Financial Report

2017-18

HORIZON POWER

energy for life

Regional Power Corporation trading as Horizon Power
Financial Statements
For the year ended 30 June 2018

ABN: 57 955 011 697

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Statement of Comprehensive Income

	Notes	30 June 2018 $'000	30 June 2017 $'000
Revenue	1	**479,691**	341,780
Other Income	2	**180,248**	150,740
Total income		**659,939**	492,520
Electricity and fuel purchases	3(b)	**(222,395)**	(168,075)
Employee benefits expense	3(b)	**(55,092)**	(50,900)
Materials and services	3(b)	**(57,844)**	(55,671)
Depreciation and amortisation expense	3(b)	**(89,580)**	(88,388)
Other expenses	3(b)	**(11,562)**	(11,308)
Finance costs	3(b)	**(65,145)**	(68,866)
Profit before income tax equivalent expense		**158,321**	49,312
Income tax equivalent expense	4(b)	**(46,462)**	(13,876)
Profit for the year		**111,859**	35,436
Other comprehensive income			
Items not to be reclassified subsequently to profit or loss			
Re-measurement of defined benefits plan	17(c)	**95**	(71)
Tax equivalent on re-measurement of defined benefits plan	4(d)	**(29)**	21
		66	(50)
Other comprehensive income/(loss) for the year, net of tax equivalent		**66**	(50)
Total comprehensive income for the year		**111,925**	35,386

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

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Statement of Financial Position

	Notes	30 June 2018 $'000	30 June 2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents	6	**127,988**	83,508
Receivables	7	**52,436**	32,362
Inventories	8	**12,102**	12,298
Intangible assets	10	**1,201**	4,380
Derivative financial instruments	9	**1,481**	-
Other current assets	11	**2,188**	2,749
Total current assets		**197,396**	135,297
Non-current assets			
Property, plant and equipment	12	**1,580,591**	1,578,626
Intangible assets	10	**5,910**	6,992
Other receivables		**451**	-
Deferred tax equivalent assets	5	**44,995**	41,711
Total non-current assets		**1,631,947**	1,627,329
Total assets		**1,829,343**	1,762,626
LIABILITIES			
Current liabilities			
Payables	13	**81,016**	77,433
Provisions	14	**22,039**	21,756
Current tax equivalent liabilities	5	**35,394**	3,392
Derivative financial instruments	9	**-**	1,210
Other current liabilities	15	**10,766**	63,154
Interest bearing liabilities	16	**143,138**	74,283
Total current liabilities		**292,353**	241,228
Non-current liabilities			
Payables	13	**75,559**	225
Provisions	14	**9,887**	12,358
Retirement benefit obligations	17	**1,648**	1,769
Interest bearing liabilities	16	**872,873**	1,041,064
Total non-current liabilities		**959,967**	1,055,416
Total liabilities		**1,252,320**	1,296,644
Net assets		**577,023**	465,982
EQUITY			
Contributed equity	19	**378,792**	335,874
Retained earnings		**198,231**	130,108
Total equity		**577,023**	465,982

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

Statement of Changes in Equity

	Notes	Contributed equity $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2016		**309,807**	111,111	420,918
Profit for the year		-	35,436	35,436
Other comprehensive loss		-	(50)	(50)
Total comprehensive income for the year		-	35,386	35,386
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs and tax equivalent	19	**26,067**	-	26,067
Dividends paid		-	(16,389)	(16,389)
Total		**26,067**	(16,389)	9,678
Balance at 30 June 2017		**335,874**	130,108	465,982
Balance at 1 July 2017		**335,874**	**130,108**	**465,982**
Profit for the year, net of tax equivalent		-	**111,859**	**111,859**
Other comprehensive income, net of tax equivalent		-	**66**	**66**
Total comprehensive income for the year		-	**111,925**	**111,925**
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs and tax equivalent	19	**42,918**	-	**42,918**
Dividends paid		-	**(43,802)**	**(43,802)**
Total		**42,918**	**(43,802)**	**(884)**
Balance at 30 June 2018		**378,792**	**198,231**	**577,023**

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

Statement of Cash Flows

	Notes	**30 June 2018 $'000**	30 June 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**393,954**	362,980
Receipts from tariff equalisation fund		**167,000**	150,000
Net GST and Fuel Tax Credits received		**(5,758)**	9,380
Interest received		**374**	221
Payments to suppliers and employees (inclusive of goods and services tax)		**(427,638)**	(386,764)
Finance costs paid		**(31,305)**	(32,182)
Payments / receipts for financial assets at fair value through profit or loss		**(1,315)**	251
Income taxes equivalent paid		**(17,772)**	(11,892)
Net cash inflow from operating activities	6(c)	**77,540**	91,994
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**58,535**	1,541
Payments for property, plant and equipment		**(124,175)**	(127,043)
Payments for intangibles		**(14,016)**	(4,205)
Net cash outflow used in investing activities		**(79,656)**	(129,707)
Cash flows from financing activities			
Proceeds from borrowings		**87,314**	53,000
Repayment of borrowings		**(170,550)**	(3,450)
Dividends paid		**(43,802)**	(16,389)
Developer and customer contributions to capital works		**130,794**	55,640
Proceeds from contributed equity		**42,918**	26,067
CES, customers' and contractors' refunds		**(78)**	(47)
Net cash inflow from financing activities		**46,596**	114,821
Net increase /(decrease) in cash and cash equivalents		**44,480**	77,108
Cash and cash equivalents at the beginning of the financial year		**83,508**	6,400
Cash and cash equivalents at end of year	6(b)	**127,988**	83,508

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

Contents of the notes to the financial statements

Notes to the financial statements

Basis of Preparation

Corporation Information

The financial statements of Regional Power Corporation, trading as Horizon Power ("Horizon Power" or "the Corporation") for the year ended 30 June 2018, were authorised for issue in accordance with a resolution of the directors on 5 September 2018. The directors have the power to amend and reissue the financial report.

Horizon Power is a Not-for-Profit Public Sector Entity incorporated under the Electricity Corporations Act 2005 and domiciled in Australia. Its registered office is at 1 Stovehill Road, Karratha.

The Corporation principal activities include the generation, procurement, distribution and selling of electricity to residents and businesses in remote and regional Western Australia.

Basis of accounting

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and the disclosure requirements of Schedule 4 of the Electricity Corporations Act 2005.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

Statement of Compliance

The financial statements comply with Australian Accounting Standards, as applicable to not-for-profit entities.

Accrual accounting and historical cost convention

These financial statements have been prepared on the historical cost convention except for derivative financial instruments and certain employee benefit liabilities that are measured at their fair value as at the reporting date. The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods.

Comparative amounts

Comparative amounts are for the period from 1 July 2016 to 30 June 2017.

There has been no reclassification or changes to comparative figures.

Going Concern

These financial statements are prepared on the going concern basis. Horizon Power has reasonable grounds to believe it is able to pay its debts as and when they become due and payable (refer to Note 6(c)).

Foreign currency translation

The functional and presentation currency of Horizon Power is Australian dollars (AUD).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All monetary assets and monetary liabilities currency translation differences are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item. All other gains or losses arising on the translation of non-monetary items are recognised in profit or loss.

Significant accounting estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the results of which form the bases of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

The area where estimates and assumptions are significant to the financial statements as a higher degree of judgment or complexity is involved, are listed below and described in more detail in the related notes.

- Unbilled Sales (Note 1(c)).
- Impairment of non-financial assets (Note 12 (vii)).
- Provision for employee benefits – annual leave and long service leave (Note 14(i)).
- Provision for restoration and decommissioning costs (Note 14(ii)).
- Lease commitments (Note 26(b) (i)).

New and amended accounting standards and interpretations

New and amended accounting standards adopted

In the current year, Horizon Power has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in a significant or material change to Horizon Power's accounting policies.

New accounting standards and interpretations not yet adopted

At the date of this financial report the following standard and interpretations, which may impact Horizon Power in the period of initial application, have been issued but are not yet effective.

