce Rock. The \$6 million project will enable 250 residential lots to connect to a single scheme, reducing potential health and environmental impacts linked to the use of septic tanks and leach drains in the town. To date, the Infill Sewerage Program has provided more than 93,000 households in metropolitan and regional Western Australia with access to the central wastewater system.

Social responsibility

We acknowledge the responsibility we have as a major service provider to the Western Australian community. During the year we have continued our commitment as a corporate citizen, as one of the managers of an important natural resource. Customer service has been improved, education and awareness campaigns have been delivered, and we have strengthened our connection with schools, businesses and local government to help us achieve water for all, forever.

Our operations cover 2.6 million square kilometres of Western Australia - from Wyndham in the north to Esperance in the south. Despite the challenges in the Perth metropolitan area of the lowest ever inflows to our drinking water dams, and the warmest spring on record in 2015, we have again provided consistent water, wastewater and drainage services to our customers. We supplied 370 billion litres of water to 1.25 million properties and collected 163 billion litres of wastewater.

Enhancing the customer experience

We know the value of engaging and listening to our customers and the wider communities they represent, and actively seek opportunities to involve them in our decision making. We work alongside our customers to meet their needs and expectations.

Customer Performance Index

We know our customers' perception of our overall performance is broader than just the delivery of customer service. In fact, our customers have told us it is defined by how we perform across eight key areas. These are all actively measured in our Customer Performance Index (CPI). The graph below provides an overview of how our customers believe we have performed in these eight key areas for 2015-16.

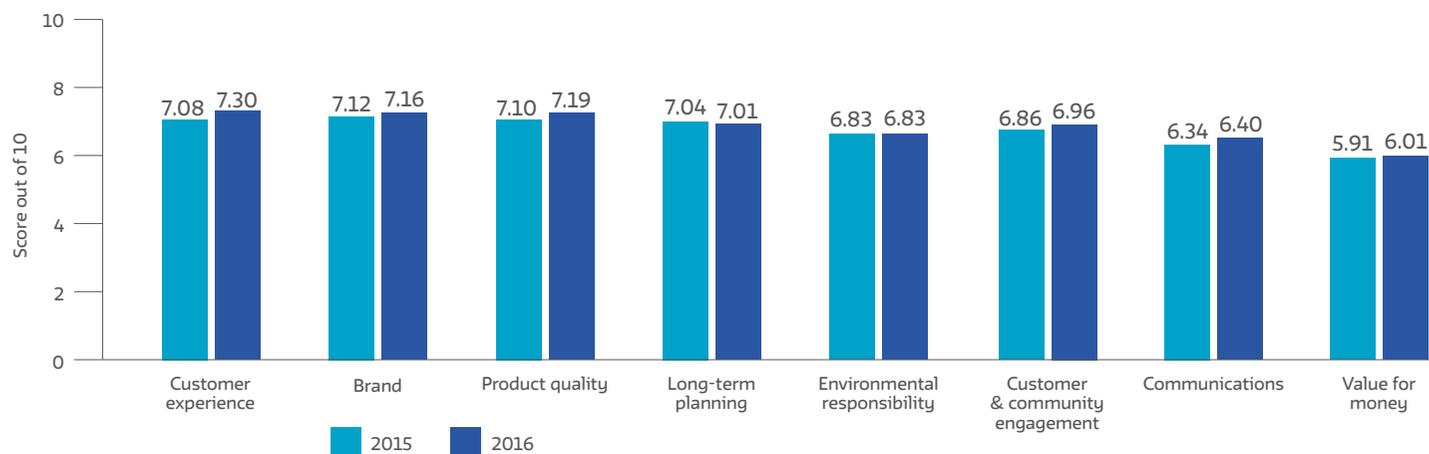
Customer service surveys

Our customers' experiences are driven through their transactions and interactions with us. We measure how well we perform in these interactions through our post-interaction surveys. Our survey results, have improved from 8.7 to 8.8 for over the phone experience, and from 7.3 to 7.4 in the way customers score their email experiences. Our customer score for the website has risen from 6.4 to 6.7.



819,264
customer telephone
calls answered
1.65 million
visitors to our website

Our customer experience performance



Cost-effective and convenient ways to pay

We have a strong focus on providing more cost-effective and convenient options for customers to pay their bills. We have continued to see a steady number of customers registering for My Water, our online self-service system and paperless bills. We have also moved customers to more cost-effective payment channels, including registering 177 more business customers for Electronic Funds Transfer (EFT) payments.

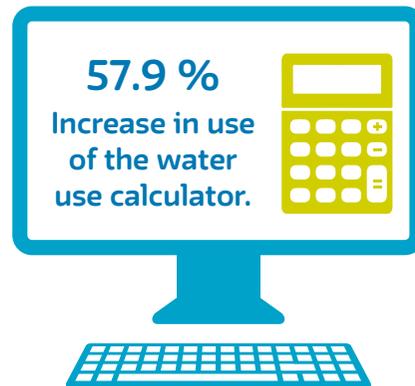
Investment in technology

We have invested in future multi-channel capability by implementing the new Customer Interaction Centre (CIC) technology platform to replace our phone system. The CIC provides the infrastructure required to manage phone, email, web chat and social media customer enquiries through one platform, enabling a seamless customer service experience – regardless of the channel customers choose to interact with us.

Continuing on our digital journey

We continue to focus on delivering innovative digital solutions that support the business and are easy for our customers to use. Our focus has been on transitioning customer service options to channels that customers prefer, whilst also improving our cost to serve and internal efficiencies.

We have implemented new online forms which have allowed customers to engage with us at a time that suits them. This has driven a 27 per cent increase in online fault reports. There has also been a 57.9 per cent increase in use of the water use calculator.



27% increase in online fault reports

We have seen a 17.8 per cent increase in website visits and a 35.4 per cent increase in visits from a mobile or tablet device. We have continued a program of improvements to accessibility and usability of our digital content.

We also continue to grow our engagement with customers on social media, increasing the level of proactive content which has resulted in 137 per cent more impressions on Twitter and a 69 per cent increase in views on our YouTube channel over the last year. Reach to our Facebook audience has also increased by 113 per cent.

Forging strong relationships with major customers

Our key customer engagement program provides our top 300 non-residential customers across the State with direct access to a dedicated team who know their business and can tailor solutions to meet their needs. Organisations are included on the basis of the size and complexity of their business or the criticality of water to their operation. The majority of these customers also participate in the Water Efficiency Management Plan where we work together to save water and achieve better outcomes for the environment and the bottom line. During 2015-16, we reviewed the administration and management process across the State, and our pricing framework for our major regional agreements. This has resulted in better access to water use data through smart water metering, more efficient billing, credit management improvements and a revised approach to major consumer agreements, based on broad customer and industry consultation.



Jerome Wade, Operator harvesting the Rhodes grass crop at the Broome North Wastewater Treatment Plant.

Collaborating with the Department of Water

We've been working with the Department of Water to investigate opportunities to better meet community expectations. In 2015-16 this has focussed on:

- Social licence and community engagement.
- Improving drainage outcomes.
- Investigating options for improved water supply planning and governance.
- Facilitating regional aspirations and development, where water is a perceived barrier.
- Identifying where treated wastewater management can be used for beneficial reuse.

Community involvement

Community engagement

This year our Community Engagement team worked alongside our customers to minimise the impact of our construction or operational activities for nearly 250 projects, including Pressure Management, Farmlands Supply and Infill Sewerage.

We also worked to ensure our communities have the opportunity to be part of our decision making processes for our existing, emerging or planned major assets or initiatives. One example of how we work with communities is in Denmark, partnering with the community to find a solution to resolve water supply issues over the next

5 - 10 years, as well as in the longer term, such as identifying alternative groundwater sources.

Community partnerships

Our community partnerships portfolio supports a range of programs across Western Australia that meet important community needs. They help us to demonstrate our commitment to the environment in which we operate, communicate waterwise messages and share our plans to deliver a sustainable water supply through fresh water thinking.

During the year, we worked in partnership with Wirrpanda Foundation, funding the implementation of the Deadly Sista Girlz program, designed for at risk Aboriginal and Torres Strait Islander girls aged 12-18 years. The program aims to inspire and empower through education and development activities.

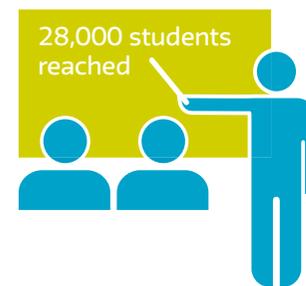
Water Corporation continued a strong alliance with Clontarf Foundation during the year, with representation at employment forums across the State. We also host four year 11 students at our depot in Kelmscott.

We leased Mamabalunjin Aboriginal Corporation more than 17 hectares of land to carry out a trial using recycled water from the Broome North Wastewater Treatment Plant to establish a seedbank of native plants. Mamabalunjin will use the seedbank in their various land restoration programs in the Kimberley. The project redefines how recycled water can be used and will benefit the local community by providing employment and training opportunities.

We have entered into an exciting partnership with the Lions Club Broome, establishing the West Kimberley Community Grants Scheme. Funding for the Grants Scheme is generated by the sale of Rhodes grass hay, produced at our Broome North Wastewater Treatment Plant as an environmentally friendly means of using recycled water. The Grants Scheme aims to create real benefits in the West Kimberley by empowering communities to deliver local projects.

Water education

We are committed to providing cutting-edge education services that are valued by our community and customers. In 2015, we celebrated the 20th anniversary of the Waterwise Schools Program, and our inaugural school, Hillarys Primary School was presented with the first 20 year recognition certificate.



563 Waterwise Schools recognised

and 28,000 students reached during 2015-16

During 2015-16, we reached 28,000 students through our incursions program and redesigned 120 lesson plans for teachers. The lesson plans are available on our website, and cater for schools and the wider community.

Our drive to reduce water use

In tackling a drying climate, and to bring demand for water back to its usual level, we launched an extensive demand management campaign in November called "Whatever You Do, Just Drop 2." This initially focussed on asking customers for just one small action - reduce watering times by two minutes per station on their watering days. This was based on the fact 40 per cent of water is used outside the home, so it provided the biggest opportunity to save. The integrated campaign comprised of television, radio, online advertising, press, outdoor advertising and social media. Post campaign research revealed 55 per cent of those exposed to the campaign had taken action to reduce water use as a result, and there were significant water savings. In addition, we sent letters to the top 20 per cent of water-using households in the Perth metropolitan area. The letters highlighted to our customers their higher than average water use, and encouraged them to take action to reduce it. A series of follow up letters were sent which updated these customers on the community's water saving efforts as well as simple tips that they could implement to further reduce their water use. Over half of the customers contacted recorded a measurable reduction in water use over the four months since receiving the first letter.



Captain Waterwise with children from Westminster Primary School.

Whilst this year's per person water use of 127 kilolitres is up from last year's figure of 126 kilolitres per person, it is below our 2016 target of 129 kilolitres. Since 2001 Perth's water use per person has reduced by more than 30 per cent. In regional areas, per capita water use continues to reduce, a trend which has been sustained for more than five years. During the year, we continued to work with the community and industry partners to reduce water use across the State through initiatives such as:

- Waterwise Service Providers
- Waterwise plants and products
- Waterwise Partners
- Showerhead Swap across WA
- Waterwise Office and Aquatic Centre programs
- Waterwise Council Program
- Waterwise Development Program
- Data logging program

- Online water efficiency training
- Water Efficiency Management Plan Program

Thinking and acting safe

We are working towards Zero Harm – a culture where safety is a priority for all our employees and contractors, no injury is considered acceptable, and all activities are undertaken without compromising safety and health.

Our safety strategy

Our strategy is to reduce the injury rate to our people by focussing on culture, accountability and systems. Full disclosure of all our workplace injuries is a key component of ensuring they do not reoccur. We have a comprehensive strategy designed to keep our people safe in our business by:

- Building health and safety capability and resilience across the organisation to ensure safety leadership at all levels, and an empowered workforce committed to safety.
- Retaining the certification of our Safety Management System against the requirements of Australian Standard (AS/NZS 4801) 'Occupational Health and Safety Management Systems' and the OHSAS 18001: 'Occupational Health and Safety Management System Requirements'.
- Undertaking activities to ensure all high risks with the potential to cause harm are identified and managed to prevent injuries from occurring.
- Focussing on investigations to prevent reoccurrence through utilising a systematic approach and training the workforce.

Improving safety around asbestos

Following the potential exposure of employees and contractors to materials containing asbestos during a refurbishment of our Minnivale Reservoir, near Wyalkatchem in 2015, we carried out extensive reviews to understand the series of events that led to this occurring.

The investigation found there were multiple opportunities for asbestos to be identified at the site but contractors were not informed during the planning, design and construction phases of the refurbishment.

A re-enactment confirmed asbestos was not present at a concentration exceeding the Workplace Exposure Standard, set by the National Occupational Health and Safety Commission.



In Perth per person water use has reduced by over 30 per cent since 2001 to 127 kilolitres in 2015-16.