Reference	Title	Summary	Application date of standard	Impact on Entity Financial Report	Application date for Entity
AASB 9, and relevant amending standards	Financial Instruments	AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs. Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria	1 January 2018	We have performed an assessment of the impact of AASB 9 and expect an increase in the provision for doubtful debts under the expected credit loss model. However, the expected impact is not considered material. We do not expect any other changes to the recognition and initial and subsequent measurement of our financial instruments under AASB 9.	1 July 2018

Reference	Title	Summary	Application date of standard	Impact on Entity Financial Report	Application date for Entity
		for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.			
AASB 15 and relevant amending standards	Revenue from Contracts with Customers	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 Construction Contracts, AASB 118 Revenue, AASB Interpretation 13 Customer Loyalty Programmes, AASB Interpretation 15 Agreements for the Construction of Real Estate, AASB Interpretation 18 Transfers of Assets from Customers and AASB Interpretation 131 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 Leases (or AASB 16 Leases, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps: ► Step 1: Identify the contract(s) with a customer ► Step 2: Identify the performance obligations in the contract ► Step 3: Determine the transaction price ► Step 4: Allocate the transaction price to the performance obligations in the contract ► Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.	1 January 2019	We currently anticipate adopting this standard on its effective date, 1 July 2019, but are yet to select a method of adoption. At this stage, we do not anticipate significant issues in our implementation process or to our accounting policies. We expect the timing of revenue recognition to remain materially unchanged for Electricity sales, Community Service Obligations, Tariff Equalisation Contribution and fees and charges. We are still assessing whether there will be any change to the timing of recognition for Developer and Customer Contributions.	1 July 2019
AASB 16	Leases	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.	1 January 2019	AASB 16 will result in the recognition of right of use (ROU) assets and lease liabilities on the Statement of Financial Position. Applying the 'grandfathering' practical expedient provided in the AASB 16, Horizon Power current finance leases and operating commitments disclosed under AASB 117 will form the basis of the ROU asset and liability.	1 July 2019

Reference	Title	Summary	Application date of standard	Impact on Entity Financial Report	Application date for Entity
				Horizon Power will apply the modified retrospective transition approach on initial application of the standard.	
AASB 1058* AASB 2016-8	Income of Not-for-Profit Entities Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-For-Profit Entities	AASB 1058 and AASB 2016-8 will defer income recognition in some circumstances for not-for-profit entities, particularly where there is a performance obligation or any other liability. In addition, certain components in an arrangement, such as donations, may be separated from other types of income and recognised immediately. The Standard also expands the circumstances in which not-for-profit entities are required to recognise income for goods and services received for consideration that is significantly less than the fair value of the asset principally to enable the entity to further its objectives (discounted goods and services), including for example, peppercorn leases.	1 January 2019	While the assessment is not complete, the timing of revenue recognition is not expected to materially change.	1 July 2019

* Only applicable to not-for-profit/public sector entities

Profit for the reporting year

1. Revenue

(a) Accounting policy

(i) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Horizon Power and the revenue can be reliably measured. It is valued at the fair value of the consideration received, or to be received, net of the amount of Goods and Services Tax (GST). The following specific recognition criteria must also be met before revenue is recognised.

(ii) Sale of electricity

Sale of electricity comprises revenue earned from the provision of electricity and is recognised when the electricity is provided. As at each reporting date, sales and other current assets incorporate amounts attributable to 'unbilled sales' which are an estimate of electricity delivered to customers that have not been billed at the reporting date.

(iii) Community service obligations

Community service obligations (CSOs) are obligations to perform functions, on behalf of the State Government, that are not in the commercial interests of Horizon Power. Where the Government agrees to reimburse Horizon Power for the cost of CSOs, the entitlement to reimbursement is recognised in the Statement of Comprehensive Income on a basis consistent with the associated CSO expenses. Horizon Power recognises revenue in respect of the reimbursement of CSOs including:

- Air conditioning subsidy for seniors;
- Aboriginal & Regional Communities Power Supply Project;
- Energy Assistance Payments;
- Dependent Child Rebates;
- Feed-in Tariff rebates;
- Tariff Adjustment Payments; and
- Tariff Migration Payments

(iv) Developer and customer contributions

Horizon Power receives developer and customer contributions toward the extension of electricity infrastructure to facilitate network connection. Contributions can be in the form of either cash or assets and consist of:

- Work performed for developers - developers make cash contributions to Horizon Power for the construction of electricity infrastructure within a subdivision;
- Handover works - developers have the option to independently construct electricity infrastructure within a subdivision. Upon approval by Horizon Power of the completed work, these network assets are vested in Horizon Power; and
- Upgrade and new connections - customers (including generators) make cash contributions for the upgrade or extension of electricity infrastructure to existing lots or for the construction of electricity infrastructure to new lots in existing areas.

1. Revenue (continued)

(a) Accounting policy (continued)

(iv) Developer and customer contributions (continued)

Cash contributions received are recognised as revenue when the customers/developers are connected to the network in accordance with the terms of the contributions. Vested assets are recognised as revenue at the point of handover and are measured at their fair value. The network assets resulting from contributions received are recognised as property, plant and equipment and depreciated over their useful life.

(b) Amounts recognised in Statement of Comprehensive Income

	30 June 2018 $'000	30 June 2017 $'000
Revenue consists of the following items:		
Sale of electricity	**305,116**	268,294
Community service obligations revenue	**14,985**	44,076
Developer and customer contributions	**123,813**	19,065
Revenue from contract works	**22,325**	1,945
Others	**13,452**	8,400
	479,691	341,780

(c) Critical accounting judgements

Sale of electricity includes billed and unbilled sales. Following the roll out of the Advanced Metering Infrastructure, management has developed reporting tools that track ongoing consumption for customers with advanced meters resulting in a high level of accuracy in the evaluation of the unbilled electricity consumption. For the small number of customers not on advanced meters and unmetered consumption such as streetlights, various assumptions and financial models are used to determine the estimated unbilled consumption.

2. Other Income

(a) Accounting policy

Tariff Equalisation Fund

A significant portion of Horizon Power's income is derived from the Tariff Equalisation Fund (TEF). Electricity Networks Corporation, trading as Western Power, pays money into the TEF in amounts determined by the Treasurer and the Minister for Energy. This money is released to Horizon Power as determined by the Treasurer and the Minister for Energy and is recognised on a receipts basis.

(b) Amounts recognised in Statement of Comprehensive Income

	30 June 2018 $'000	30 June 2017 $'000
Tariff Equalisation Fund	**167,000**	150,000
Gain on disposal of property, plant and equipment	**6,672**	740
Liquidated damages received	**6,576**	-
	180,248	150,740

3. Expenses

(a) Accounting policy

(i) Electricity and Fuel Purchases

Electricity and fuel purchases are those costs attributable to the integrated manufacturing process involved in the generation and transformation of electricity into a saleable commodity. It includes costs associated with purchasing fuel and electricity.

Electricity purchased from independent generators is recognised at the contracted price on an accruals basis.

Liquid fuel costs are assigned on the basis of weighted average cost. Gas costs comprise payments made under sale and purchase agreements.

Costs to operate and maintain the electricity transmission and distribution systems are recognised on an accruals basis.

(ii) Finance cost

Horizon Power, as a Not-for-Profit Public Sector Entity, has elected to recognise borrowing costs in profit or loss when incurred under AASB 123- Borrowing Costs.

Finance costs include:

- Amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- Amortisation of discounts or premiums relating to borrowings;
- Discount rate adjustment for the movement in present value over time in connection with the contributory extension scheme payables and decommissioning costs;
- Finance charges in respect of finance leases recognised;
- Interest on bank overdrafts, short-term and long-term borrowings; and
- Guarantee fees on borrowings from the Western Australian Treasury Corporation (WATC).

(b) Amounts recognised in Statement of Comprehensive Income

	30 June 2018 $'000	30 June 2017 $'000
Electricity and fuel purchases		
Electricity purchases	**169,934**	114,412
Fuel purchases	**51,994**	50,759
Water purchases	**467**	2,904
Total electricity and fuel purchases	**222,395**	168,075
Employee benefits expense		
Salaries, wages and allowances	**39,126**	34,628
Superannuation	**5,486**	4,984
Long service leave	**1,314**	1,617
Annual leave	**3,511**	3,369
Other related expenses	**5,655**	6,302
Total employee benefits expenses	**55,092**	50,900

3. Expenses (continued)

(b) Amounts recognised in Statement of Comprehensive Income (continued)

	30 June 2018 $'000	30 June 2017 $'000
Materials and services		
Contracted services	**35,742**	35,766
Materials	**6,611**	3,898
IT services	**6,215**	6,851
Customer services	**3,185**	3,259
Consultants	**2,696**	2,538
Other services	**3,395**	3,359
Total materials and services	**57,844**	55,671

	30 June 2018 $'000	30 June 2017 $'000
Depreciation		
Leasehold buildings	**2,350**	2,831
Plant and equipment	**57,612**	55,584
Equipment under finance leases	**25,130**	25,454
Total depreciation	**85,092**	83,869
Amortisation		
Computer software	**4,488**	4,518
Patents, trademarks and other rights	**-**	1
Total amortisation	**4,488**	4,519
Total depreciation and amortisation	**89,580**	88,388

	30 June 2018 $'000	30 June 2017 $'000
Other expenses		
Loss on disposal of property, plant and equipment	**983**	687
Provision for impairment of receivables	**2,548**	1,983
Property expenses	**5,058**	5,402
Reversal of provision for decommissioning and site rehabilitation	**-**	(192)
Other	**2,973**	3,428
Total other expenses	**11,562**	11,308

	30 June 2018 $'000	30 June 2017 $'000
Finance costs		
Interest on debts	**25,324**	31,567
Unwinding of discount on contributory extension scheme	**28**	34
Unwinding of discount on decommissioning provision	**250**	226
Finance lease interest	**35,276**	37,039
Interest Other	**4,267**	-
Total finance costs	**65,145**	68,866

4. Income tax equivalent expense

(a) Accounting policy

(i) National Taxation Equivalent Regime and other taxes

The calculation of the liability in respect of Horizon Power's taxes is governed by the Income Tax Administration Acts and the National Taxation Equivalent Regime (NTER) guidelines as agreed by the Western Australian State Government.

Income tax on the Statement of Comprehensive Income for the reporting period comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in other comprehensive income.

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

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the deductible temporary differences are associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Statement of Financial Position date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

4. Income tax equivalent expense (continued)

(ii) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(b) Amounts recognised in Statement of Comprehensive Income

Income tax equivalent expense

	30 June 2018 $'000	30 June 2017 $'000
Current tax	**52,961**	16,657
Deferred tax	**(4,956)**	(1,071)
Adjustments for net deferred tax assets and liabilities of prior period	**1,672**	250
Adjustments for current tax of prior periods	**(3,215)**	(1,960)
	46,462	13,876
Deferred income tax equivalent expense/(benefit) included in income tax equivalent expense comprises:		
Decrease in deferred tax equivalent assets (note 5(b)(i))	**5,544**	6,133
Decrease in deferred tax equivalent liabilities (note 5(b)(ii))	**(10,500)**	(7,204)
	(4,956)	(1,071)

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

	30 June 2018 $'000	30 June 2017 $'000
Profit before income tax equivalent expense	**158,321**	49,312
Tax at the Australian tax rate of 30.0% (2017 - 30.0%)	**47,496**	14,794
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Research and development	**481**	768
Other	**27**	24
Adjustments for current tax of prior periods	**(1,542)**	(1,710)
Total income tax equivalent expense	**46,462**	13,876

4. Income tax (continued)

(d) Amounts recognised directly in other comprehensive income

	30 June 2018 $'000	30 June 2017 $'000
Deferred tax equivalent arising in the reporting period and not recognised in profit/(loss) but directly credited to other comprehensive income:		
Net deferred tax equivalent - recognised directly in other comprehensive income, in relation to:		
– Re-measurement on defined benefit plans	(29)	21
	(29)	21

Operational assets and liabilities

5. Tax equivalent assets and liabilities

(a) Accounting policy

Refer to note 4(a) for details of Horizon Power's 'deferred tax equivalents' accounting policy.

(b) Amounts recognised in statement of financial position

(i) Deferred tax assets

	30 June 2018 $'000	30 June 2017 $'000
The balance comprises temporary differences attributable to:		
Provisions	**11,637**	12,095
Property, plant and equipment	**40**	17
Community service obligation	**691**	569
Power purchase agreements classified as finance leases	**103,272**	107,877
	115,640	120,558
Other		
Contributory extension scheme	**144**	136
Accruals	**508**	325
Other	**(487)**	303
Sub-total other	**165**	764
Total deferred tax assets	**115,805**	121,322
Set-off of deferred tax liabilities pursuant to set-off provisions (note 5(b)(ii))	**(70,810)**	(79,611)
Net deferred tax assets	**44,995**	41,711

	30 June 2018 $'000	30 June 2017 $'000
Movements:		
Opening balance	**121,322**	127,450
Charged/credited:		
- to profit or loss (note 4(b))	**(5,544)**	(6,133)
Adjustments for deferred tax equivalent assets of prior periods	**27**	5
	115,805	121,322

(ii) Deferred tax equivalent liabilities

	30 June 2018 $'000	30 June 2017 $'000
The balance comprises temporary differences attributable to:		
Consumable stocks	**370**	430
Power purchase agreements classified as finance lease	**70,440**	79,181
Total deferred tax equivalent liabilities	**70,810**	79,611
Set-off of deferred tax equivalent assets pursuant to set-off provisions (note (5(b)(i))	**(70,810)**	(79,611)
Net deferred tax equivalent liabilities	**-**	-

5. Tax equivalent assets and liabilities (continued)

(ii) Deferred tax equivalent liabilities (continued)

	30 June 2018 $'000	30 June 2017 $'000
Movements		
Opening balance at 1 July	**79,611**	86,559
Credited to profit or loss (note 4(b))	**(10,500)**	(7,204)
Adjustments for deferred tax liabilities of prior periods	**1,699**	256
	70,810	79,611

(iii) Current tax liabilities

	30 June 2018 $'000	30 June 2017 $'000
Income tax	**(35,394)**	(3,392)
	(35,394)	(3,392)

6. Cash and cash equivalents

(a) Accounting policy

Cash and cash equivalents comprise cash at bank, deposits held at call with financial institutions and other short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash.

(b) Amounts recognised in statement of financial position

	30 June 2018 $'000	30 June 2017 $'000
Cash in operational accounts	**89,988**	51,308
Short-term investment deposits	**38,000**	32,200
	127,988	83,508

Management assessed that the fair value of cash at bank and short-term investment deposits approximate their carrying amounts.

6. Cash and cash equivalents (continued)

(c) Reconciliation of profit after income tax equivalent expense to net cash inflow from operating activities

	30 June 2018 $'000	30 June 2017 $'000
Profit for the year	**111,925**	35,386
Depreciation and amortisation	**89,580**	88,388
Developer and customer contributions	**(123,813)**	(19,065)
Net loss/ (gain) on sale of non-current assets	**(5,689)**	(54)
Changes in operating assets and liabilities:		
(Increase)/Decrease in other receivables	**(15,946)**	6,577
Decrease in inventories	**196**	3,327
Decrease/ (increase) in other assets	**563**	(596)
(Decrease) in other payables	**(4,375)**	(23,443)
(Decrease)/ increase in derivatives	**(1,311)**	1,452
Decrease in income equivalent tax assets / decrease in tax liabilities	**28,719**	1,963
Increase in employee provisions	**607**	1,280
(Decrease) in other provisions	**(2,916)**	(3,221)
Net cash inflow from operating activities	**77,540**	91,994

As at June 2018, Horizon Power has a net current liability position of $94,511,000 (2017: $105,931,000). This has no impact on Horizon Power's ability to pay its debts over the next twelve months from the date those financial statements were authorised for issue. The above reconciliation indicates that the organisation's ongoing operations generate sufficient cash flow to cover its usual operations, to pay interest on its debts and to pay income taxes. In addition, under a Master Lending Agreement with the Western Australian Treasury Corporation, Horizon Power can access a peak borrowing facilities of up to $927,500,000 from July 2018, including a working capital facility of $30,000,000, of which $368,500,000 was undrawn.

(d) Non-cash investing and financing activities

	30 June 2018 $'000	30 June 2017 $'000
Gifted assets (note 12(b))	**8,852**	8,549
Additions to equipment under finance lease (note 12(b))	**5,448**	-
	14,300	8,549

7. Receivables

(a) Accounting policy

Trade receivables, which generally have 12 day terms for tariff customers, 7 to 14 day terms for contract customers and 30 to 90 days for non-energy customers, are recognised and carried at original invoice amount less an allowance for any impaired receivables. No interest is charged on current receivables.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that Horizon Power will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the customers, probability that the customers will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in Statement of Comprehensive Income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised in Statement of Comprehensive Income against 'impairment of receivables'.

7. Receivables (continued)

(b) Amounts recognised in Statement of Financial Position

	30 June 2018 $'000	30 June 2017 $'000
Trade receivables		
Receivables - energy - billed (i)	**22,412**	13,469
Receivables - energy - unbilled (ii)	**18,414**	9,077
Total receivables energy	**40,826**	22,546
Allowance for impairment of receivables – energy	**(4,435)**	(4,025)
	36,391	18,521
Receivables - non-energy (i)	**9,996**	5,171
Allowance for impairment of receivables - non energy	**(780)**	(410)
	9,216	4,761
Other receivables	**6,829**	9,080
Total receivables	**52,436**	32,362

(i) Includes amounts due from Aboriginal communities of $2,977,995 (Energy: $2,396,208; Non Energy: $581,787) (2017: $1,819,807).

(ii) Receivables energy incorporate amounts attributable to 'unbilled sales'. Following the roll out of the Advanced Metering Infrastructure, management has developed reporting tools that track ongoing consumption for customers with advanced meters resulting in a high level of accuracy in the evaluation of the unbilled electricity consumption. For the small number of customers not on advanced meters and unmetered consumption such as streetlights, various assumptions and financial models are used to determine the estimated unbilled consumption.

(c) Impaired trade receivables

Movements in the allowance for impairment of receivables are as follows:

	30 June 2018 $'000	30 June 2017 $'000
At 1 July	**4,435**	4,471
Allowance for impairment recognised during the year	**2,548**	1,983
Receivables written off during the year as uncollectable	**(1,768)**	(2,019)
At 30 June	**5,215**	4,435

The creation and release of the allowance for impaired receivables has been included in 'other expenses' in the Statement of Comprehensive Income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

7. Receivables (continued)

(d) Ageing of Trade receivables

	30 June 2018 $'000	30 June 2017 $'000
Energy receivables		
Not overdue (i)	**27,689**	9,811
Overdue but not impaired		
0 - 28 days	**3,913**	4,123
29 - 56 days	**2,335**	2,332
57 - 90 days	**860**	863
+ 90 days	**1,594**	1,392
Past due and impaired	**4,435**	4,025
	40,826	22,546

(i) Not overdue amount includes unbilled amount of $18,413,980 (2017: $9,077,275).