Measure	Target 2015-16	Results ¹	
		2015-16	2014-15
Significant Injury Frequency Rate (SIFR)	3.8	4.9	4.2
Number of fatalities	0	0	0
Percentage of injured workers returned to work (i) within 13 weeks	Greater than or equal to 80 per cent return to work within 26 weeks	91%	100%
(ii) within 26 weeks	Greater than or equal to 80 per cent return to work within 26 weeks	100%	100%

¹ Water Corporation employees (including operations and maintenance alliances) – includes persons on Water Corporation payroll, operations and maintenance alliances (Perth Region Alliance, Aroona Alliance, Pro-Alliance, Southern Seawater Desalination Operations & Maintenance, IBM and Kinetic IT staff working on a Water Corporation site).

A WORLD CLASS WATER SUPPLY

CY O'Connor's original scheme and how it is today

LEGEND

ORIGINAL SCHEME (1901)

CURRENT SCHEME

- WATER STORAGE
- STEAM PUMP STATION
- PIPELINE

- WATER STORAGE
- PUMP STATION
- PIPELINE



Senior Career Consultant Andre Sequeira with some of the interns of our vacation program. Water Corporation took number one spot on the Australian Association of Graduate Employer's national Top Internship Program list for 2016, for our work in this area.

Since Minnivale, we have made and continue to make significant improvements to our asbestos management framework to ensure the risks associated with asbestos on our sites are well managed and widely understood by staff and contractors.

We inspected 993 capital projects to ensure the presence of any asbestos had been appropriately captured in planning, design and project work, which it had in all cases.

We also inspected all of our sites to ensure appropriate signage and management is in operation where asbestos is present.

As part of our Asbestos Management Project, we are currently undertaking further inspections of our sites around the State.

This includes the development of an app which can be used on our employees and contractors' smart phones or Personal Digital Assistants (PDAs) to obtain up to date information about a particular site if it has material containing asbestos. The app will be used to scan a unique code on the signage at the site to ensure anyone visiting the site will be informed of the nature of the asbestos on site and take any necessary precautions.

This will be another safeguard to minimise the risk of exposure to a material that has become a legacy issue for many agencies and businesses across the State.

Our fresh water thinkers

We have approximately 2,650 direct employees performing a variety of roles across Western Australia.

Graduate development program

We deliver a range of career entry opportunities across the State to ensure we have the right people to run our business, while creating career opportunities for young Western Australians.

Our three-year Graduate Development Program enables participants to work in three different areas of our business appropriate to their discipline, in a variety of locations. In 2015-16, there were 30 graduates in our program, with 21 completing and moving into professional roles with Water Corporation.

We are among the most desirable employers in Australia for graduates, coming in at number 15 in the Association of Graduate Employers 2016 Top 75 Graduate Employer List. In addition, our program for undergraduate vacation students was rated by the same organisation at number one nationally.

Our Graduate Development Program builds our workforce capacity for the future, providing graduates with an opportunity to learn from our experienced professionals and develop a broad understanding of a range of business areas across the State.

Aboriginal engagement

Our relationship with Aboriginal communities in Western Australia is important to us. Our Reconciliation Action Plan 2015-18 details actions designed to embed cultural change in our organisation and contribute to closing the unacceptable gap in life expectancy, education and economic opportunities that currently exist between Aboriginal people and other Australians.

Some of our achievements include:

- There has been an increase of 21 per cent in Aboriginal and Torres Strait Islander employees working within our organisation over the past 12 months. This increase has pushed us above the total workforce target of 2.68 per cent.
- An *Aboriginal Recruitment Standard* aims to increase Aboriginal recruitment and retention by creating an inclusive workplace, delivering career development and mentoring to Aboriginal employees.
- We participate in a range of Aboriginal traineeship programs which give young Aboriginal people realistic exposure to the water industry, and motivating them to work towards their goals. We currently have two trainee hydrographers and one trainee remote operation vehicle technician.
- We have nine trainees in our Aboriginal School-based traineeship program, where students work as paid employees one day per week and obtain nationally recognised qualifications while completing high school.

- We deliver Aboriginal cultural awareness sessions to staff across the organisation and alliances. Currently, 28 per cent of employees have completed this training.
- The launch of 'Water in Aboriginal culture' for school students aims to help non-Aboriginal people understand the importance of water in Aboriginal culture. This program supports the mandatory Australian Curriculum priority area - 'Aboriginal and Torres Strait Islander histories and cultures'.
- Continued partnerships with organisations such as Clontarf Foundation, David Wirrpanda Foundation, Yirra Yaakin Theatre Company and John Curtin Gallery supporting Aboriginal development and raising awareness of Aboriginal culture in our community.
- Progress on our procurement program to actively encourage the involvement of Aboriginal owned businesses in externally contracted projects. An example of this work is our joint venture with Mamabalunjin Aboriginal Corporation, employing local Aboriginals to deliver various land restorations programs in the Kimberley.
- In October 2015, we held our first Aboriginal businesses forum where suppliers were given the opportunity to showcase their trade.

Future thinking

Under the leadership of the Minister for Water Hon. Mia Davies MLA, we are working closely with the community and the Department of Water to focus on engagement and developing cross-agency strategies that deliver social and environmental outcomes for the long-term.

Business improvement

Our business transformation was a portfolio of work which concluded in December 2015, and focussed on transforming our organisation to be more efficient, flexible and nimble to adapt to changing workloads and customer needs.

Complementing this transformation is the implementation of a continuous business improvement framework. Our absolute priority remains delivering core business to customers safely, and we will do this by planning our work and measuring our progress against that plan at every level of the organisation. Structured management systems continue to be implemented throughout Water Corporation, integrating and aligning our structure and processes and building the business improvement

capability of our people. This enables us to quickly identify changes in our operating environment, prioritise and deliver improvements according to our customers' needs and to identify and overcome barriers to our productivity. This new way of working also fosters creative problem solving and innovation as part of a learning organisation, to efficiently deliver outcomes to our customers.

Engineering and Construction Services

In August 2015, we sold the Engineering Construction Services (ECS) branch to RCR Water Pty Ltd (a subsidiary of RCR Tomlinson Ltd) for \$10.4 million. The sale was undertaken in the broader context of our business transformation, to ensure a more responsive organisation with the right people in the right jobs. The sale included guaranteed work with our organisation over three years to the value of \$130 million to support the transition of the 114 transferring employees. Every Water Corporation employee from ECS who wanted a job received a job.

Our awards

This year we saw award success in the following areas:

- Peter Moore, General Manager Operations, was awarded the Public Service medal in the 2016 Australia Day honours for outstanding public service to the water industry in Western Australia. In a long career, Mr Moore has played a key role in every major change in our business in recent times, from corporatisation to the introduction of desalination and groundwater replenishment, as well as our integrated alliances.
- Our online water use calculator was a joint winner of the Water Innovation Challenge at the Australian Water Association's Ozwater16 conference in Melbourne. The calculator tells customers how waterwise their home is and encourages water saving. The judges found the product highly engaging and practical.
- Our Pilbara Clearwater Alliance, in which we are a partner with Downer, won the Infrastructure Project Innovation Award in the 2015 WA Water Awards for delivering wastewater treatment upgrade work and new advanced water recycling facilities to the Karratha and South Hedland wastewater treatment plants.
- We took number one spot on the Australian Association of Graduate Employer's national Top Internship Program list for 2016 for the program we offer in the university student vacation and internship areas.
- Water Corporation was named Western Australia's largest corporate blood donor in October 2015 for the third consecutive year. Over the past three years, our employees helped save 4,578 lives through more than 1,562 donations to the Australian Red Cross Blood Service.

Corporate governance

Corporate Governance Report

Strong corporate governance is a fundamental part of our culture and business practices. This section includes a description of our main corporate governance practices, which form a framework to ensure we act with high standards of corporate behaviour and in the best interests of our owner.

The Board of Directors

The structure of the Board is subject to the following parameters:

- The Board must comprise of at least six and not more than seven directors (the Chief Executive Officer is the only Executive Director).
- The Directors are appointed for terms of up to three years and are eligible for re-appointment.
- The Board should comprise Directors with a broad range of skills and experience.
- Board meetings are generally held once a month at our head office in Leederville.

Key activities

The Board, in consultation with management, develops our strategic direction for the immediate and long-term horizons. We have a Statement of Corporate Intent (SCI) covering 12 months, and a five-year Strategic Development Plan (SDP), which is updated every year.

The SCI is a public document, and is in the form of an agreement with the Minister for Water. It contains an outline of our objectives and performance targets for the year.

These plans were developed for the 2015-16 year and presented to the Minister.

The Board considerations include:

- Safety performance.
- Strategy and risk issues.
- The capital program.
- The award of contracts for major projects.
- Financial matters.
- Key operational matters.

Appointment of Directors

The Governor appoints non-executive Directors on the nomination of the Minister for Water. This is after consultation with, or on the recommendation of the Board.

Appointments are typically staggered to ensure that one third of the Directors retire each year. Subject to re-appointment, there is no limit on the time a Director may serve on the Board. Their duties are not full-time.

Chief Executive Officer appointments are made by the Board, subject to the Minister's agreement. The Board can appoint a person to act in place of the Chief Executive Officer during a vacancy in that office.

Changes to the Board

Mr Tony Iannello vacated his position on 31 December 2015.

Mr Peter McMorro's term expired on 31 December 2015.

Dr Vanessa Guthrie's term expired on 31 December 2015 and she continued in the role until 31 March 2016 when a new appointment was made.

Mr Michael Hollett was appointed Deputy Chairman for a term expiring on 31 December 2017.

Mr David Rowe was appointed on 1 March 2016 for a term expiring 31 December 2018.

Mrs Nicole Lockwood was appointed on 1 March 2016 for a term expiring 31 December 2017.

Mr Ross Holt was appointed on 8 June 2016 for a term expiring 31 December 2018.

There were no other changes to the composition of the Board during the year.

Board committees

Committees of the Board that operated during the year ending 30 June 2016 were:

- Audit and Compliance Committee
- Safety Committee
- Remuneration Committee
- RCR Committee

From time to time the Board convenes working groups to deal with specific strategic issues.

Audit and Compliance Committee

The Committee was chaired by Mr Tony Iannello (to 31 December 2015) and by Mr David Lock (from 1 January 2016) and includes Directors Ms Eva Skira and Mrs Nicole Lockwood (from 1 March 2016). Each member has substantial corporate and/or financial experience in private enterprise, and the necessary skills to undertake the Committee's responsibilities.

The Audit and Compliance Committee invites management, auditors or others to attend meetings and provide information, as necessary.

External attendees at various meetings during the year include staff of the Office of the Auditor General (OAG) and the external auditors appointed by the OAG to undertake our annual audit, presently KPMG.

The Audit and Compliance Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, risk management, the audit process, and our process for monitoring compliance with applicable laws and regulations.

The Committee oversees the internal audit function and liaises with the external auditor.

Safety Committee

The Safety Committee was chaired by Mr Peter McMorrow (to 31 December 2015) and by Mr Michael Hollett (from 1 January 2016) and includes Directors Dr Vanessa Guthrie (to 31 March 2016) and Mr David Rowe (from 1 March 2016). Each member has extensive experience in the corporate sector at a senior level and brings the skills necessary for the Committee to undertake its role.

The Committee supports and assists the Board to review and oversee Occupational Safety and Health policies and performance including impacts on the public, employees and contractors.

Remuneration Committee

The Remuneration Committee is chaired by Ms Eva Skira and includes Directors Mr Tony Iannello (to 31 December 2015) and Mr Michael Hollett (from 1 January 2016).

The Committee supports and assists the Board to ensure that remuneration and benefit arrangements support the strategic aims of the business whilst complying with regulatory requirements and satisfying the requirements of our owner.

RCR Committee

The RCR Committee was chaired by Mr Tony Iannello (to 31 December 2015) and by Mr David Lock (from 1 January 2016) and includes Directors Mr Michael Hollett and Dr Vanessa Guthrie (to 31 March 2016).

In August 2015, Water Corporation sold the internal Engineering and Construction Services (ECS) branch to RCR Tomlinson Ltd (RCR). The RCR Sub Committee was formed to oversee the responsibilities of Water Corporation and RCR under the sales agreement, and all contracts awarded to RCR and RCR's performance under these awarded contracts. Due to an ongoing conflict of interest, Chairman Eva Skira has not been a member of the RCR Committee.

Directors' meetings

The number of Board meetings, Committees of the Board held, and the number of meetings attended by each Director during the 12 months ended 30 June 2016, are shown in the table.

	Board	Audit and Compliance	Safety	Remuneration	RCR					
Number of meetings held	14	4	7	5	3					
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Ms Eva Skira (Chairman)	14	14	4	4	0	0	5	5	0	0
Mr Tony Iannello (Deputy Chairman) ¹	8	8	2	2	0	0	3	3	3	3
Mr Michael Hollett ²	13	14	0	0	7	7	3	3	1	1
Mr Peter McMorrow ³	8	8	0	0	4	4	0	0	0	0
Dr Vanessa Guthrie ⁴	9	11	0	0	5	5	0	0	3	3
Mr David Lock	14	14	4	4	0	0	0	0	4	4
Ms Sue Murphy (Chief Executive Officer)	12	14	4	4	7	7	3	3	3	4
Mr David Rowe ⁵	4	4	0	0	3	3	0	0	0	0
Mrs Nicole Lockwood ⁶	4	4	2	2	0	0	0	0	0	0
Mr Ross Holt ⁷	1	1	0	0	0	0	0	0	0	0

1. Mr Tony Iannello's tenure with the Board ended on 31 December 2015

2. Mr Hollett was appointed Deputy Chairman on 1 March 2016

3. Mr McMorrow's tenure with the Board ended on 31 December 2015

4. Dr Vanessa Guthrie's tenure with the Board ended on 31 March 2016

5. Mr David Rowe was appointed as a Director on 1 March 2016

6. Mrs Nicole Lockwood was appointed as a Director on 1 March 2016

7. Mr Ross Holt was appointed as a Director on 8 June 2016

Accountability and independence

As prescribed in the Water Corporations Act 1995, Directors are to act honestly, exercise due care and diligence, and disclose all material personal interest in matters involving Water Corporation that are raised in Board meetings. The Board has complete independence to determine the policies and control the affairs of the business subject to restrictions imposed by the Water Corporations Act 1995.

Ministerial approval is required for transactions that are above a prescribed amount, currently \$25 million, will result in a major initiative, or are likely to be of significant public interest.

Ministerial directions

Under section 64 (1) of the Water Corporations Act 1995, the Minister may give us directions in writing, generally with respect to the performance of our functions and, subject to section 65, we are to give effect to any such direction. If the Minister gives a direction, it must be tabled in Parliament. During the period under review, no directions were received from the Minister.

Directors' and Senior Executives' remuneration

For further disclosure of Directors' and Senior Executives' remuneration please refer to the Remuneration report on page 35.

Governance framework

The Board has legislative authority under the Water Corporations Act 1995, to perform the functions and determine the policies that control our activities.

The Board is responsible for our overall corporate governance, approves strategic direction and budgets, ensures that legal compliance, ethical behavior and proper risk management processes are in place and operate effectively. Comprehensive monthly reports are provided to the Board to enable it to monitor performance.

We undertook a review of corporate governance to ensure there was full accountability, openness and transparency with the business. A number of key reforms were made including the introduction of a Company Secretary and the publication of Board and Committee charter, and key policies on our website.

Internal control

The Board, through the Audit and Compliance Committee, has oversight responsibilities for the financial reporting process, the system of internal control, risk management, the audit process, and our process for monitoring compliance with applicable laws and regulations. We maintain an effective internal control structure.

It consists, in part, of organisational arrangements with clearly defined lines of responsibility and delegation of authority, and comprehensive systems and control procedures.

Management has the responsibility for establishing and maintaining the system of internal control that supports the achievement of our business objectives.

This system of internal control is designed to manage and mitigate rather than eliminate the risks of failure to achieve business objectives. The system of internal control can only provide reasonable and not absolute assurance of the effectiveness of the systems of internal control implemented by management. An important element of the control environment is an ongoing internal audit program, delivered by our Management Review and Audit team.

Management review and audit

Our internal audit function is managed by the Risk and Assurance Branch's Management Review and Audit team, which has the authority to examine any matters referred to it by the Audit and Compliance Committee, the Board of Directors or the Chief Executive Officer. The internal audit function supports the Audit and Compliance Committee and senior executives by independently and objectively reviewing the effectiveness of our internal control system.

External auditors

In accordance with the Water Corporations Act 1995, we must have the financial report for a financial year audited by the Auditor General. The Auditor General has outsourced the audit to KPMG for a three-year period. Total auditor remuneration is shown in Note 19 to the Financial Statements on page 61.

Risk management

Risk management is a key element of our governance framework. We have an established Risk Management Framework that provides a common understanding of risk and a set of processes for managing risk aligned with the *International Standard on Risk Management AS/NZS ISO 31000:2009*. The Framework ensures a formalised, structured and corporation-wide approach to the identification, evaluation and control of risks, which have the potential to threaten the achievement of our objectives and our ability to provide services.

All managers are responsible for the identification and management of risks that will impact upon their business processes and subsequent objectives. The management of risk within the business is embedded at all levels, with appropriate support and systems in place to ensure risks are managed to an acceptable level.

A comprehensive commercial insurance program is maintained covering insurable risks, which may have a significant impact on our assets, construction activities and legal liability.

Performance monitoring and reporting

We provide three quarterly reports and this Annual Report to the Minister for Water detailing our performance and progress made in fulfilling the Statement of Corporate Intent. A written annual report on compliance with performance standards specified in the Operating Licence is also provided to the Economic Regulation Authority. In addition, the Board and Senior Executive receive monthly performance reports covering a diverse range of financial and non-financial matters.

Ethical standards

We require all Directors, employees and contractors to exercise high standards of ethical behaviour in carrying out their duties.

Our Code of Conduct was revised in May 2016. We have ensured all employees are aware of their personal responsibilities according to this Code. Our Code of Conduct is available on both Water Corporation's external and internal website. A report on compliance is forwarded to the Public Sector Commission.

There is a Board Charter that sets out the roles and responsibilities of the Board and management. Under the guidance of the Audit and Compliance Committee the Charter was drafted using the *Water Corporations Act 1995*, Australian Standards and other corporate governance resources.

Managing financial exposures

We have a central Treasury function to manage financial exposures in accordance with our Treasury Risk Management Policy. Regular reporting ensures the Board can monitor financial risk management.

Information security management system

We maintain an enterprise information security management framework that is based on the *Australian Standard for Information Technology - Security Techniques - Code of Practice for Information Security Management AS/NZS ISO/IEC 27001:2013*.

State Records Act 2000

In accordance with section 61 of the *State Records Act 2000* and the State Records Commission Standards (Standard 2 - Principle 6), we have an approved Recordkeeping Plan. In accordance with section 28 (5) of the Act, an updated Plan was submitted to the Minister and endorsed in September 2014. The Plan describes how records are created, maintained, managed and disposed of in accordance with our Standards and Principles. We regularly conduct audits of recordkeeping practices and system use by our staff and alliance partners. Regular in-house records and document management training is conducted and

feedback and evaluation is sought from all attendees. The course is also available online for regional officers.

We have implemented an online induction process for all new staff, which includes information on employees' roles and responsibilities, and how they comply with the approved Recordkeeping Plan. It also includes 'Information on Record Keeping and Information Management Compliance for Water Corporation' and 'Information Security Awareness'.

Information management, including records management, is acknowledged as critical to the effectiveness and success of the business, and we are committed to continuously improving its management.

Public Interest Disclosure Statement

The *Public Interest Disclosures Act 2003* has been enacted to protect the privacy and confidentiality of both the individual making a public interest disclosure, and the subject of that disclosure. Public Interest Disclosure Officers have been appointed. Internal procedures relating to our obligations under the Act have been developed and implemented in accordance with the guidelines provided by the Public Sector Commission. There was one public interest disclosure in the period under review. It is currently being investigated.

Conflicts of interest

We have established procedures to identify, prevent, or resolve conflicts of interest, which are outlined in our procurement standards and Code of Conduct.

All our personnel with duties related to the negotiation of contracts must disclose current or prospective interests to their immediate supervisor. If known, they must also disclose the interests of immediate family members.

In such cases, we will assess the appropriateness of the situation and determine if the basis of that interest should be discontinued, or if the person should cease the duties involved, or if it is proper and ethical to continue the transaction.

Water Corporation reviewed its *Conflict of Interest and Related Party Transactions Policy* during the 2015-16 year and strengthened its processes.

Competition and Consumer Act Compliance Program

In accordance with the standards and guidelines recommended by the Australian Competition and Consumer Commission (ACCC), we conduct a Competition and Consumer Act Compliance Program to manage the risk of breaching the Act. To ensure that all employees are aware of their obligations, a state-wide program is conducted that includes mandatory training.

Freedom of information

We met our obligations under the *Freedom of Information Act 1992*.

During 2015-16, we received 38 access applications, of which one was transferred in full to another agency. Six were provided full access, 25 were provided edited access, one had access refused. None of the applications had access deferred, and there were no instances where the document was not found or did not exist. Five were on hand at the end of the year. One was withdrawn and is not included in the total number of applications received.

One internal review was requested. Fees and charges totalling \$2,018 were received for processing these applications with 24 days being the average processing time.

Under section 96 of the *Freedom of Information Act 1992*, we are required to produce an Information Statement. Its purpose is to provide a description of our procedures for giving members of the public access to our documents, as well as the types of documents we hold. This statement can be found at watercorporation.com.au.

Advertising codes

We comply with the *Communications Council's Code of Ethics*. In addition, our advertising agencies have full compliance policies with the ACCC. There were no breaches or complaints recorded in the reporting year.

Reportable expenditure

The *Electoral Act 1907* (section 175 ZE) requires the disclosure of certain categories of expenditure. Details of the organisations contracted and the amounts paid for the financial year are as follows:

Advertising agency	Amount paid
The Brand Agency	\$1,431,716 ¹
303MullenLowe	\$375,943 ²
AdCorp	\$140,803

Media advertising	Amount paid
Media Decisions	\$2,350,534
Carat	\$676,148

Market research	Amount paid
Painted Dog	\$317,788 ³
Metrix	\$314,397 ⁴
IPSOS	\$79,700 ⁵
Quintessential Marketing	\$67,725 ⁶

¹ This amount includes costs associated with Whatever you do just drop 2 demand management campaign, paperless billing campaign, Water in Aboriginal Culture schools education campaign, and Captain Waterwise schools education program.

² This amount includes costs associated with Fresh Water Thinking demand management campaign, Winter Sprinkler Ban campaign and showerhead swap water efficiency program.

³ This amount relates to the costs for builders and developers website redesign, service disruptions research, non-residential segmentation and residential segmentation refresh.

⁴ This amount relates to the costs for the Customer Performance Index, Pressure Management, Farmlands research, campaign testing, Customer Strategy research, partnerships research, dry season response research.

⁵ This amount relates to costs for Questback customer feedback portal and Groundwater Replenishment tracking.

⁶ This amount relates to the internal Voice of Customer and components of the external Voice of Customer program.

Directors' report

The Directors of Water Corporation present their report for the 12 months ended 30 June 2016.

Directors

The following persons were Directors of Water Corporation at the date of this report:

Ms Eva Skira (Chairman)

Director since 4 October 2011
Chairman since 1 January 2012

Ms Sue Murphy

Chief Executive Officer since
6 November 2008

Mr Michael Hollett (Deputy Chairman)

Director since 1 January 2012
Deputy Chairman since 1 March 2016

Mr David Lock

Director since 1 January 2014

Mr David Rowe

Director since 1 March 2016

Mrs Nicole Lockwood

Director since 1 March 2016

Mr Ross Holt

Director since 8 June 2016

Directors' biographies are shown on page 5 and 6.

Directors' meetings and attendance are shown on page 30.

Directors' compensation details are shown on page 37.

Principal activities

Water Corporation was established as a body corporate under the provisions of the *Water Corporations Act 1995* and is the principal water utility in Western Australia. Water, wastewater, drainage and irrigation services are provided under this Act, other legislation and subsidiary legislation, which control the water industry.

Our principal functions are:

- Acquire, store, treat, distribute, market and otherwise supply water for any purpose.
- Collect, store, treat, market and dispose of wastewater and surplus water.
- Undertake, maintain and operate any works, system, facilities, apparatus or equipment required for any of these purposes.

There has been no significant change in the nature of our activities during 2015-16.

Dividends

Dividends paid or declared by Water Corporation since the end of the previous financial year were:

Date of	Total amount \$M	Date of payment
Final 2014-15	23	30/10/2015
Interim 2015-16	544	29/06/2016
Total	567	

Dividend declared after end of year

After the balance sheet date, the Directors have proposed a final dividend of \$4 million for the 2015-16 year, payable on or before 31 October 2016.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2016, and will be recognised in subsequent financial reports.

Review of operations

We operate in a regulatory framework comprising the Economic Regulation Authority, and Departments of Water, Health, Environment Regulation, and Parks and Wildlife.

Clear commercial objectives and strict environmental targets and accountabilities have been established through the Statement of Corporate Intent and a system of licences through the various regulators.

During the year, we supplied 370 billion litres of water and treated 163 billion litres of wastewater.

Risk management

Our Risk Management Framework aims to improve the quality of information considered in delivering better informed assessments for the purpose of resource allocation, increasing transparency in decision making and clearly articulated accountability.

Remuneration report

Remuneration of key management personnel is referred to as compensation throughout this report. Key management personnel comprise the Directors of the Board and Executives who are responsible for planning, directing and controlling the activities of Water Corporation.

Compensation levels for key management personnel are set at a level sufficient to attract and retain appropriately qualified and experienced Directors and Executives.

The compensation of the non-executive Directors of the Board is determined following independent advice from management remuneration consultants and the State Government's Salaries and Allowances Tribunal on an ad-hoc basis and is agreed to by the Minister for Water. The compensation is in the form of salary and superannuation contributions. Other than compulsory superannuation contributions and superannuation via salary sacrifice, Water Corporation does not pay any post-employment benefits to non-executive Directors.