Non-energy receivables		
Not overdue	**8,816**	3,502
Overdue but not impaired		
Overdue: 30 days	**87**	441
60 days	**303**	16
90 days	**10**	538
120 days	**-**	83
+ 120 days	**-**	182
Past due and impaired	**780**	409
	9,996	5,171

The other classes of receivables do not contain impaired assets. Based on the credit history of these other classes, it is expected that these amounts will be received in full.

(e) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Corporation. No significant risk is believed to be attached to other receivables.

(f) Fair value

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

8. Inventories

(a) Accounting policy

Inventories are valued at the lower of cost and net realisable value. The cost incurred in bringing inventories to their present location and condition is assigned on a weighted average cost basis for liquid fuels and consumables.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(b) Amounts recognised in Statement of Financial Position

	30 June 2018 $'000	30 June 2017 $'000
Fuel	**915**	944
Materials	**11,187**	11,354
Total inventories	**12,102**	12,298

9. Derivative financial instruments

(a) Accounting policy

(i) Derivatives

Through its operations, Horizon Power is exposed to changes in interest rates, foreign exchange rates and commodity prices. These risks may be managed with the prudent use of derivative financial instruments such as commodity swaps, interest swaps and forward foreign exchange contracts. Horizon Power only uses derivatives in liquid markets and all hedge activities are conducted within Horizon Power's Board approved policy. Comprehensive systems are in place and compliance is monitored closely. Horizon Power uses derivatives solely for economic hedging and not for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to fair value. The fair value of forward foreign exchange contracts, interest rate swaps and commodity price (oil) hedging contracts is obtained from an external financial risk adviser. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

Hedge accounting is applied to derivative financial instruments that are designated as hedging instruments. Horizon Power designates such derivatives as either:

- Cash flow hedges when they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or recognised liability or a highly probable forecasted transaction; or
- Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or recognised liability.

(ii) Cash flow hedge

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and within equity in the hedging reserve. The gains or losses relating to the ineffective portion are recognised immediately in Statement of Comprehensive Income.

Amounts accumulated in equity are recycled to Statement of Comprehensive Income in the period when the forecast purchase that is hedged takes place. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (or non-financial liability), the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the acquisition cost or carrying amount of the asset or liability.

When a hedging instrument expires, is sold, is terminated or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the net cumulative gain or loss that was reported in equity is immediately transferred to profit or loss. Horizon Power has not accounted for any derivative financial instruments that qualify for hedge accounting as cash flow hedges.

(iii) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, together with any changes in the fair value of the hedged asset or hedged liability that are attributable to the hedged risk. There is no impact on the equity reserves. Horizon Power has not accounted for any derivative financial instruments that qualify for hedge accounting as fair value hedges.

(iv) Derivatives that do not qualify for hedge accounting

For derivatives that do not qualify for hedge accounting, any changes in fair value are recognised immediately in Statement of Comprehensive Income.

(v) Embedded derivatives

Derivatives embedded in contracts that change the nature of the host contract's risk are separately recorded at fair value with movements recorded in Statement of Comprehensive Income.

9. Derivative financial instruments *(continued)*

(vi) Commodity Swaps

Horizon Power is exposed to movements in the Gasoil price through the purchase of fuel for its diesel power stations as well as fuel consumption by its power producers. Horizon Power has entered into AUD denominated commodity swaps to obtain an economic hedge against increases in wholesale crude oil prices and falls in the AUD/USD exchange rate. Horizon Power's policy is to hedge the forecasted fuel cost for 1 year forward at 80% of forecast and accounted for this as a derivative at fair value through profit or loss. In the year ended 30 June 2018, an unrealised gain of $1,481,171 was recognised in the Statement of Comprehensive Income (2017: unrealised loss of $1,210,158).

(b) Amounts recognised in Statement of Financial Position

	30 June 2018 $'000	30 June 2017 $'000
Current assets / (liabilities)		
Commodity swaps	**1,481**	(1,210)
Total current derivative financial instrument assets/(liabilities)	**1,481**	(1,210)

(c) Fair Value Hierarchy

The following table presents Horizon Power's derivative financial assets and financial liabilities measured and recognised at fair value at 30 June 2018 and 30 June 2017, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that Horizon Power can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

At 30 June 2018	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Commodity swaps used for hedging	-	1,481	-	1,481
Total assets	-	1,481	-	1,481

At 30 June 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Commodity swaps used for hedging	-	1,210	-	1,210
Total liabilities	-	1,210	-	1,210

There were no transfers between levels during the financial year.

Valuation techniques for fair value measurement categories within level 2

Horizon Power utilise Gasoil commodity swaps to hedge its diesel exposure. Gasoil commodity swaps allow Horizon to exchange a floating rate commitment for a fixed rate commitment, or vice versa. On maturity, there is a cash settlement based on the difference between the Swap price and the Average Floating Price over the Swap contract's Calculation Period.

Horizon Power's commodity swaps are based on Singapore Gasoil 10 parts per million (ppm) sulphur and valued in accordance with standard market practice. Valuation is based on discounting future swap cash flows with current market gasoil futures pricing, interest rate curves and related exchange rates to determine their present value.

10. Intangible assets

(a) Accounting policy

Intangible assets acquired separately are capitalised at cost at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible asset.

(i) Renewable energy certificates

Under the Renewable Energy (Electricity) Act 2000, parties on grids of more than 100 MW making wholesale acquisitions of electricity (relevant acquisitions) are required to demonstrate that they are supporting the generation of renewable electricity by purchasing increasing amounts of renewable energy certificates (RECs). The Act imposes an annual liability, on a calendar year basis, by applying the specified Renewable Power Percentage and Small-Scale Technology Percentage to the relevant volume of electricity acquired. These parties demonstrate compliance by surrendering RECs to the Office of the Renewable Energy Regulator (ORER): Large-Scale Generation Certificates are surrendered annually between 1 January and 14 February for the previous calendar year (compliance year). Small-Scale Technology Certificates are surrendered on a quarterly basis.

The RECs liability is extinguished by surrendering an equivalent number of RECs with a penalty applying for any shortfall. Horizon Power has a contract with Electricity Retail and Generation Corporation, trading as Synergy, for the acquisition of RECs. Horizon Power's liability is based on actual volume of electricity acquired for the last calendar year multiplied by ORER specified Renewable Power Percentage for that year. RECs purchased from external sources are recognised as intangible assets at their purchase price.

(ii) Amortisation

The useful lives of intangible assets are assessed to be either finite or indefinite. For intangible assets with finite useful lives, an amortisation expense is recognised in profit or loss over the useful lives of the assets.

The useful lives and amortisation of Horizon Power's major intangible asset classes are as follows:

Intangible asset	Finite/infinite useful life	Amortisation method	Useful life
Computer software	Finite	Straight-line method	4 years
Patents, trademarks and other rights	Finite	Straight-line method	10–15 years
Renewable Energy Certificates	Infinite	Not amortised	

Amortisation rates are reviewed annually, and if necessary adjusted to reflect the most recent assessment of the useful lives of the assets.

(iii) Disposal of assets

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from de-recognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in profit or loss when the asset is de-recognised.

(b) Amounts recognised in statement of financial position

(i) Current assets

Renewable energy certificates	30 June 2018 $'000	30 June 2017 $'000
Opening balance	**4,380**	1,679
Additions	**4,122**	9,255
Surrendered	**(7,301)**	(6,554)
Closing balance	**1,201**	4,380

10. Intangible assets (continued)

(ii) Non-current assets

	Patents, trademarks and other rights $'000	Computer software $'000	Total $'000
Year ended 30 June 2018			
Opening net book amount	2	6,990	6,992
Additions – acquisition	-	3,406	3,406
Amortisation charge	-	(4,488)	(4,488)
Closing net book amount	2	5,908	5,910
At 30 June 2018			
Cost	19	53,804	53,823
Accumulated Amortisation	(17)	(47,896)	(47,913)
Net book amount	2	5,908	5,910
Year ended 30 June 2017			
Opening net book amount	3	9,156	9,159
Additions – acquisition	-	2,352	2,352
Amortisation charge	(1)	(4,518)	(4,519)
Closing net book amount	2	6,990	6,992
At 30 June 2017			
Cost	19	50,398	50,417
Accumulated Amortisation	(17)	(43,408)	(43,425)
Net book amount	2	6,990	6,992

11. Other current assets

	30 June 2018 $'000	30 June 2017 $'000
Prepayments	2,188	2,749
Total other current assets	2,188	2,749

12. Property, plant and equipment

(a) Accounting policy

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. A gifted asset is recognised at fair value at its initial recognition (at the point of handover to Horizon Power) and depreciated over its useful life.

(i) Acquisition of assets

The cost method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the asset given at the date of acquisition plus costs incidental to the acquisition. Direct costs and associated indirect costs in respect of assets being constructed, are capitalised.

Costs are only capitalised when it is probable that future economic benefits will flow from the establishment of the asset and the cost of the asset can be reliably measured.

(ii) Decommissioning costs

Upon recognition of an item of property, plant and equipment, the cost of the item includes the anticipated costs of dismantling and removing the asset, and restoring the site on which it is located, discounted to their present value as at the relevant date of acquisition.

(iii) Capitalisation of borrowing costs

Horizon Power, as a Not-for-Profit Public Sector Entity, has elected to expense borrowing costs in the period incurred under AASB 123.

(iv) Depreciation

Discrete assets that are not subject to continual extension and modification are depreciated using the straight-line method. Such assets include power stations, the transmission network and buildings.

Other assets, primarily the electricity distribution network that are continually extended and modified, are depreciated using the reducing balance method. Land is not depreciated.

The useful lives of Horizon Power's major property, plant and equipment classes are as follows:

- Buildings	25 - 40 years
- Plant and equipment	4 - 50 years
- Equipment under finance leases	based on term of contract (10 to 20 years)
- Leasehold improvements	2 – 20 years
- Construction in progress	no depreciation

Depreciation rates are reviewed annually, and if necessary adjusted to reflect the most recent assessment of the useful lives of the assets.

(v) Disposal of assets

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from de-recognition of an asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in profit or loss when the asset is derecognised.

(vi) Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience. Leased equipment is depreciated over the useful life of the asset, however if there is no reasonable certainty that Horizon Power will obtain ownership by the end of the lease term, the leased equipment is depreciated over the shorter of the estimated useful life of the asset and the lease term. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Depreciation charges are included in note 3.

12. Property, plant and equipment (continued)

(vii) Impairment of assets

At each reporting date Horizon Power assesses whether there is any indication that an asset may be impaired, that is, where events or changes in circumstances indicate the carrying value exceeds recoverable amount. The assessment includes an evaluation of conditions specific to Horizon Power and to the particular asset that may lead to impairment and include product and manufacturing performance, technology, economic and political environments and future product expectation. Where an indicator of impairment exists, Horizon Power makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in profit or loss.

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

(b) Amounts recognised in statement of financial position

	Freehold land $'000	Buildings and leasehold improvements $'000	Plant and equipment $'000	Equipment under finance lease at cost $'000	Total $'000
Year ended 30 June 2018					
Opening net book amount	12,218	78,282	1,230,925	257,201	1,578,626
Additions	-	515	134,923	5,448	140,886
Disposals	(101)	(23,923)	(29,805)	-	(53,829)
Depreciation charge	-	(2,350)	(57,612)	(25,130)	(85,092)
Closing net book amount	12,117	52,524	1,278,431	237,519	1,580,591
At 30 June 2018					
Cost	12,117	70,833	1,629,920	493,034	2,205,904
Accumulated depreciation	-	(18,309)	(351,489)	(255,515)	(625,313)
Net book amount	12,117	52,524	1,278,431	237,519	1,580,591

Expenditure recognised in plant and equipment in the course of construction is $169,783,576. (2017: $137,934,982)

Horizon Power receives non-cash capital contributions in the form of gifted assets. The fair value of the non-cash capital contributions included in the additions to plant and equipment in 2018 was $8,851,935. (2017: $8,548,829)

	Freehold land $'000	Buildings and Leasehold improvements $'000	Plant and equipment $'000	Equipment under finance lease at cost $'000	Total $'000
Year ended 30 June 2017					
Opening net book amount	12,402	79,742	1,149,281	282,655	1,524,080
Additions	-	1,837	137,809	-	139,646
Disposals	(184)	(466)	(581)	-	(1,231)
Depreciation charge	-	(2,831)	(55,584)	(25,454)	(83,869)
Closing net book amount	12,218	78,282	1,230,925	257,201	1,578,626
At 30 June 2017					
Cost	12,218	96,743	1,532,559	487,586	2,129,106
Accumulated depreciation	-	(18,461)	(301,634)	(230,385)	(550,480)
Net book amount	12,218	78,282	1,230,925	257,201	1,578,626

13. Payables

(a) Accounting policy

These amounts represent liabilities for goods and services provided to Horizon Power prior to the end of the reporting period that are unpaid. The amounts are unsecured and are settled within prescribed periods.

Payables are non-interest bearing and are generally settled on 30 day terms. Other payables are non-interest bearing and generally have settlement terms between 14 and 30 days. Due to the short term nature of these payables (including the current portion of the Contributory Extension Scheme), their carrying value approximates their fair value.

Contributory extension scheme (CES) payables represent amounts received from customers to extend specific electricity supplies. These deposits are progressively refunded as other customers are connected to existing supply extension schemes. By 2022, when the scheme finishes, all scheme members will have their contributions refunded. The non-current portion of the CES payables is stated at fair value, which is estimated as the present value of future cash flows, discounted at the applicable Commonwealth Zero Coupon rates at the end of the reporting date.

(b) Amounts recognised in statement of financial position

(i) Current liabilities

	30 June 2018 $'000	30 June 2017 $'000
Payables	**75,689**	68,312
Other payables	**4,689**	8,548
Contributory extension scheme payables	**638**	573
	81,016	77,433

(ii) Non-current liabilities

	30 June 2018 $'000	30 June 2017 $'000
Unearned Income	**75,413**	-
Contributory extension scheme payables	**146**	225
	75,559	225

14. Provisions

(a) Accounting policy

Provisions are recognised when:

• Horizon Power has a present obligation (legal or constructive) as a result of a past event;

• It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

• A reliable estimate can be made of the amount of the obligation.

(i) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include annual leave and long service leave.

14. Provisions (continued)

(i) Employee benefits (continued)

Liabilities arising in respect of any employee benefits expected to be settled within twelve months from the reporting date are measured at their nominal amount based on remuneration rates that are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. The present value of future cash outflows is determined using the projected unit credit method.

A provision for the on-costs attributable to annual leave and unconditional long service leave benefits is recognised in other provisions, not as employee benefits.

Estimates and assumptions

• *Long Service Leave*

Estimations and assumptions used in calculating the Corporation's long service leave provision include expected future salary rates, employee retention rates and expected future payments. The expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. Changes in these estimations and assumptions impact on the carrying amount of the long service leave provision.

Pre-conditional and conditional long service leave provisions are classified as non-current liabilities because Horizon Power has an unconditional right to defer the settlement of the liability until the employee has completed the requisite years of service.

• *Annual Leave*

For annual leave not expected to be wholly settled before 12 months after the end of the reporting period, estimations and assumptions used in calculating the Corporation's annual leave provision include expected future salary increases and employee retention rates. The expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

• *Termination benefits*

Termination benefits are payable when employment is terminated by the company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. Horizon Power recognises termination benefits at the earlier of the following dates: (a) when Horizon Power can no longer withdraw the offer of those benefits (b) when Horizon Power recognises a cost for restructuring that is within the scope of AASB 137 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(ii) Restoration and decommissioning

Provision is made for the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The nature of decommissioning activities includes the removal of generating facilities and restoration of affected areas, including the treatment of contaminated sites.

Typically, the obligation arises when the asset is installed at the location. When the provision is initially recognised, the estimated cost is capitalised by increasing the carrying amount of the related generating facility.

Over time, the provision is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded as an accretion charge within finance costs. The carrying amount capitalised in generating assets is depreciated over the useful life of the related assets.

Costs incurred that relate to an existing condition caused by past operations are expensed.

(ii) Restoration and decommissioning (continued)

Estimates and assumptions

A provision has been made for the present value of anticipated costs of future restoration and decommissioning of generating plants and workshops. The provision includes future cost estimates associated with dismantling closure, decontamination and permanent storage of historical residues. The calculation of this provision requires assumptions such as application of environmental legislation, plant closure dates, available technologies and engineering cost estimates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised by adjusting both the expense or asset (if applicable) and provision. The related carrying amounts are disclosed within Property, Plant and Equipment in note 12 and in note 14.