The compensation packages for the Chief Executive Officer (CEO) and Executives consist of a total reward that is a mix of fixed compensation, in the form of salary, non-monetary benefits and superannuation contributions, and variable compensation in the form of an 'at risk' amount payable as a lump sum under the Target Based Rewards (TBR) scheme which has been in place since 2007-08. Non-monetary benefits may include access to a fully maintained motor vehicle and fringe benefits tax. Other long-term benefits refer to long service leave. A payment occurs under the TBR scheme if predetermined key indicators of corporate and individual performance are met. The compensation of all staff is reviewed annually.

The Board, with the concurrence of the Minister for Water, is responsible for the compensation of the CEO, which is reviewed annually. The CEO, with the concurrence of the Remuneration Committee and the Board, sets Executive compensation based on annual salary survey data and advice from independent remuneration sources regarding compensation practices. Specifically, fixed compensation is benchmarked against comparative industry groups in order to remain competitive in the labour market.

Employees in management roles in our business, including Executives, are employed on individual employment contracts under common law and are referred to as Common Law Contract (CLC) employees. The compensation structure of CLC employees is centred on the market median for the fixed compensation for each of the identified levels. Employees engaged in high demand roles and/or are high performers can move up to 10 per cent beyond the median if they demonstrate sustained high performance.

The primary sources of remuneration data are Hay Group Australia and Mercer Consulting Australia. Water Corporation utilises the Hay Group job evaluation system to provide assurance that remuneration is similar to that for comparable positions in other organisations.

For 2015-16, the TBR scheme's maximum payment was reduced from 12 per cent to 9 per cent of base salary. The Board and the CEO reserve the right to withhold the TBR payments, despite the achievement of the pre-determined performance targets, where an exceptional adverse event or significant series of events occur.

The corporate performance component of the TBR is determined by a scorecard, which is set annually and approved by the Board. The scorecard is based on five key performance indicators (KPIs) defined across the following key areas. Each KPI is identified in italics below:

Safety – based on the *Safety Index*, which includes the Significant Injury Frequency Rate, hazards addressed and incidents investigated on time.

Customer service – based on the *Customer Performance Index*, a survey-based measure of our customers' perceptions of the effectiveness of Water Corporation.

Operations – based on the *Operating Performance Index*, a basket of indicators measuring performance in the areas of operating licence, regulatory, and environmental compliance, together with asset management effectiveness.

Finance – based on *Operating Expenditure* performance and the *Capital Index*, which included additional measures assessing the extent to which major projects are delivered on time and on budget.

These KPIs were chosen to align performance with our vision and purpose, and measure an appropriate mix of financial and non-financial outcomes across the business. Results are rated against a three-tier performance target comprising minimum acceptable performance, target and stretch target levels. It is a requirement of the TBR scheme that the target level is achieved on at least four of the five KPIs in order for any TBR payment to be payable. TBR measures and targets are reviewed annually and adjusted where appropriate to drive increasing levels of performance.

Such changes are approved by the Board. The 2016 TBR scorecard results for the corporate KPI's are outlined below.

As the table below shows, the Corporation missed achieving target on four out of the five KPIs during 2015-16, and therefore did not make TBR payments to eligible staff and management. We do not provide any long-term incentives, loans, grant options, rights or shares to key management personnel.

Details of compensation provided to key management personnel are as follows:

The directors during the financial year were:

Target levels				
Key Performance Indicators	Actual	Minimum acceptable performance	Target	Stretch
Safety Index (%)	88.1	80.0	90.0	100.0
Customer Performance Index	6.85	6.75	6.85	7.00
Operating Performance Index (%)	81.1	80.0	90.0	100.0
Operating Expenditure (\$m)	865.2	885.0	867.0	841.0
Capital Index (%)	92.7	89.0	92.4	95.5

Directors	
E Skira	Chairman (non-executive). Appointed Director 4 October 2011 and Chairman 1 January 2012
T Iannello	Deputy Chairman (non-executive). Appointed 1 January 2013. Vacated 31 December 2015
V Guthrie	Director (non-executive). Appointed 1 January 2013. Term expired 31 March 2016
M Hollett	Deputy Chairman (non-executive). Appointed Director 1 January 2012 and Deputy Chairman 1 January 2016
R Holt	Director (non-executive). Appointed 8 June 2016. No remuneration paid in 2015-16
D Lock	Director (non-executive). Appointed 1 January 2014
N Lockwood	Director (non-executive). Appointed 1 March 2016
P McMorrow	Director (non-executive). Appointed 1 January 2013. Term expired 31 December 2015
D Rowe	Director (non-executive). Appointed 1 March 2016
S Murphy	Chief Executive Officer

During the reporting period, the composition of the Board changed. The number of directors whose total remuneration was within the following bands is:

Total Remuneration Band (\$)	Number of directors *		Short-term					Post-employment		Other long-term benefits		Total		
	2015	2016	Salary & Fees		Non-monetary benefits **		TBR		Superannuation					
			\$'000		\$'000		\$'000		\$'000		\$'000		\$'000	
0-25,000	-	2	-	19	-	-	-	-	-	2	-	-	-	21
25,000-49,999	-	3	-	33	-	-	-	-	-	3	-	-	-	36
50,000-74,999	5	2	54	54	-	-	-	-	5	5	-	-	59	59
100,000-124,999	1	1	82	83	-	-	-	-	36	36	-	-	118	119
500,000-524,999	-	1	-	468	-	5	-	-	-	35	-	-	-	508
525,000-549,999	1	-	466	-	14	-	25	-	35	-	-	-	540	-

* Where there is more than one director in a remuneration band the average remuneration is shown. ** Private use of motor vehicle
Please note: Mr Ross Holt is not reflected in the figures within the above table, as he did not receive remuneration during the 2015-16 year.

The names and positions of the executives receiving the highest emoluments were:

Five highest paid Executives ¹		Year ended 30 June 2015	Year ended 30 June 2016
S Capewell	General Manager, Operations Services		✓
G Cargeeg	General Manager, Metropolitan Customer Services	✓	
R Hughes	Chief Financial Officer	✓	✓
M Leathersich	General Manager, Assets Delivery		✓
D Luketina	General Manager, Business Services	✓	
P Moore	General Manager, Operations	✓	✓
A Vincent	General Manager, Assets Planning	✓	✓

¹ CEO's remuneration is included in the table of Directors.

The number of executives whose total remuneration was within the following bands is:

Total Remuneration Band (\$)	Number of staff *		Short-term					Post-employment		Other long-term benefits		Total		
	2015	2016	Salary & Fees		Non-monetary Benefits **		TBR		Superannuation					
			\$'000		\$'000		\$'000		\$'000		\$'000		\$'000	
300,000-324,999	-	2	-	282	-	-	-	-	-	33	-	6	-	321
325,000-349,999	1	-	290	-	-	-	9	-	30	-	14	-	343	-
350,000-374,999	2	1	158	310	-	-	19	-	169	30	22	21	368	361
425,000-449,999	1	1	380	409	-	-	20	-	35	35	-	-	435	444
525,000-549,999	-	1	-	3	-	17	-	-	-	513	-	-	-	533
550,000-574,999	1	-	35	-	19	-	24	-	478	-	-	-	556	-

* Where there is more than one executive in a remuneration band the average remuneration is shown. ** Private use of motor vehicle
Please note: variations in salary can be caused by a wide variety of factors such as the individual's leave arrangements, the TBR, and other smaller adjustments.

Environmental performance

Water Corporation is subject to particular and significant environmental legislation under both Commonwealth and State laws; in particular:

- *Environment Protection and Biodiversity Conservation Act 1999 (Cth)*
- *Environmental Protection Act 1986 (WA)*
- *Contaminated Sites Act 2003 (WA)*

Additionally, we comply with more than 40 other pieces of environment-related legislation, and we also track our compliance with various non-statutory commitments.

With the significant volume of wastewater conveyed across the State, it is possible unplanned discharges will occasionally occur and some of these may potentially affect the environment, public health and public amenity. Our incident management process provides a fast and effective response to these and other incidents. Consistent with the *Environmental Protection Act 1986*, we report any unplanned discharges of waste with the potential to harm the environment.

Our environmental performance is underpinned by our Corporate Environment Policy and Carbon and Energy Policy. We also maintain an Environmental Management System, certified under the internal standard ISO 14001 that provides for the systematic identification of environmental risks, setting of performance targets and development of environmental improvement plans to reduce risks and ensure our activities are sustainable.

Based on an overall review of our business, in September 2015, our Environment & Aboriginal Affairs and Occupational Safety & Health branches were combined to form the Safety, Environment and Aboriginal Affairs Branch and are realising efficiency gains in our health, safety, environment and Aboriginal affairs processes.

State of affairs

There were no significant changes during the year ended 30 June 2016 in the state of our affairs not otherwise disclosed in this report, or the financial statements.

Events subsequent to balance date

Since the end of the financial year on 30 June 2016, and the date of the release of this report, the Directors are not aware of any matter or circumstance not otherwise dealt with in the report or financial statements that has significantly, or may significantly affect our operations, the results of those operations, or our state of affairs in subsequent financial periods.

Directors' interests and benefits

In the 12 months to 30 June 2016, no Director received, or became entitled to receive, any benefit (other than a benefit included in the total amount of remuneration received or due and receivable by Directors) by reason of a contract made by Water Corporation with the Director, or with a firm, of which the Director is a member, or with an entity in which the Director has a substantial interest.

Indemnification of Directors and auditors

The Corporation provides a general indemnification for Directors, via a deed of indemnity, and we purchase Directors and Officers insurance. In the 12 months ending 30 June 2016, we have not made any payments in respect to this indemnity.

This statement is made in accordance with a resolution of the Board.



Eva Skira
Chairman



S.L. Murphy
Chief Executive Officer
Perth, [insert date]

Performance Summary

Performance against key indicators

	Units	2016					
		Target	Actual	2015	2014	2013	2012
Social Performance							
Employment and Workforce							
Employee initiated turnover	%	7.00	6.20	5.8	6.4	6.4	7.5
Women in senior management - tier 2	%	25.00	22.22	20.0	12.5	10.0	12.5
Women in senior management - tier 3	%	25.00	27.50	20.0	23.8	15.0	9.5
People from culturally diverse backgrounds	%	14.00	13.60	13.6	14.8	13.5	14.0
Indigenous Australians	%	2.68	3.01	2.35	1.90	1.35	1.47
People with disabilities	%	2.80	1.05	1.20	1.20	1.30	1.40
Youth (15-24)	%	6.70	3.62	3.20	5.00	4.40	4.60
Significant Injury Frequency Rate	No.	3.80	4.90	4.2	6.0	7.3	9.5
Public Health - Safe Drinking Water							
Metropolitan localities meeting requirements for E.coli	%	100	100	100	100	100	100
Metropolitan localities meeting requirements for amoebae (Thermophilic Naegleria)	%	100	100	100	100	100	100
Metropolitan localities meeting requirements for health-related chemical quality	%	100	100	100	100	100	100
Metropolitan localities meeting requirements for radiological performance	%	100	100	100	100	100	100
Country localities meeting requirements for E.coli	%	100	100	100	100	100	100
Country localities meeting requirements for amoebae (Thermophilic Naegleria)	%	100	100	100	100	100	100
Country localities meeting requirements for health-related chemical quality	%	100	100	100	100	100	100
Country localities meeting requirements for radiological performance	%	100	100	100	100	100	100
Essential Service Provision							
Continuity - properties not affected by interruption > 1 hr	%	75.0*	77.5	79.4	75.9	80.8	80.5
Water pressure and flow standards	%	99.80*	100.00	99.95	100.00	100.00	100.00
Water quality faults responsiveness	%	95.0	98.3	98.2	96.8	95.3	94.5
Installation of new water connections	%	90.0	98.6	97.4	97.0	96.2	96.1
Properties without wastewater overflow	%	99.8*	99.9	99.9	99.9	99.9	99.9
Demand-Supply Balance							
Number of waterwise schools ⁽¹⁾	No.	na	503	503	526	516	533
Drought response (number of schemes on temporary restrictions)	No.	na	1	1	1	1	3
Environmental Performance							
Ecosystem Protection							
Overflows to Swan-Canning - conveyance system	No.	0	3	2	3	1	2
Overflows to Swan-Canning - pump stations only	No.	0	0	1	0	0	1
Energy and Greenhouse Gases							
Electricity consumption per unit of output for water	MWh/ML	na	2.17	1.93	1.84	1.70	1.50
Electricity consumption per unit of output for wastewater	MWh/ML	na	0.81	0.80	0.79	0.80	0.80
Total energy consumption	TJ	na	3,633	3,346	3,294	3,000	2,733
Reported greenhouse gas emissions (CO ₂ equivalent)	kT	na	784	717	718	692	664

	Units	2016					
		Target	Actual	2015	2014	2013	2012
Materials Use Efficiency							
Biosolids re-use (Perth metro)	%	100	100	100	100	100	100
Demand-Supply Balance							
Water supplied per capita (Perth metro)	kL	129	127	126	131	132	135
Economic Performance							
Financial Efficiency							
Operating cost per property	\$	801	796	819	800	805	740
Total cost per property	\$	1,981	2,004	1,982	1,989	1,949	1,876
Surplus before income tax equivalent	\$m	950	1,053	1,118	947	722	749
Return on assets	%	5.8	5.8	5.8	5.5	4.4	4.2
Return on equity	%	6.6	7.2	7.9	7.0	5.4	5.7
Interest cover	Times	3.6	3.8	3.6	3.3	2.9	3.2
Debt to Total Assets	%	35.2	34.0	33.8	33.8	33.0	31.3
Asset Performance							
Blockages per 100km of sewer	No.	40.0*	18.3	17.4	16.9	16.8	17.9
Leaks and bursts per 100km of main	No.	20.0*	17.8	17.8	17.5	17.2	16.2
Drainage systems operating in accordance with guidelines	%	100*	100	100	100	100	100
Stakeholder Performance							
Customer Service							
Customer complaints - total ⁽²⁾	No.	na	1,340	1,269	1,390	1,040	11,065
Written customer complaints (responsiveness) < 15 business days	%	90.0*	98.4	100.0	98.8	100.0	100.0
Telephone calls to '13' numbers answered within 30 seconds	%	70.0*	71.1	72.8	72.6	73.1	73.3
Telephone calls to '13' numbers abandoned after 30 seconds	%	2.5	1.7	1.6			
Telephone calls to '13' numbers first call resolution	%	90.0	92.0	97.5	96.9	97.3	96.9
Shareholder Accountability							
Responsiveness to priority one enquiries	%	85.0	96.2	96.7	98.2	99.5	95.3
Ethical & Governance Performance							
Compliance							
Number of legal sanctions for environmental breaches	No.	0	0	0	0	0	0
% Environment Non-Compliances Addressed	%	85.0	94.9	98.7	98.6	95.4	NA

(1) The number of schools recognised into the program excluding closed/amalgamated schools, scout groups and early childhood centres.

(2) The definition of complaints was changed in 2010/11 to align to industry standards.

* These targets applied to our Operating Licence between 1 July 2013 - 17 November 2013. From 18 November 2013 the Licence was substituted by the introduction of the Water Services Act 2012.

Principal statistics

Water supply

Region	Properties Served	Properties Connected	Water Supply Services	Length of Mains (kilometres)	Water Supplied ² (megalitres)
Perth Metro	954,889	825,900	712,804	14,023	253,190
Mandurah-Murray	59,970	50,033	44,670	1,155	13,668
Perth Region ¹	1,014,859	875,933	757,474	15,178	266,858
Goldfields & Agricultural	43,147	38,330	42,137	9,605	22,643
Great Southern	47,261	40,747	40,096	4,064	12,554
Mid West	50,214	40,814	36,967	2,506	16,153
North West	43,033	35,298	28,793	1,526	36,573
South West	52,976	47,517	43,493	1,800	15,220
Total	1,251,490	1,078,639	948,960	34,680	370,001

1. Perth Region includes Mandurah-Murray District.

2. Water supplied is the quantity recorded by master meters from 1 July to 30 June.

Wastewater

Region	Properties Served	Properties Connected	Total Length of Sewers (kilometres)	Number of Pumping Stations	Number of Treatment Plants	Average Quantity of Wastewater Treated Daily (megalitres)
Perth Metro	805,268	754,116	12,076	646	11	366
Mandurah-Murray	47,779	41,095	863	85	4	16
Perth Region ¹	853,047	795,211	12,939	731	15	382
Goldfields & Agricultural	11,288	9,564	315	28	19	4
Great Southern	29,301	24,936	730	84	21	11
Mid West	25,782	20,349	589	70	19	8
North West	34,058	30,737	672	74	18	16
South West	64,223	56,423	1,447	164	20	25
Total	1,017,699	937,220	16,693	1,151	112	446

1. Perth Region includes Mandurah-Murray District.

Metropolitan sources of supply

Source	Area of Catchment (square km)	Storage Capacity (megalitres)	Storage at 30/06/2016 (megalitres)	Percentage of Maximum Storage (%)	Output to 30/06/2016 (megalitres)
Dams					
Stirling	252	57,404	7,987	13.9	7,712
Samson WTP	192	8,003	1,934	24.2	123
South Dandalup	313	138,345	12,290	8.9	7,160
North Dandalup	151	60,791	26,656	43.8	15,774
Serpentine and Serpentine Pipehead	693	140,292	32,851	23.4	44,942
Canning	728	90,353	22,276	24.7	13,516
Wungong	128	59,796	29,365	49.1	8,932
Churchman	18	2,241	533	23.8	508
Victoria	37	9,463	4,196	44.3	2,537
Total Hills Sources Output Gross		566,688	138,088	24.4	101,204
Total Hills Transfers Input					81,104
Total Hills Sources Output Nett					20,100
Groundwater					
Artesian Bores					32,899
Mirrabooka					15,317
Gwelup					11,919
Wanneroo					30,268
Jandakot					16,234
Neerabup					26,017
Lexia					2,729
Yanchep/Two Rocks					1,495
Total Groundwater Output					136,879
Desalination					
Perth Seawater Desalination Plant					45,948
Southern Seawater Desalination Plant					92,697
Total Desalination Output					138,645
Water Received from Bulk Supplier					
GAWS supply to Perth					1,953
Total					1,953

Source	Area of Catchment (square km)	Storage Capacity (megalitres)	Storage at 30/06/2016 (megalitres)	Percentage of Maximum Storage (%)	Output to 30/06/2016 (megalitres)
Bulk Water Exported					
to Mundaring Dam for GAWS					26,594
Mandurah Murray					13,668
South-West Region					1,329
Total					41,591
Total Water Sourced					
Net Output from Surface Water					20,100
Groundwater					136,879
Desalination					138,645
Received from Bulk Supplier					1,953
Total Sources					297,577
Riparians (from Distribution System)					
Riparians from Distribution System					2,136
Total Potable Water Supplied					
Total Water Sourced					297,577
Bulk Water Exported					(41,591)
Riparians (from Distribution System)					(2,136)
Operational Use & Service Reservoir Vol Change					(661)
Total Water Supplied					253,190

Drainage

Region	Properties Served	Length of Drains Controlled (Kilometres)
Perth	398,844	1,134
Great Southern	n/a	129
South West	n/a	1,283
Total	398,844	2,546

Irrigation

Region	Water Supplied (Megalitres)
Mid West ¹	5,569
North West ²	133,699
South West ³	n/a
Total	139,268

1. Mid West irrigation district was transferred to the Gascoyne Water Co-operative on 1 July 2003.

2. North West irrigation is managed by the Ord Irrigation Co-operative (established in 2002). However, the Water Corporation maintains responsibility for a number of customers.

3. Water Corporation owns and maintains the dams that supply Harvey Water and PrestonValley Irrigation but they have the water allocation directly with the Department of Water.

Five-year statistical summary

	Units	2016	2015	2014	2013	2012
Financial Data						
Total Revenue	\$'000	2,714,630	2,736,154	2,522,814	2,180,721	2,057,470
Operating Subsidy	\$'000	546,813	573,232	565,924	436,702	450,383
Direct Operating Expenses	\$'000	897,217	880,452	851,032	805,931	740,019
Depreciation / Amortisation	\$'000	459,727	459,732	444,081	414,764	367,459
Net Interest Expense	\$'000	256,263	274,032	256,013	233,706	200,819
Income Tax Expense	\$'000	315,589	334,305	266,773	215,626	221,941
Operating Surplus After Tax	\$'000	736,885	784,146	677,765	506,596	527,232
Transfer to / (from) Reserves	\$'000	(939,388)	130,699	79,486	53,753	48,878
Long-term Debt	\$'000	5,679,437	5,592,772	5,444,502	5,105,000	4,630,775
New Works Investment (excluding developers take-over works)	\$'000	579,365	765,927	984,226	967,348	903,013
Short-term Liquidity/Working Capital Facility	\$'000	7,000	20,000	1,150	0	25,000
New Borrowings	\$'000	82,000	175,000	85,000	449,225	480,775
Operating Data						
Water Supply Services						
Annual Volume of Water Supplied	ML	370,001	366,495	371,384	357,390	359,180
Number of Properties Served	No.	1,251,490	1,226,248	1,195,682	1,166,366	1,148,692
Number of Properties Connected	No.	1,078,639	1,057,388	1,032,186	1,001,362	982,401
Length of Mains	km	34,680	34,424	34,156	33,823	33,562
Wastewater Services						
Average Volume of Wastewater Treated Daily	ML	446	449	458	428	431
Number of Properties Served	No.	1,017,699	994,344	967,892	945,944	928,940
Number of Properties Connected	No.	937,220	910,167	885,920	865,612	847,393
Length of Sewers	km	16,693	16,416	16,080	15,782	15,552
Drainage Services						
Number of Properties Served (Metropolitan)	No.	398,844	391,408	382,833	377,962	372,239
Length of Drains	km	2,546	2,546	2,545	2,544	2,835
Irrigation Services						
Volume of Water Delivered	ML	139,268	150,147	135,481	154,042	216,174
Employees						
Total number of employees	No.	2,654	2,852	3,098	3,113	3,062
Total number of full-time equivalents (FTEs) ¹	No.	2,533	2,703	2,934	2,967	2,910

All financial figures are expressed in dollars of the day.

¹ FTE (Full Time Equivalent) - A time-based measure of a person's participation in the workforce, calculated as the number of standard hours paid during a week divided by full-time standard weekly hours. For Water Corporation, the standard weekly hours is set at 38 reflecting the current Enterprise Agreement.

Financial Report

for the year ended 30 June 2016

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Statement of comprehensive income

for the year ended 30 June 2016

	Note	2016 \$M	2015 \$M
Revenue			
Annual service charges		1,056	986
Volume charges		681	641
Operating subsidies		547	573
Developers' contributions		309	415
Other revenue	5	122	121
Total revenue		2,715	2,736
Expenses			
Depreciation	10	(443)	(441)
Employee benefits expense	6(a)	(247)	(272)
Hired and contracted services		(241)	(233)
Energy		(148)	(117)
Other expenses	6(b)	(328)	(281)
Total expenses		(1,407)	(1,344)
Results from operating activities		1,309	1,392
Net finance costs	7	(256)	(274)
Surplus before income tax equivalent		1,053	1,118
Income tax equivalent expense	8	(316)	(334)
Surplus for the year		737	784

	Note	2016 \$M	2015 \$M
Other comprehensive income			
- Re-measurement of defined benefit liability		(2)	(4)
Related income tax equivalent	8	1	1
Other comprehensive income, net of tax equivalent		(1)	(3)
Total comprehensive income for the year		736	781

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

Notes to the financial report

Statement of financial position

as at 30 June 2016

	Note	2016 \$M	2015 \$M
Current assets			
Cash and cash equivalents		10	22
Trade and other receivables	9	211	215
Inventories		22	17
Total current assets		243	254
Non-current assets			
Trade and other receivables	9	16	15
Property, plant and equipment	10	16,419	16,208
Intangible assets	11	75	144
Total non-current assets		16,510	16,367
Total assets		16,753	16,621
Current liabilities			
Trade and other payables		278	287
Interest-bearing loans and borrowings	12	15	28
Income tax equivalent payable		44	90
Provisions	14	2	2
Employee benefits	15	88	120
Other liabilities	16	24	36
Total current liabilities		451	563
Non-current liabilities			
Interest-bearing loans and borrowings	12	5,679	5,593
Deferred tax equivalent liabilities	13	267	288
Provisions	14	12	10
Employee benefits	15	46	53
Other liabilities	16	5	4
Total non-current liabilities		6,009	5,948
Total liabilities		6,460	6,511
Net assets		10,293	10,110

	Note	2016 \$M	2015 \$M
Equity			
Contributed equity	17	7,561	7,547
Reserves	17	-	939
Accumulated surplus		2,732	1,624
Total equity		10,293	10,110

The above statement of financial position is to be read in conjunction with the accompanying notes.

Statement of changes in equity

for the year ended 30 June 2016

	Contributed Equity \$M	Reserves \$M	Accumulated surplus \$M	Total \$M
Opening balance at 1 July 2015	7,547	939	1,624	10,110
Total comprehensive income for the year				
Surplus for the year	-	-	737	737
Other comprehensive income (net of tax equivalent)	-	-	(1)	(1)
Transfer from developers' contribution reserve	-	(939)	939	-
Total comprehensive income for the year	-	(939)	1,675	736
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Equity contributions	14	-	-	14
Dividends paid	-	-	(567)	(567)
Total transactions with owners	14	-	(567)	(553)
Closing balance at 30 June 2016	7,561	-	2,732	10,293

for the year ended 30 June 2015

	Contributed Equity \$M	Reserves \$M	Accumulated surplus \$M	Total \$M
Opening balance at 1 July 2014	7,438	808	1,536	9,782
Total comprehensive income for the year				
Surplus for the year	-	-	784	784
Other comprehensive income (net of tax equivalent)	-	-	(3)	(3)
Transfer to developers' contribution reserve (net of tax equivalent)	-	131	(131)	-
Total comprehensive income for the year	-	131	650	781
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Equity contributions	109	-	-	109
Dividends paid	-	-	(562)	(562)
Total transactions with owners	109	-	(562)	(453)
Closing balance at 30 June 2015	7,547	939	1,624	10,110

The above statement of changes in equity is to be read in conjunction with the accompanying notes.