(b) Amounts recognised in statement of financial position

Current liabilities

	30 June 2018 $'000	30 June 2017 $'000
Long service leave	**6,562**	5,685
Annual leave	**4,514**	4,564
Decommissioning and rehabilitation	**7,673**	8,630
Other provisions	**3,290**	2,877
	22,039	21,756

Non-Current liabilities

	30 June 2018 $'000	30 June 2017 $'000
Long service leave	**1,173**	1,614
Decommissioning and rehabilitation	**8,516**	10,475
Other provisions	**198**	269
	9,887	12,358

Movements in provisions - decommissioning and rehabilitation

	30 June 2018 $'000	30 June 2017 $'000
Carrying amount at start of year	**19,105**	22,326
Payments/other sacrifices of economic benefits	**(3,599)**	(3,255)
Changes in assumptions	**433**	(192)
Unwinding of discount	**250**	226
Carrying amount at end of year	**16,189**	19,105
Comprised of:		
Current	**7,673**	8,630
Non-Current	**8,516**	10,475
	16,189	19,105

14. Provisions (continued)

Movements in provisions - other provisions

	30 June 2018 $'000	30 June 2017 $'000
Carrying amount at start of year	3,145	2,657
Additional provisions recognised	952	735
Payments / other sacrifices of economic benefits	(609)	(247)
Carrying amount at end of year	3,488	3,145
Comprised of:		
Current	3,290	2,876
Non-Current	198	269
	3,488	3,145

The annual leave benefits are reported as current because Horizon Power does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period. Based on past experience annual and long service leave benefits are expected to be taken or paid as follows.

	30 June 2018 $'000	30 June 2017 $'000
Annual Leave		
Annual leave expected to be settled within 12 months	2,773	2,691
Annual leave expected to be settled after 12 months	1,741	1,873
	4,514	4,564

	30 June 2018 $'000	30 June 2017 $'000
Long Service Leave		
Long service leave expected to be settled within 12 months	2,356	2,115
Long service leave expected to be settled after 12 months	5,379	5,184
	7,735	7,299

15. Other current liabilities

(a) Accounting policy

Refer to note 1(a) (iv) for details of Horizon Power's 'Developer and customer contributions' accounting policy.

(b) Amounts recognised in the Statement of Financial Position

	30 June 2018 $'000	30 June 2017 $'000
Deferred developer and customer contributions	10,766	63,154
	10,766	63,154

16. Interest bearing liabilities

(a) Accounting policy

All interest-bearing liabilities are initially recognised at fair value net of transaction costs incurred. Subsequent to initial recognition interest-bearing liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Any difference between the cost and the redemption amount is recognised in profit or loss over the period of the interest-bearing liabilities using the effective interest method.

(i) Lease

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to Horizon Power are brought to account by recognising an asset and liability at the inception of the lease equal to the fair value of the leased item or, if lower, the present value of the minimum lease payments.

Lease payments are apportioned between borrowing costs in Statement of Comprehensive Income and reduction of the lease liability in the Statement of Financial Position so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term if ownership will not transfer to Horizon Power.

Horizon Power has recognised finance leases implicit in existing electricity purchase agreements in accordance with Australian Accounting Standards Board Interpretation 4: Determining whether an Arrangement contains a Lease and AASB 117 Leases. Horizon Power does not have any other finance leases as at 30 June 2018.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Horizon Power's operating leases payments are representative of the pattern of benefits derived from the leased assets and accordingly are recognised in profit or loss in the reporting periods in which they are incurred.

In accordance to AASB 108, Horizon Power has elected to treat modifications to lease arrangement that do not result in a change in the lease classification as a remeasurement of the original lease arrangement. Horizon Power will remeasure the lease liability using the original interest rate implicit in the lease and the revised minimum lease payments. Any change in the lease liability would be recognised against the carrying amount of the asset.

(b) Amounts recognised in statement of financial position

Current liabilities

	30 June 2018 $'000	30 June 2017 $'000
Secured		
WATC loans (i)	**120,314**	53,000
Unsecured		
Finance lease liabilities (note 26(b))	**22,824**	21,283
	143,138	74,283

Non-current liabilities

	30 June 2018 $'000	30 June 2017 $'000
Secured		
WATC loans (ii)	**559,400**	709,950
Unsecured		
Finance lease liabilities (note 26(b))	**313,473**	331,114
	872,873	1,041,064

(i) The fair value of WATC current loans are $120,356,857 (2017: $53,007,000).

(ii) The fair value of WATC Non-current loans are $582,435,241 (2017: $739,595,000).

16. Interest bearing liabilities (continued)

A master lending agreement with the WATC, an entity owned by the Western Australian State Government, allows Horizon Power the unequivocal right to refinance all or any part of maturing debt at regular intervals.

As at 30 June 2018, the non current WATC loans of $559 million included an amount of $94.5 million that will become due and payable during 2018/2019 reporting year. It is Horizon Power's expectation that this amount will be refinanced under the master lending agreement rather than repaid, and therefore has been classified as non-current.

The approval of Horizon Power's forecast borrowing requirements for the next four years, including no repayment of amounts classified as non-current above, contained within the Western Australian State Budget handed down in May 2018.

Horizon Power's borrowing limits are detailed in Note 6(c).

17. Retirement benefit obligations

(a) Accounting policy

All employees of Horizon Power are entitled to benefits upon retirement, disablement or death from one of many superannuation plans, which may include a defined contribution section, a defined benefit section, or both.

The defined contribution section, being the Superannuation Trust of Australia and other employee nominated funds, receive fixed contributions and Horizon Power's legal and constructive obligation is limited to these contributions. The entire Superannuation Trust of Australia has been treated as a defined contribution plan.

The defined benefit sections provide either a pension or lump sum benefit based upon years of service and final salary, averaged over a number of years in accordance with the relevant governing rules. Each of the defined benefit sections, being the Pension Scheme and the Gold State Superannuation Scheme, is closed to new members. The Pension Scheme and Gold State Superannuation Scheme are State plans.

(i) Defined contribution superannuation plans

Obligations for contributions to defined contribution plans are recognised in profit or loss as incurred.

(ii) Defined benefit superannuation plans

A provision in respect of the defined benefit superannuation plans is recognised in the Statement of Financial Position and is measured at the present value of the defined benefit obligations, based upon services provided up to the reporting date, plus/less unrecognised actuarial gains/losses less the fair value of the superannuation plans' assets at that date.

The present value of the defined benefit obligations is based upon expected future payments and is calculated using discounted cash flows consistent with the projected unit credit method. Consideration is given to the expected future wages and salaries level, experience of employee departures and periods of service. Actuarial gains and losses arising from experience adjustments and changes in actuarial adjustments are recognised immediately in Other Comprehensive Income. Retirement benefit obligations are paid as an untaxed amount to the employee and therefore no provision is required to be made for future taxes in measuring the net asset or liability.

The defined benefits of the Pension Scheme and the Gold State Superannuation Scheme are wholly unfunded. Horizon Power contributes, as required, to meet the benefits paid. Considering that the Pension Scheme and the Gold State Superannuation Schemes are closed to new members and the remaining net liability at the reporting date is not material, sensitivity and risk disclosures have not been provided in our report.

(iii) Superannuation

The amount recognised in profit or loss of the Statement of Comprehensive Income comprises employer contributions paid to the Gold State Superannuation Scheme (GSS) (concurrent contributions), the West State Superannuation Scheme (WSS), the Government Employees Superannuation Board Schemes (GESBs), or other superannuation funds. The employer contribution paid to the Government Employees Superannuation Board (GESB) in respect of the GSS is paid back into the Consolidated Account by the GESB.

GSS (concurrent contributions) is a defined benefit scheme for the purposes of employees and whole-of-government reporting. It is however a defined contribution plan for agency purposes because the concurrent contributions (defined contributions) made by the agency to GESB extinguishes the agency's obligations to the related superannuation liability.

17. Retirement benefit obligations (continued)

(iii) Superannuation (continued)

The Liabilities for the unfunded Pension Scheme and the unfunded GSS transfer benefits attributable to members who transferred from the Pension Scheme, are assumed by the Treasurer. All other GSS obligations are funded by concurrent contributions made by the agency to the GESB.

The GESB and other fund providers administer public sector superannuation arrangements in Western Australia in accordance with legislative requirements. Eligibility criteria for membership in particular schemes for public sector employees vary according to commencement and implementation dates.

(b) Amounts recognised in statement of financial position

The amounts recognised in the Statement of Financial Position are determined as follows:

	30 June 2018 $'000	30 June 2017 $'000
Present value of unfunded obligations (i)	**1,648**	1,769
Net liability in the statement of financial position	**1,648**	1,769

(c) Reconciliations

	30 June 2018 $'000	30 June 2017 $'000
Reconciliation of the present value of the defined benefit obligation		
Balance at the beginning of the year	**1,769**	1,724
Interest cost	**38**	38
Actuarial losses	**(95)**	71
Benefits paid	**(64)**	(64)
Balance at the end of the year	**1,648**	1,769

(d) Principal actuarial assumptions

The principal actuarial assumptions used were as follows:

	30 June 2018	30 June 2017
Discount rate	**2.26% -2.60%**	2.26%
Future salary increases	**1.5% - 4.2%**	2.5% - 3.5%
Expected future pension increases	**2.5%**	2.5%

18. Financial risk management

Horizon Power's principal financial instruments comprise receivables, payables, interest-bearing borrowings, derivatives and cash and cash equivalents.

Horizon Power has developed a Financial Risk Management policy to provide a framework through which Horizon Power maintains the appropriate level of control over financial and associated risks. The Treasury Management Committee oversees treasury functions on behalf of the Board to ensure that significant financial and associated risks are managed through a use of various financial instruments.

The main risks arising from Horizon Power's financial instruments are market risk, liquidity risk and credit risk. Horizon Power's policies for managing each of these risks are summarised below.

18. Financial risk management (continued)

Horizon Power holds the following financial instruments:

	30 June 2018 $'000	30 June 2017 $'000
Financial assets		
Cash and cash equivalents	**127,988**	83,508
Derivative financial instruments	**1,481**	-
Trade and other receivables	**52,436**	32,362
	181,905	115,870
Financial liabilities		
Payables	**81,016**	77,658
Derivative financial instruments	**-**	1,210
Interest bearing liabilities	**1,016,011**	1,115,347
	1,097,027	1,194,215

(a) Market risk

(i) Foreign exchange risk

Horizon Power's exposure to foreign currency risk at the current reporting date is low because all the transactions were denominated in Australian dollar (AUD). Exchange rate exposures are managed by the Horizon Power Treasury group within approved policy parameters utilising forward foreign exchange contracts.

It is the policy of Horizon Power to enter into forward foreign exchange contracts to cover significant foreign currency payments and receipts.

Although diesel fuel payments are made in Australian dollars, the relevant wholesale market for Gasoil is denominated in USD and as such, there is an indirect exposure to the AUD/USD exchange rate. This exposure is managed by the use of AUD denominated Gasoil commodity swaps to hedge against increases in wholesale crude oil prices and falls in the AUD/USD exchange rate.

(ii) Commodity price risk

Commodity price risk represents the extent to which movements in commodity prices will impact Horizon Power results. Horizon Power is exposed to commodity price risk for distillate fuel (Gasoil).
Horizon Power is exposed to fluctuations in the Gasoil price through the purchase of fuel for its diesel power stations as well as fuel consumed by its power producers.

Horizon Power deals in Gasoil commodity swaps for the purpose of providing an economic hedge against Gasoil costs. The limits of this trading are set by the Board.

At 30 June 2018 Horizon Power has economically hedged 63,878 barrels at an average Australian dollar price of AUD $95 per barrel.

18. Financial risk management (continued)

Sensitivity

At 30 June 2018, if commodity prices had decreased/increased by 10 percent from the year end rates with all other variables held constant, the impact on Horizon Power's post tax profit for the year would have been the following:

		Commodity price risk			
		-10%		+10%	
30 June 2018	Carrying amount $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000
Financial assets					
Commodity swaps	**1,481**	**-**	**(529)**	**-**	**529**
Total increase/ (decrease)		**-**	**(529)**	**-**	**529**

		Commodity price risk			
		-10%		+10%	
30 June 2017	Carrying amount $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000
Financial liabilities					
Commodity swaps	(1,210)	-	(483)	-	483
Total increase/ (decrease)		-	(483)	-	483

(iii) Interest rate risk

Horizon Power's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations and lease liabilities.

Horizon Power's borrowings obtained through the WATC are at fixed rates with varying maturities, except for a working capital facility of $30 million that has a variable interest rate linked to movements in Reserve Bank of Australia. The risk on the fixed interest rate debts is managed through portfolio diversification and variation in maturity dates.

At balance date Horizon Power had the following financial assets exposed to Australian variable interest rate risk.

	30 June 2018 Weighted average interest rate %	**Balance $'000**	30 June 2017 Weighted average interest rate %	Balance $'000
Financial Assets				
Cash and cash equivalents	**1.46%**	**89,987**	1.71%	83,508
Financial Liabilities				
WATC Loans	**2.36%**	**(30,000)**	2.36%	(4,600)
Net exposure to cash flow interest rate risk		**59,987**		78,908

Horizon Power's policy is to manage its finance costs using fixed debt with the objective of achieving cost effective outcomes whilst managing interest rate risk to avoid uncertainty and volatility in the market place.

Horizon Power constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions and alternative financing.

18. Financial risk management (continued)

Sensitivity

At 30 June 2018, if interest rates had decreased/increased by 100 basis points from the year end rates with all other variables held constant, the impact on Horizon Power's post tax profit for the year would have been the following:

		Interest rate risk			
		-100 bps		+100 bps	
30 June 2018	Carrying amount $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000
Financial assets					
Cash and cash equivalents	**89,988**	**(630)**	**-**	**630**	**-**
Financial liabilities					**-**
WATC loans	**30,000**	**210**	**-**	**(210)**	
Total increase/ (decrease)		**(420)**	**-**	**420**	**-**

		Interest rate risk			
		-100 bps		+100 bps	
30 June 2017	Carrying amount $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000
Financial assets					
Cash and cash equivalents	83,508	(585)	-	585	-
Financial liabilities					
WATC loans	(4,600)	32	-	(32)	-
Total increase/ (decrease)		(553)	-	553	-

(b) Credit risk

Horizon Power operates predominantly within the electricity generation transmission, distribution and sales industry and accordingly is exposed to risks affecting that industry. The maximum exposure to this industry risk is the carrying value of trade debtors, before allowance is made for impairment of receivables.

Trade and other receivables that are neither past due nor impaired are considered to be of high quality. Aggregates of such amounts are detailed in note 7(d).

Horizon Power follows stringent credit control and management procedures in reviewing and monitoring debtor accounts.

With respect to credit risk arising from cash and cash equivalents, Horizon Power's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of the cash and cash equivalents.

Horizon Power maintains cash and cash equivalents through highly rated financial institutions.

(c) Liquidity risk

Horizon Power's objective is to ensure adequate funding is available at all times, to meet the commitment of Horizon Power, as they arise.

The table below reflects the contractual maturity of financial liabilities, including estimated interest payments. These include payables and interest-bearing borrowings.

18. Financial risk management (continued)

Financing arrangements

At 30 June 2018	**Within one year $'000**	**Later than one year but not later than five years $'000**	**Later than five years $'000**	**Total $'000**
Liabilities				
Interest-bearing loans and borrowings	238,308	266,419	256,793	761,520
Other financial liabilities	638	146	-	784
Trade and other payables	75,062	-	-	75,062
Finance lease	56,608	222,678	260,901	540,187
Total liabilities	370,616	489,243	517,694	1,377,553

At 30 June 2017	Within one year $'000	Later than one year but not later than five years $'000	Later than five years $'000	Total $'000
Liabilities				
Interest-bearing loans and borrowings	261,041	378,175	225,362	864,578
Other financial liabilities	573	220	4	797
Trade and other payables	69,540	-	-	69,540
Finance lease	56,076	217,215	314,745	588,036
Total liabilities	387,230	595,610	540,111	1,522,951

Equity

19. Contributed equity

(a) Accounting policy

AASB Interpretation 1038 'Contributions by Owners Made to Wholly Owned Public Sector Entities' requires transfers, other than as a result of a restructure of administrative arrangements, in the nature of equity contributions to be designated by the Government (the owner) as contributions by owners (at the time of, or prior to transfer) before such transfers can be recognised as equity contributions. Capital contributions have been credited directly to Contributed Equity.

Transfer of net assets to/from other agencies, other than as a result of a restructure of administrative arrangements, are designated as contributions by owners where the transfers are non-discretionary and non-reciprocal.

(b) Amounts recognised in statement of financial position

	30 June 2018 $'000	30 June 2017 $'000
Opening Balance	**335,874**	309,807
Equity contribution during the financial year	**42,918**	26,067
Total contributed equity at the end of the financial year (i)	**378,792**	335,874

(i) In the year ended 30 June 2018 and 30 June 2017, the increase in contributed equity was in respect of the following:

	30 June 2018 $'000	30 June 2017 $'000
Pilbara Underground Power Project Phase 2	**10,000**	24,000
Midwest gas pipeline loans interest recoupment	**1,118**	839
LED streetlight	**-**	799
Murchison Radio Observatory project	**-**	429
Onslow Power Station	**31,800**	-
Total increase in contributed equity	**42,918**	26,067

20. Interests in joint operations

(a) Accounting policy

Interest in joint arrangements

Joint arrangements are contractual arrangements in which Horizon Power and other parties undertake an economic activity subject to joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Interest in joint venture operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Where material, Horizon Power recognises in its financial statements:

Assets controlled by Horizon Power in the joint operations;
Liabilities incurred by Horizon Power in relation to the joint operations;
Expenses incurred by Horizon Power in relation to the joint operations; and
Share of income earned from the joint operations.

20. Interests in joint operations (continued)

Jointly controlled operations

Name of entity	Name of entity	Output Interest
Mid-West Pipeline Joint Venture	Gas Transportation in the Mid-West and Hill 60 Pipelines	29.2%

Horizon Power's assets employed in the above jointly controlled operations have been fully depreciated as at 30 June 2018. The balance of this joint operation is owned by Australian Pipeline Ltd.

Other information

21. Pilbara Underground Power Project (PUPP)

The Pilbara Underground Power Project is a project being funded by the State Government through the Royalties for Region program, along with contributions from the Local Government Authorities (Shire of Roebourne, Town of Port Hedland and Shire of Ashburton). The project is being managed by Horizon Power.