Notes to the financial report

Statement of cash flows

for the year ended 30 June 2016

	Note	2016 \$M	2015 \$M
Cash flows from operating activities			
Cash receipts from customers		1,728	1,627
Interest received		3	2
Interest paid		(288)	(292)
Cash paid to suppliers and employees		(976)	(974)
Income tax equivalents paid		(381)	(349)
Government grants		13	24
Operating subsidies		547	573
Developers' contributions		193	229
GST received		96	106
Other fees and charges		103	106
Net cash from operating activities	18	1,038	1,052
Cash flows from investing activities			
Acquisition of property, plant and equipment		(569)	(668)
Acquisition of intangible assets		(12)	(18)
Proceeds from sale of property, plant and equipment		13	4
Deposits		(3)	3
Net cash used in investing activities		(571)	(679)
Cash flows from financing activities			
Net proceeds from borrowings		82	175
Dividends paid		(567)	(562)
Payment of finance lease liabilities		(8)	(8)
Equity contributions		14	12
Net cash used in financing activities		(479)	(383)
Net decrease in cash and cash equivalents		(12)	(10)
Cash and cash equivalents at 1 July		22	32
Cash and cash equivalents at 30 June		10	22

The above statement of cash flows is to be read in conjunction with the accompanying notes.

Notes to the financial report

Note 1 Reporting entity

Water Corporation (the "Corporation") is domiciled in Australia and its registered office is at 629 Newcastle St Leederville WA 6007. The Corporation is a not-for-profit entity primarily involved in the provision of water and wastewater services.

Note 2 Basis of accounting

2.1 Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Water Corporations Act 1995* and Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) except for AASB 124 *Related Party Disclosures* (which is not applicable to not-for-profit entities).

The financial report was approved by the Board of Directors on 25 August 2016.

2.2 Basis of measurement

The financial report is prepared on the accrual accounting basis and in accordance with the historical cost convention, except for certain financial assets and financial liabilities which are stated at their fair value. The methods used to measure fair values are discussed further in Note 26.1(a).

Note 3 Functional and presentation currency

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

All financial information has been rounded to the nearest million, unless otherwise stated.

Note 4 Use of estimates and judgements

In preparing this financial report, management has made judgements, estimates and assumptions that affect the application of the Corporation's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

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

Note 5 Other Revenue

	2016	2015
	\$M	\$M
Other fees and charges	89	90
Government grants	17	22
Rental income	7	7
Net gain on disposal of property, plant and equipment	9	2
	<u>122</u>	<u>121</u>

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

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

Note 6 Expenses

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

	2016	2015
	\$M	\$M
Salaries, wages and other employee expenses	220	244
Contributions to the Water Corporation Superannuation Plan	27	28
	<u>247</u>	<u>272</u>

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

The Corporation sponsors the Water Corporation Superannuation Plan (WCSP), which is managed by Water Corporation Superannuation Pty Ltd, a trustee company. The trustee company has six directors, three of whom are nominated by the Corporation and the other three are elected by the WCSP's members.

Notes to the financial report

note 6(b) Other expenses includes the following:

	2016	2015
	\$M	\$M
Ammortisation	17	18
Information technology	39	37
Equipment hire charges	25	26
Corporate charges	35	33
Materials	26	22
Chemicals	24	22
Derecognised assets	52	8
Discontinued capital projects	16	21
Other	94	94
	328	281

Note 7 Net Finance Costs

	2016	2015
	\$M	\$M
Finance income		
Interest income	(2)	(3)
Finance costs		
Interest expense	286	298
Capitalised interest (note a)	(28)	(21)
Total finance costs	258	277
Net finance costs	256	274

note (a) The average interest rate used to capitalise interest expenses related to major works was:

	2016	2015
	4.14%	4.46%

Note 8 Income tax equivalent expense

	2016	2015
	\$M	\$M
8.1 Recognised in surplus or deficit		
Current income tax equivalent expense		
Current year	337	341
Deferred income tax equivalent expense		
Reversal of temporary differences	(21)	(7)
Total income tax equivalent expense	316	334

8.2 Recognised in other comprehensive income

	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
	2016	2016	2016	2015	2015	2015
	\$M	\$M	\$M	\$M	\$M	\$M
Re-measurement of defined benefit liability	(2)	1	(1)	(4)	1	(3)

8.3 Reconciliation of effective tax equivalent rate

	2016	2015
	\$M	\$M
Surplus for the year	737	784
Total income tax equivalent expense	316	334
Surplus before income tax equivalent expense	1,053	1,118
Income tax equivalent using the Corporation's tax equivalent rate (30%)	317	335
Non-taxable income	(1)	(1)
Effective tax equivalent expense	316	334

Notes to the financial report

Note 9 Trade and Other Receivables

	2016 \$M	2015 \$M
Current		
Trade and other receivables (note a)	208	211
Provision for impairment losses	(2)	(1)
Prepayments	5	5
	211	215
Non-current		
Pensioner rates deferrals (note b)	16	15
	16	15
Total trade and other receivables	227	230

note a Trade and other receivables includes unbilled revenue, which is calculated using a combination of actual and estimated monthly water usage and revenue. Estimated monthly water usage is based on historical usage patterns adjusted to account for unusual weather conditions. The average price increase relating to volumetric water usage is applied to the estimated water volumes.

note b In accordance with *The Rates and Charges (Rebates and Deferments) Act*, eligible pensioners are permitted to defer their annual service charges, which will be realised on sale of property or from the estate. Interest is not charged to customers on the deferred amounts, but is recouped from the State Government in the form of Operating Subsidies (see Note 26.1b).

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

Note 10 Property, Plant and Equipment

	Cost 2016 \$M	Accumulated Depreciation 2016 \$M	Carrying Amount 2016 \$M
System Assets	19,776	5,019	14,757
Land and Buildings	788	131	657
Support Assets	297	198	99
Works in Progress	906	-	906
Carrying amount of property, plant and equipment	21,767	5,348	16,419

Comparative figures for 2015 are as follows:

	Cost 2015 \$M	Accumulated Depreciation 2015 \$M	Carrying Amount 2015 \$M
System Assets	19,052	4,618	14,434
Land and Buildings	750	119	631
Support Assets	293	188	105
Works in Progress	1,038	-	1,038
Carrying amount of property, plant and equipment	21,133	4,925	16,208

Notes to the financial report

Reconciliations

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

	System Assets 2016 \$M	Land and Buildings 2016 \$M	Support Assets 2016 \$M	Works in Progress 2016 \$M	Total 2016 \$M
Balance at 1 July	14,434	631	105	1,038	16,208
Additions	133	-	-	545	678
Disposals	(6)	(1)	(4)	-	(11)
Depreciation expense	(411)	(13)	(19)	-	(443)
Transfers between classes	607	40	17	(664)	-
Transfer to Intangible Assets (Note 11)	-	-	-	(13)	(13)
Balance at 30 June	14,757	657	99	906	16,419

Comparative figures for 2015 are as follows:

	System Assets 2015 \$M	Land and Buildings 2015 \$M	Support Assets 2015 \$M	Works in Progress 2015 \$M	Total 2015 \$M
	13,918	581	90	1,158	15,747
Additions	200	1	-	728	929
Disposals	(8)	-	(1)	-	(9)
Depreciation expense	(411)	(12)	(18)	-	(441)
Transfers between classes	735	61	34	(830)	-
Transfer to Intangible Assets (Note 11)	-	-	-	(18)	(18)
Balance at 1 July	14,434	631	105	1,038	16,208

Leased Assets – Mundaring Water Treatment Plant

The Corporation previously entered into an arrangement that is not in the legal form of a lease, but is accounted for as a lease based on the terms and conditions of the arrangement (see Note 12). The net carrying amount of the capitalised leased assets as at 30 June 2016 was \$253 million (2015: \$260 million).

Note 11 Intangible Assets

	Cost 2016 \$M	Accumulated Amortisation 2016 \$M	Carrying Amount 2016 \$M
Computer software	242	206	36
Intellectual property	2	2	-
Water entitlement	31	-	31
Renewable energy certificates	2	-	2
Property easements	6	-	6
Total intangible assets	283	208	75

Comparative figures for 2015 are as follows:

	Cost 2015 \$M	Accumulated Amortisation 2015 \$M	Carrying Amount 2015 \$M
Computer software	229	189	40
Intellectual property	1	1	-
Water entitlement	77	-	77
Renewable energy certificates	21	-	21
Property easements	6	-	6
Total intangible assets	334	190	144

Notes to the financial report

Reconciliations

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

	Computer Software	Intellectual Property	Water Entitlements	Renewable Energy Certificates	Property Easements	Total
	2016	2016	2016	2016	2016	2016
	\$M	\$M	\$M	\$M	\$M	\$M
Balance at 1 July	40	-	77	21	6	144
Additions	-	-	-	1	-	1
Derecognitions	-	-	(46)	(20)	-	(66)
Amortisation expense (Note 6)	(17)	-	-	-	-	(17)
Transfer from Works in Progress (Note 10)	13	-	-	-	-	13
Balance at 30 June	36	-	31	2	6	75

Comparative figures for 2015 are as follows:

	Computer Software	Intellectual Property	Water Entitlements	Renewable Energy Certificates	Property Easements	Total
	2015	2015	2015	2015	2015	2015
	\$M	\$M	\$M	\$M	\$M	\$M
Balance at 1 July	40	-	77	7	6	130
Additions	-	-	-	15	-	15
Derecognitions	-	-	-	(1)	-	(1)
Amortisation expense (Note 6)	(18)	-	-	-	-	(18)
Transfer from Works in Progress (Note 10)	18	-	-	-	-	18
Balance at 30 June	40	-	77	21	6	144

Impairment test for water entitlements

The Corporation acquired a number of water entitlements from a third party between 2006 and 2010. These entitlements are recorded at historical cost. They are considered to have an indefinite life and are therefore not amortised but tested annually for impairment by comparing the carrying value with the recoverable amount. The recoverable amount has been determined by assessing the replacement cost of the asset as outlined below. During the year, acquired water entitlements with a carrying value of \$46 million were derecognised as they no longer provide economic benefits to the Corporation, due to reduced rainfall in the relevant catchment area.

The cost to replace the water entitlements is determined with reference to the cost of other current potential water sources, such as bore extraction, desalination or water catchment. The Corporation's Long Run Marginal Cost of new sources of water is used to calculate the notional replacement cost of the water entitlements.

Notes to the financial report

Note 12 Interest-bearing Loans and Borrowings

	2016 \$M	2015 \$M
Current		
Unsecured:		
Western Australian Treasury Corporation Liquidity Facility	-	20
Western Australian Treasury Corporation Working Capital Facility	7	-
Finance lease liabilities (note b)	8	8
	<u>15</u>	<u>28</u>
Non-current		
Unsecured:		
Western Australian Treasury Corporation Term Fixed Rate Lending (note a)	3,521	2,981
Western Australian Treasury Corporation Term Floating Rate Lending	1,919	1,564
Western Australian Treasury Corporation Fixed Rate Aligned (note a)	-	800
Finance lease liabilities (note b)	239	248
	<u>5,679</u>	<u>5,593</u>
Total interest-bearing loans and borrowings	<u>5,694</u>	<u>5,621</u>

note a **Western Australian Treasury Corporation Term Fixed Rate Lending and Term Fixed Rate Aligned**

The non-current amounts of the Term Fixed Rate Lending and Term Fixed Rate Aligned, totalling \$3,521 million (2015: \$3,781 million), include \$371 million (2015: \$1,143 million) that will become due and payable during the 2016-17 year. It is the Corporation's expectation that these amounts will be refinanced under contractual arrangements in place with the Western Australian Treasury Corporation, rather than repaid, and therefore they are not recognised as current borrowings. This is supported by:

- i. An agreement with the Western Australian Treasury Corporation, an entity owned by the Western Australian State Government, where the Corporation's borrowings are refinanced at regular intervals between 2016 and 2026.
- ii. The approval of the Corporation's forecast borrowing requirements for the next four years, including no requirement for repayment of the amounts classified as non-current above, within the 2016 Western Australian State Budget.

note b **Finance lease liabilities**

Finance lease liabilities are payable as follows:

	2016 \$M	2015 \$M
Less than one year	8	8
Between one and five years	33	34
More than five years	206	214
	<u>247</u>	<u>256</u>

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

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

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

Notes to the financial report

Note 13 Deferred Tax Equivalent Liabilities**13.1 Recognised deferred tax equivalent assets and liabilities**

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

	Assets 2016 \$M	Liabilities 2016 \$M	Net 2016 \$M
Property, plant and equipment	-	306	306
Provisions	(45)	-	(45)
Other items	(8)	14	6
Deferred tax equivalent (assets) / liabilities	(53)	320	267
Set off of tax equivalents	53	(53)	-
Net deferred tax equivalent liabilities	-	267	267

	Assets 2015 \$M	Liabilities 2015 \$M	Net 2015 \$M
Property, plant and equipment	-	345	345
Provisions	(53)	-	(53)
Other items	(9)	5	(4)
Deferred tax equivalent (assets) / liabilities	(62)	350	288
Set off of tax equivalents	62	(62)	-
Net deferred tax equivalent liabilities	-	288	288

Comparative figures for June 2015 are as follows:

13.2 Movement in temporary differences during the year

	Balance 1 July 15 \$M	Recognised in income \$M	Balance 30 June 16 \$M
Property, plant and equipment	345	(39)	306
Provisions	(53)	8	(45)
Other items	(4)	10	(6)
	288	(21)	267

Comparative figures for June 2015 are as follows:

	Balance 1 July 14 \$M	Recognised in income \$M	Balance 30 June 15 \$M
Property, plant and equipment	354	(9)	345
Provisions	(50)	(3)	(53)
Other items	(9)	5	(4)
	295	(7)	288

Notes to the financial report

Note 14 Provisions

	2016 \$M	2015 \$M
Current		
Site restoration	2	2
Non-current		
Workers' compensation	1	2
Site restoration	11	8
	12	10
Total provisions	14	12

Reconciliations of the carrying amount of provisions for 2016 are set out below:

	Workers' Compensation \$M	Site Restoration \$M	Total \$M
Carrying amount at 1 July 2015	2	10	12
Provisions made (reversed) during the year	(1)	3	2
Carrying amount at 30 June 2016	1	13	14

Provision for site restoration

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

Note 15 Employee Benefits

The provision for employee benefits comprises:

	2016 \$M	2015 \$M
Current		
Long service leave	52	61
Annual leave	30	33
Other employee benefits	2	21
Defined benefit superannuation (note a)	4	5
	88	120
Non-current		
Long service leave	2	3
Defined benefit superannuation (note a)	44	50
	46	53
Total employee benefits	134	173

note a **Defined benefit superannuation**

The Corporation sponsors the following defined benefit plans:

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

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

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

Notes to the financial report

Nature of the benefits provided by the Schemes

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

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

Description of the regulatory framework

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

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

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

- Administration of the Schemes and payment to the beneficiaries when required in accordance with the Scheme rules;
- Compliance with the Heads of Government Agreement referred to above.

Description of risks

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

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

Description of significant events

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

Reconciliation of the net defined benefit liability

	2016	2015
	\$M	\$M
Pension Scheme	38	36
Gold State Superannuation Scheme (GSSS)	10	19
Net defined benefit liability	48	55

Reconciliation of the defined benefit obligation

	2016	2015
	\$M	\$M
Present value of defined benefit obligations at beginning of the year	55	56
Current service cost	-	-
Interest cost	1	2
Actuarial gains/(losses) arising from changes in financial assumptions	2	4
Actuarial gains/(losses) arising from liability experience	-	-
Benefits paid	(10)	(7)
Present value of defined benefit obligations at end of the year	48	55

Fair value of scheme assets

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

Significant actuarial assumptions at the reporting date

	2016	2015
Assumptions to determine start of year defined benefit obligation and defined benefit cost for the current year		
Discount rate (pensioners and active members)	2.7%	3.5%
Expected salary increase rate	4.0%	4.1% for the first 4 years and 4.5% thereafter
Expected pension increase rate	2.5%	2.5%
Assumptions to determine defined benefit obligation at the valuation date		
Discount rate (pensioners and active members)	2.3%	2.7%
Expected salary increase rate	3.5%	4.0%
Expected pension increase rate	2.5%	2.5%

Notes to the financial report

The discount rate is based on the Government bond maturing in April 2025. The decrement rates used (e.g. mortality and retirement rates) are based on those used at the last actuarial valuation for the Schemes.

The expected salary increase rate above is the long-term rate. The salary increase rate for the first three years is assumed to be 2.5%

Sensitivity analysis

The defined benefit obligation as at 30 June 2016 under several scenarios is presented below.

Pension Scheme

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

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

	Base Case	Scenario A -0.5% pa discount rate	Scenario B +0.5% pa discount rate	Scenario C -0.5% pa pension increase rate	Scenario D +0.5% pa pension increase rate
Discount rate	2.3% pa	1.8% pa	2.8% pa	2.3% pa	2.3% pa
Pension increase rate	2.5% pa	2.5% pa	2.5% pa	2.0% pa	3.0% pa
Defined benefit obligation (\$M)	38	41	35	35	40

GSSS

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

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

	Base Case	Scenario A -0.5% pa discount rate	Scenario B +0.5% pa discount rate	Scenario C -0.5% pa increase rate & indexation rate	Scenario D +0.5% pa increase rate & indexation rate
Discount rate	2.3% pa	1.8% pa	2.8% pa	2.3% pa	2.3% pa
Salary increase rate	3.5% pa	3.5% pa	3.5% pa	3.0% pa	4.0% pa
Defined benefit obligation (\$M)	10	11	10	10	11

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

Funding arrangements

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

Expected contributions

Expected employer contributions for the financial year ending 30 June 2017 are \$4m.

Maturity profile of defined benefit obligation

- Pension Scheme - The weighted average duration of the Corporations defined benefit obligation is 15.8 years.
- GSSS - The weighted average duration of the Corporation's defined benefit obligation is 3.8 years.

Notes to the financial report

Note 16 Other Liabilities

	2016 \$M	2015 \$M
Current		
Developers' deferred liabilities (note a)	16	23
Deposits	8	13
	<u>24</u>	<u>36</u>
Non-current		
Developers' deferred liabilities (note a)	-	1
Deposits	5	3
	<u>5</u>	<u>4</u>
Total other liabilities	<u>29</u>	<u>40</u>

note a **Developers' deferred liabilities**

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

Note 17 Equity

17.1 Contributed equity

	2016 \$M	2015 \$M
Owner's initial contribution (note a)	7,327	7,327
Equity contributions (note b)	234	220
	<u>7,561</u>	<u>7,547</u>

note a **Owner's initial contribution**

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

note b **Equity contributions**

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

17.2 Reserves

	2016 \$M	2015 \$M
Developers' contribution reserve	-	939

The developers' contribution reserve was previously used to record the non-cash developer contributions, net of the tax equivalent, that form part of the funding of new assets acquired by the Corporation. During the year, the balance of the reserve was transferred to retained earnings.

17.3 Dividends

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

	2016 \$M	2015 \$M
Interim dividend payment	544	516
Final dividend payment for the prior year	23	46
	<u>567</u>	<u>562</u>

After 30 June 2016, the Directors proposed a final dividend of \$4 million for the 2015-16 year, payable on or before 31 October 2016. The dividend has not been provided for and there are no tax consequences.

Notes to the financial report

Note 18 Reconciliation of Cash Flows from Operating Activities**18.1 Cash and cash equivalents**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks.

Cash held at bank earns interest at rates determined by the Department of Treasury. For the year ended 30 June 2016 the average interest rate was 2.3% (2015: 2.6%).

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

18.2 Reconciliation of cash flows from operating activities

	2016	2015
	\$M	\$M
Surplus for the year	737	784
Gain on disposal of assets	(9)	(2)
Derecognised assets	52	8
Developers' contributions (non-cash)	(116)	(187)
Capitalisation of interest expense	(28)	(21)
Impairment loss on receivables	1	-
Employee benefits:		
Superannuation - net	(7)	(1)
Long service leave - net	(10)	(1)
Annual leave - net	(3)	1
Other employee benefits - net	(19)	12
Provisions:		
Site restoration - net	3	(1)
Depreciation	443	441
Amortisation	17	18
GST paid for property, plant and equipment	34	37
(Increase)/Decrease in trade and other receivables	4	(9)
Decrease in income tax equivalent	(67)	(15)
Decrease in inventories	(5)	(3)
Increase/(Decrease) in trade and other payables and other liabilities	11	(9)
Net cash from operating activities	1,038	1,052

Note 19 Auditor's Remuneration

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

	2016	2015
	\$'000	\$'000
Audit and review of financial reports	297	290

Notes to the financial report

Note 20 Related Parties

While the Corporation is not required to comply with AASB 124 *Related Party Disclosures*, as it is a not-for-profit public sector entity, the following relevant voluntary information is provided.

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

During the financial year under review, the Corporation, after a public tender process, sold its Engineering and Construction Services branch, to RCR Tomlinson Ltd, for a total cash consideration of \$10.4 million. Pursuant to the terms of the sale the Corporation guaranteed to procure goods and services from RCR Tomlinson Ltd to the value of \$130 million over three years. The Corporation's Chairman, Eva Skira, declared a conflict of interest in the sale and subsequent transactions, as she was and is a non-executive Director of RCR Tomlinson Ltd and did not participate in deliberations or voting by the Board on this matter. Mr Peter McMorroo declared a conflict of interest with respect to the award of the Samson Brook Dam Remedial Works Spillway Upgrade as he was Chairman of SRG Civil Pty Ltd, and did not participate in deliberation or voting by the Board on this matter.

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

	Transaction value year ended	
	2016	2015
	\$M	\$M
Transactions with Department of Treasury, Department of Finance and Western Australian Treasury Corporation		
Receipts		
Department of Treasury – Operating Subsidies	562	573
Western Australian Treasury Corporation		
- Proceeds from borrowings	597	397
- Foreign currency	8	5
Payments		
Department of Treasury		
- Dividends	567	562
- Income tax equivalent	381	349
- Local government rates equivalent	6	6
Department of Finance		
- Payroll tax	20	21
- Vehicle leases and stamp duty	12	12
Western Australian Treasury Corporation		
- Repayment of borrowings	515	222
- Interest on borrowings	224	230
- Guarantee fees	39	36
- Purchase of foreign currency	8	5
Other Transactions		
Payments		
Government Employees' Superannuation Board	25	22
Synergy	23	25
Horizon Power	11	12

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

Notes to the financial report

Note 21 Operating Leases**21.1 Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

	2016	2015
	\$M	\$M
Less than one year	48	48
Between one and five years	173	171
More than five years	293	335
	514	554

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

During the financial year ended 30 June 2016, \$43 million was recognised as an expense in the Statement of Comprehensive Income in respect of non-cancellable operating leases (2015: \$47 million).

21.2 Leases as lessor

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

	2016	2015
	\$M	\$M
Less than one year	7	5
Between one and five years	14	10
More than five years	10	5
	31	20

The Corporation leases out property under operating leases.

During the financial year ended 30 June 2016, \$7 million was recognised as rental income in the Statement of Comprehensive Income (2015: \$7 million).

Note 22 Capital Commitments

Total capital expenditure contracted for at reporting date but not provided for in the financial report is \$154 million (2015: \$153 million).

Note 23 Contingent liabilities

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

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

The following identifiable contingencies exist at 30 June 2016:

	2016	2015
	\$M	\$M
Bank guarantees (note a)	7	6

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

Note 24 Subsequent Events

There have been no events subsequent to balance date which would have a material effect on the Corporation's financial statements at 30 June 2016.

Notes to the financial report

Note 25 Financial Instruments

25.1 Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

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

25.2 Credit risk

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

Management has a credit policy in place and the exposure to credit risk is monitored on a regular basis. The credit risk on financial assets, which have been recognised on the statement of financial position, other than cash and other financial assets is generally the carrying amount, net of any impairment loss for doubtful debts. Most receivables relating to annual service charges and water charges are secured on the rated property. Other receivables are regularly reviewed and allowance is made for debts deemed to be doubtful.

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

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

Exposure to credit risk

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

	2016	2015
	\$M	\$M
Cash and cash equivalents	10	22
Trade and other receivables (Note 9)	227	230
	237	252

The Corporation is not materially exposed to any individual customer.

Notes to the financial report

Impairment losses

The ageing of the Corporation's trade and other receivables at reporting date was:

	Gross 2016	Impairment 2016	Gross 2015	Impairment 2015
	\$M	\$M	\$M	\$M
Not past due	179	-	182	-
Past due 0-30 days	22	-	23	-
Past due 31-60 days	6	-	6	-
Past due 61-90 days	3	-	4	-
More than 90 days	19	2	16	1
	229	2	231	1

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

	2016	2015
	\$M	\$M
Balance 1 July	1	1
Impairment loss recognised	1	-
Balance 30 June	2	1

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

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

During the year ended 30 June 2016, the Corporation renegotiated the terms of trade and other receivables of \$29 million (2015: \$22 million) from customers. If it had not been for these renegotiations, the receivables would have been overdue by more than 90 days. The impairment loss recognised was \$1 million (2015: nil).

The allowance account, in respect of trade and other receivables, is used to record impairment losses unless the Corporation is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the financial asset directly. At 30 June 2016, the Corporation does not have any collective impairments on its trade and other receivables (2015: nil).

25.3 Liquidity risk

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

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

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

At 30 June 2016 the current liabilities of the Corporation exceeded its current assets by \$208 million (2015: \$309 million). The Corporation will meet its current liability obligations, as and when they fall due for payment, by drawing down on its unused lines of credit. The lines of credit are detailed below.

The Corporation has in place arrangements for Western Australian Treasury Corporation (WATC) to provide finance, currently limited to \$6,025 million (2015: \$6,025 million) for the repayment of maturing debt and ongoing capital expenditure. Included in the limit of \$6,025 million is a liquidity facility currently limited to \$500 million (2015: \$500 million) that can be drawn down to meet short-term financing needs. At 30 June 2016, \$5,440 million was drawn under the overall debt facility (2015: \$5,365 million), including nil (2015: \$20 million) of liquidity facility. The remaining amount available under the facility, with the relevant approval was \$585 million (2015: \$660 million).