The scope of the project is to provide cyclone affected North West towns of Karratha, South Hedland, Onslow and Roebourne with a safe and reliable power supply, by replacing ageing overhead electricity infrastructure with a new network of underground power lines and associated equipment, incorporating the latest electricity technology.

	30 June 2018 $'000	30 June 2017 $'000
The following items relating to PUPP are included in the financial statements:		
Plant and equipment	**212,321**	199,338
Trade payables	**(5,285)**	(2,258)
	207,036	197,080

22. Key management personnel remuneration

Horizon Power's key management personnel has been determined to be the State Cabinet Ministers, members and senior officers of Horizon Power. However, Horizon Power is not obligated to compensate Ministers and therefore disclosures in relation to Ministers' compensation may be found in the Annual Report of State Finances.

Total compensation of key management personnel, comprising directors and senior officers of Horizon Power for the reporting period are presented below.

	30 June 2018 $000	30 June 2017 $000
Short-term employee benefits	**3,360**	3,426
Post-employment benefits	**299**	323
Other long-term benefits	**-**	-
Termination benefits	**1,288**	-
Other benefits	**740**	-
Total compensation of key management personnel	**5,687**	3,749

Further details of key management personnel remuneration is disclosed in the Board report section of the annual report.

23. Related party transactions

Related parties of Horizon Power include:

- all Ministers and their close family members, and their controlled or jointly controlled entities;
- all key management personnel and their close family members, and their controlled or jointly controlled entities;
- other departments and statutory authorities, including their related bodies, that are included in the whole of government consolidated financial statements;
- associates and joint ventures of an entity that are included in the whole of Government consolidated financial statements; and
- the Government Employees Superannuation Board (GESB).

Transactions with State Government related entities include the sale of electricity in the ordinary course of business on normal commercial terms. Other significant transactions include:

Government Entities	Details of Transactions	Transactions during 2017/18		Amount owed by Horizon Power $ 000	Commitments $000	Refer to note
		Payment $000	Receipt $000			
Western Power	Purchase of inventories	5,069	-	319	22	
Synergy	Purchase of power	30,695	-	-	1,454	
Western Australia Treasury Corporation	Debts	170,550	87,314	679,714		Note 16
	Borrowing costs	26,661	-	5,316		Note 3
Water Corporation	Water supply to power stations	1,290		7	140	
Department of Treasury	Tariff Equalisation Fund	-	167,000	-		Note 2 (a)
	Community Service Obligations	-	14,985			Note 1 (b)
	Equity injections	-	42,918	-	-	Note 19

Horizon Power had no material related party transactions with Ministers, Senior Officers or their close family members or their controlled or jointly controlled entities

24. Contingencies

(i) Contingent liabilities

Horizon Power is currently party to, or is potentially affected by a number of legal claims. Until proceedings relating to these claims are finalised, uncertainty exists regarding the impact, if any, on the operations of Horizon Power.
In the opinion of the directors, provisions or further disclosures are not required in respect of these contingencies, as it is not probable a future sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement.

(ii) Contingent assets

Horizon Power did not have any contingent assets as at 30 June 2018 (30 June 2017: nil).

(iii) Contaminated sites

Under the Contaminated Sites Act 2003, the Corporation is required to report known and suspected contaminated sites to the Department of Environment and Conservation (DEC). In accordance with the Act, DEC classifies these sites on the basis of the risk to human health, the environment and environmental values. Where sites are classified as contaminated and remediation required or possibly contaminated and investigation required, Horizon Power may have a liability in respect of investigation or remediation expenses. All contaminated sites are provided for as per note 14.

25. Remuneration of auditors

	30 June 2018 $'000	30 June 2017 $'000
Audit of financial statements	**217**	214
	217	214

(i) Audit services

Under the Act, the Auditor General of Western Australian has been appointed Horizon Power's independent auditor. During the year, the above fees were paid, or due and payable, for audit services provided by the Office of Auditor General.

(ii) Non-audit services

Neither the Office of Auditor General nor their agents provided non-audit services during the year ended 30 June 2018 (Nil 2017).

26. Commitments

(a) Capital commitments

	30 June 2018 $'000	30 June 2017 $'000
Within one year	**28,240**	64,565
	28,240	64,565

(i) (i) At 30 June 2018 capital expenditure commitments principally related to Onslow - DER ($13,283,000), Roy Hill (3,653,000), SCADA System Replacement ($3,144,000), West Pilbara Protection and Automation ($1,563,000).

(ii) At 30 June 2017 capital expenditure commitments principally related to Onslow - DER ($35,486,000), Roy Hill ($16,029,000), Pilbara Underground Power Project ($6,015,000), West Pilbara Protection and Automation ($2,117,000).

26. Commitments (continued)

(b) Energy Procurement Commitments

(i) Finance leases commitments

Finance leases relate to leases implicit in electricity purchase agreements identified in accordance with Australian Accounting Standards Board Interpretation 4: Determining whether an Arrangement contains a Lease and AASB 117 Leases.

Judgments

• *Lease Commitments*

Horizon Power has entered into power purchase agreements relating to specific generating facilities. Horizon Power has assessed whether:

i) the agreements represent leases; and where
ii) the agreements represent leases, the classification of the leases as operating or finance (note 16(a)(i)).

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception, including whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Under certain lease arrangements, Horizon Power has the option to purchase the underlying assets.

	30 June 2018 $'000	30 June 2017 $'000
Commitments in relation to finance leases are payable as follows:		
Within one year	**56,608**	56,076
Later than one year but not later than five years	**222,678**	217,215
Later than five years	**260,901**	314,745
Minimum lease payments	**540,187**	588,036
Future finance charges	**(203,890)**	(235,639)
Recognised as a liability	**336,297**	352,397
Representing lease liabilities:		
Current (note 16(b))	**22,824**	21,283
Non-current (note 16(b))	**313,473**	331,114
	336,297	352,397

Forecast energy procurement requirements are not included in the above commitments.

(c) Other commitments

These commitments consist of contractual obligations in respect of fixed charges relating to the purchase of electricity, water, gas and renewable energy certificates, which are not finance leases.

	30 June 2018 $'000	30 June 2017 $'000
Within one year	**148,243**	126,102
Later than one year but not later than five years	**595,082**	659,500
Later than five years	**2,255,766**	2,355,740
	2,999,091	3,141,342

(i) Horizon Power has recognised an operating lease over the Midwest Power Station. The lease term is 10 years and is not terminable except in circumstances of un-remedied default.

26. Commitments (continued)

(d) Rental operating lease commitments

Horizon Power has commitments to property leases as at 30 June 2018. Lease rentals are subject to half yearly and yearly reviews.

	30 June 2018 $'000	30 June 2017 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**2,172**	1,645
Later than one year but not later than five years	**5,992**	5,688
Later than five years	**6,979**	4,995
	15,143	12,328

27. Economic dependency

A significant portion of Horizon Power's revenue is derived from the Tariff Equalisation Fund (TEF), which is provided in accordance with the Electricity Industry Act 2004. Western Power pays money into the TEF in amounts determined by the Treasurer and the Minister for Energy. This money is released to Horizon Power as determined by the Treasurer. Horizon Power has a significant dependency on the sufficient and timely flow of these funds to effectively remain a going concern entity to continue carrying out its objectives, obligations and commitments in the foreseeable future. Horizon Power began receiving revenue from the Tariff Equalisation Fund from October 2006.

28. Subsequent Events

There has not arisen in the interval between the end of the reporting period and the date of this report any matter or circumstance likely, in the opinion of the Horizon Power Board, to affect significantly the operations of Horizon Power, the results of those operations, or the state of affairs of Horizon Power in subsequent reporting periods.

Directors' declaration

In accordance with a resolution of the Directors of the Regional Power Corporation (trading as Horizon Power), we state that:

In the opinion of the Directors:

a) the financial statements and notes of the Corporation are in accordance with Schedule 4 of the *Electricity Corporations Act 2005*, including:
   i. giving a true and fair view of the Corporation's financial position as at 30 June 2017 and of its performance for the 12-month period ended on that date; and
   ii. complying with Accounting Standards, AASB Interpretations and Corporations Regulations, and

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.

On behalf of the Board

Stephen Edwell

Chairman

Rosemary Wheatley

Deputy Chair

5 September 2018

Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

REGIONAL POWER CORPORATION (TRADING AS HORIZON POWER)

Opinion

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

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

(a) giving a true and fair view of the Corporation's financial position as at 30 June 2018 and of its performance for the year then ended; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

Responsibility of the Directors for the Financial Report

The directors of the Corporation are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and schedule 4 of the *Electricity Corporations Act 2005*. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibility for the Audit of the Financial Report

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

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

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

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

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

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

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

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

Matters Relating to the Electronic Publication of the Audited Financial Report

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

CAROLINE SPENCER
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
6 September 2018