In addition to the \$6,025 million limit, the Corporation has access to \$80 million (2015: nil) of short-term credit through a working capital facility with WATC, to assist with daily cash flow management. As at 30 June 2016, \$7 million (2015: nil) was drawn under the working capital facility.

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

Notes to the financial report

Exposure to liquidity risk

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

30 June 2016	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Non-derivative financial liabilities							
Trade and other payables*	277	(277)	(277)	-	-	-	-
Interest-bearing loans and borrowings:							
- WATC liquidity facility	-	-	-	-	-	-	-
- WATC working capital facility	7	(7)	(7)	-	-	-	-
- WATC Term Floating Rate Lending	1,919	(2,101)	(30)	(31)	(564)	(1,476)	-
- WATC Term Fixed Rate Aligned	-	-	-	-	-	-	-
- WATC Term Fixed Rate Lending	3,521	(4,404)	(292)	(264)	(517)	(1,412)	(1,919)
Derivative financial liabilities							
Other forward exchange contracts							
- Outflow	1	1	1	-	-	-	-
- Inflow	(1)	(1)	(1)	-	-	-	-
	5,724	(6,789)	(606)	(295)	(1,081)	(2,888)	(1,919)

Notes to the financial report

Exposure to liquidity risk continued

30 June 2015	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Non-derivative financial liabilities							
Trade and other payables*	279	(279)	(279)	-	-	-	-
Interest-bearing loans and borrowings:							
- WATC liquidity facility	20	(20)	(20)	-	-	-	-
- WATC Term Floating Rate Lending	1,564	(1,748)	(23)	(27)	(51)	(1,454)	(193)
- WATC Term Fixed Rate Aligned	800	(837)	(16)	(821)	-	-	-
- WATC Term Fixed Rate Lending	2,981	(3,752)	(260)	(255)	(492)	(1,343)	(1,402)
Derivative financial liabilities							
Other forward exchange contracts							
- Outflow	8	8	8	-	-	-	-
- Inflow	(8)	(8)	(8)	-	-	-	-
	5,644	(6,636)	(598)	(1,103)	(543)	(2,797)	(1,595)

* Excludes derivatives (shown separately)

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

Notes to the financial report

25.4 Market risk

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

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

25.4.1 Currency risk

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

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

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

The Corporation has no material exposure to foreign currency risk.

25.4.2 Interest rate risk

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

Profile

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

	2016 \$M	2015 \$M
Fixed rate instruments		
WATC Liquidity facility	-	20
WATC Working capital facility	7	-
WATC Term Floating Rate Lending (Interest rate fixed for six months)	1,919	1,564
WATC Term Fixed Rate Aligned (Interest rate fixed for three years)	-	800
WATC Term Fixed Rate Lending (note a)	3,521	2,981
	5,447	5,365

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

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for fixed rate instruments

Borrowings under the Term Fixed Rate Lending are structured into various debt lines with maturities ranging from six months to 10 years. \$371 million of existing borrowings under this facility will mature over the next 12 months, of which \$196 million will be refinanced at an interest rate fixed for six months and \$175 million will be refinanced at a rate fixed for 10 years. Interest rates for the \$1,919 million under the Term Floating Rate Lending facility are reset every six months. None of the borrowings under the Term Floating Rate Lending facility will mature in the next 12 months. A change of 100 basis points in interest rates at the reporting date would have increased or decreased interest expense (before capitalised interest) by \$18 million. This analysis assumes that all other variables remain constant.

Notes to the financial report

25.5 Fair values

Fair values versus carrying amounts

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

	Carrying Amount 2016 \$M	Fair Value 2016 \$M	Carrying Amount 2015 \$M	Fair Value 2015 \$M
Assets carried at amortised cost				
Cash and cash equivalents	10	10	22	22
Trade and other receivables	227	227	230	230
Liabilities carried at amortised cost				
Trade and other payables*	277	277	279	279
Interest-bearing loans and borrowings:				
- WATC liquidity facility	-	-	20	20
- WATC working capital facility	7	7	-	-
- WATC Term Floating Rate Lending	1,919	1,940	1,564	1,579
- WATC Term Fixed Rate Aligned	-	-	800	816
- WATC Term Fixed Rate Lending	3,521	3,834	2,981	3,255
Liabilities carried at fair value				
Other forward exchange contracts	1	1	8	8

* Excludes derivatives (shown separately)

The basis for determining fair values is disclosed in Note 26.19.

Interest rates used for determining fair value

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

	2016	2015
Interest-bearing loans and borrowings	1.9%-2.8%	2.1%-3.7%

25.6 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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 for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
30 June 2016				
Derivative financial liabilities	1	-	-	1
30 June 2015				
Derivative financial liabilities	8	-	-	8

Notes to the financial report

Note 26 Significant accounting policies

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

26.1 Revenue

- (a) Revenue from annual service charges and volume charges is recognised in the Statement of Comprehensive Income at the amounts levied and billed for the period, including interest on overdue amounts, less rebates/concessions allowed to entitled customers. Revenue also includes an estimate for the value of water consumed but not billed at reporting date.
- (b) Operating Subsidies (OS) are recognised as revenue when there is reasonable assurance that they will be received and the Corporation has complied with the conditions attached to them. OS are received from the State Government for:
- costs in respect of country water, sewerage, drainage and irrigation services;
 - infill sewerage program; and
 - revenue foregone, plus agreed administration costs, from rebates and concessions to Pensioners, Seniors and various exempt bodies on annual service charges, water consumption charges and other fees and charges.

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

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

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

26.2 Leases

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

26.2.1 Finance leases

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

26.2.2 Operating leases

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

26.3 Net finance costs

26.3.1 Finance income

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

26.3.2 Finance costs

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

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

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

26.4 Income Tax equivalent

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

Notes to the financial report

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

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

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

Deferred tax equivalent is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by reporting date.

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

judgement regarding the adequacy of existing tax equivalent liabilities; such changes to tax equivalent liabilities will impact tax equivalent expense in the period that such a determination is made.

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

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

26.5 Cash and cash equivalents

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

26.6 Trade and other receivables

Trade and other receivables are stated at their amortised cost less provision for impairment losses (see Note 26.10.1) and are normally settled within 30 days.

26.7 Inventories

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

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

26.8 Property, plant and equipment

26.8.1 Recognition and measurement

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

- (a) works carried out under the capital investment program, which are initially recorded at cost. Cost includes direct materials and labour together with a proportion of management expenses directly related to bringing the asset to its working condition, and capitalisation of interest directly attributable to major works with an estimated cost greater than \$5 million;
- (b) works carried out by developers, which are taken over by the Corporation free of charge are recorded at deemed cost, being the fair value at the date of acquisition; and
- (c) other property, plant and equipment, which are initially recorded at cost of acquisition plus incidental costs directly attributable to the acquisition.

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see Note 26.8.3) and impairment losses (see Note 26.10.1).

26.8.2 Subsequent costs

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

- (a) the cost of replacement parts of an item is included when that cost is incurred, if it is probable that the future economic benefits embodied within the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amounts of those parts that are replaced are derecognised.
- (b) the cost of regular major inspection if it is probable that the future economic benefits embodied within the item will flow to the Corporation and the cost of the item can be measured reliably. Any remaining carrying amount of the cost of the previous inspection is derecognised.

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

Notes to the financial report

26.8.3 Depreciation

In order to recognise the loss of service potential of property, plant and equipment, depreciation is recognised in the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, making allowance where appropriate for residual values. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership at the end of the lease term. Land is not depreciated. The asset lives are reviewed annually, taking into account commercial and technical obsolescence, as well as normal wear and tear.

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

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

26.9 Intangible assets

26.9.1 Computer software

Computer software consists of software which is not integral to the hardware, such as SAP and Grange. Computer software is stated at cost less accumulated amortisation (see Note 26.9.4) and accumulated impairment losses (see Note 26.10.1).

26.9.2 Water entitlements

Water entitlements purchased by the Corporation have been recognised initially at the cost of acquiring the entitlements plus incidental costs directly attributable to the acquisition (see Note 26.10).

26.9.3 Renewable energy certificates

Renewable energy certificates are recognised initially at market valuation. These certificates are considered to have an indefinite useful life and are tested annually for impairment (see Note 26.10).

26.9.4 Amortisation

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

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

Intangible assets are amortised over the following useful lives:

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

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

26.10 Impairment

26.10.1 Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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

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

In assessing collective impairment the Corporation uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to

Notes to the financial report

whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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

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

26.10.2 Non-financial assets

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

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

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

26.11 Trade and other payables

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

26.12 Interest-bearing borrowings

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

26.13 Provisions

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

26.13.1 Insurance

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

26.13.2 Workers' compensation

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

26.13.3 Site restoration

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

26.14 Employee benefits

26.14.1 Long service leave and annual leave

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

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

26.14.2 Purchased leave

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

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

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

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

26.14.3 Termination benefits

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

Notes to the financial report

26.14.4 Non-monetary benefits

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Corporation as the benefits are taken by the employees.

26.15 Foreign currency transactions

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

26.16 Derivative financial instruments

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

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

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

26.16.1 Cash flow hedges

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

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

26.17 Goods and services tax

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

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

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

26.18 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual reporting periods beginning after 1 January 2016, and have not been applied in preparing this financial report. Those which may be relevant to the Corporation are set out below.

26.18.1 AASB 9 Financial Instruments

AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from AASB 139.

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

The Corporation has not assessed the impact of this standard and does not plan to adopt it early.

26.18.2 AASB 16 Leases

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases within a term of more than 12 months, unless the underlying asset is of low value.

This Standard is applicable to annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

The Corporation has not assessed the impact of this standard, and does not plan to adopt it early.

Notes to the financial report

26.1.8.3 AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programs*.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Corporation has not assessed the impact of this standard and does not plan to adopt it early.

26.19 Determination of fair values

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

26.19.1 Derivatives

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

26.19.2 Interest-bearing loans and borrowings

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

26.19.3 Finance lease liabilities

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

26.19.4 Trade and other receivables/payables

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

26.20 Comparatives

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

Directors' declaration

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

- (a) the financial statements and notes are in accordance with the Water Corporations Act 1995, including:
 - (i) giving a true and fair view of the Corporation's financial position as at 30 June 2016 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



E. Skira
Chairman



S.L. Murphy
Chief Executive Officer
PERTH, 25 August 2016.



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

WATER CORPORATION

I have audited the financial report of the Water Corporation. The financial report comprises the Statement of Financial Position as at 30 June 2016, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, Notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

Opinion

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

- (a) giving a true and fair view of the Corporation's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility for the audit of the Financial Report

As required by the Water Corporations Act 1995, my responsibility is to express an opinion on the financial report based on my audit. The audit was conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

Independence

In conducting this audit, I have complied with the independence requirements of the Auditor General Act 2006 and Australian Auditing Standards, and other relevant ethical requirements.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the Water Corporation for the year ended 30 June 2016 included on the Corporation's website. The Corporation's directors are 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 this financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.


 COLIN MURPHY
 AUDITOR GENERAL
 FOR WESTERN AUSTRALIA
 Perth, Western Australia
 26 August 2016

Glossary

Aquifer

An underground layer of water-bearing permeable rock or consolidated materials (clay, sand, silt or gravel), from which groundwater can be extracted.

Catchment

Area of land, which collects rainfall and contributes to surface water or to groundwater.

Desalination

The process that removes salt from saline water to produce fresh water.

Drinking water

Water that is safe to use for drinking.

Gigalitre (GL)

A metric unit of volume or capacity equal to 1 billion (a thousand million) litres of water. This volume would fill 444 Olympic-sized swimming pools.

Greenhouse gases

Atmospheric gases that absorb and re-radiate the sun's energy, rather than letting it escape back into space. Water vapour, carbon dioxide, nitrous oxide, methane and ozone are the primary greenhouse gases. Human activities have increased the levels of these gases in the atmosphere, leading to more energy being trapped and so raising Earth's temperatures.

Groundwater

Water in the soil below the surface of the ground, typically found in an aquifer.

Groundwater replenishment

The process where treated wastewater is further treated to drinking water standards and recharged into groundwater supplies.

Infrastructure

Services and equipment needed to support urban communities.

Integrated Water Supply Scheme (IWSS)

Supplies water to more than 2 million people, serving towns in the South West, metropolitan Perth and from Mundaring Weir to towns and farmlands in the Central Wheatbelt out to Kalgoorlie-Boulder.

Kilolitre (kL)

A metric unit of volume or capacity equal to 1,000 litres.

Megalitre (ML)

A metric unit of volume or capacity equal to 1 million litres.

Surface water

All water naturally open to the atmosphere (rivers, lakes, dams, streams, oceans, etc).

Wastewater

Wastewater is 99.97 per cent water and comes mostly from showers, baths and washing machines.

We support Western Australia to become more climate resilient reducing water use, increasing water recycling and developing new water sources.

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