

Indigenous Essential Services Pty Ltd

A wholly owned subsidiary of the Power and Water Corporation

Annual Report 2004



indigenous
essential services  Pty Ltd



Introduction

Indigenous Essential Services Pty Ltd (IES) is a wholly owned subsidiary of Power and Water Corporation.

It was established on 26 June 2003 to support the provision of electricity, water and sewerage services to remote Northern Territory Indigenous communities. The IES Pty Ltd Board members are the same as the Power and Water Corporation's Board.

For more information on the Power and Water Corporation, or its Board, refer to the Power and Water Corporation Annual Report.

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Providing essential services
to Territorians living in
remote communities.



Executive Summary

From the Managing Director

Following Power and Water's corporatisation in 2002 funding to provide essential services to Territorians living in remote communities is now provided to the Department of Community Development, Sport and Cultural Affairs (DCDSCA). DCDSCA's role is to coordinate infrastructure development and the provision of essential services in Indigenous communities throughout the Northern Territory.

Power and Water is now a service provider to DCDSCA, delivering these services on behalf of the Northern Territory Government. Power and Water delivers these services on a not-for-profit basis with the shortfall in revenue collected from customers offset by service charges received from DCDSCA.

In order to maintain transparency, operations in remote communities are separated from the commercial operations of Power and Water's business by accounting for them in the newly established subsidiary company - Indigenous Essential Services Pty Ltd (IES).

This is the first annual report highlighting the achievements of IES Pty Ltd during the past financial year.

From the Chairman of the Board

Power and Water Corporation is pleased to be involved in the delivery of power, water and sewerage services to residents in the remote communities across the Northern Territory. These services are often provided in harsh and difficult conditions with additional hardships not normally experienced in the urban areas.

I commend this report and congratulate all involved in a successful year.



Kim Wood
Managing Director



Neil Phillips
Chairman of the Board

About Indigenous Essential Services

The Northern Territory Government funds the provision of essential services to around 80 remote Indigenous communities through the Department of Community Development, Sport and Cultural Affairs (DCDSCA). DCDSCA coordinates the delivery of utility services through with Power and Water. This includes providing power to an additional 19 outstations and water to another six outstations.

Under these arrangements, Power and Water assumes the role of service provider while DCDSCA undertakes the planning and coordination role. The Community Service Obligation payments previously received by Power and Water to cover the short-fall in costs is now received by DCDSCA and IES Pty Ltd invoices DCDSCA on a "fee for service" basis, as work is completed.

Funding Arrangements

Total revenue received by IES Pty Ltd in 2003/2004 was \$60.6 million. This included \$48.3 million in fees paid by DCDSCA to Power and Water under the service agreement and \$11.2 million collected from customers. This revenue was reinvested into the Indigenous Essential Services program. There was also \$1.0 million received for miscellaneous items.

Cost drivers over the 2003/2004 financial year were:

- A growth in consumption of electricity of about 4.7% per annum
- An increase in water consumption of 2.4% per annum
- An increase in fuel cost of 5.7%.

Growth in remote Indigenous communities can be mainly attributed to the initiatives carried out by the National Aboriginal Health Strategy and the Indigenous Housing Authority programs, which both have an annual budget of around \$45 million. While these programs concentrate on providing housing, many projects include augmentation to water supplies and additional sewerage ponds, which are then gifted to IES Pty Ltd. These gifted assets average \$10.0 million per annum.

The asset portfolio within IES consists of power station buildings that accommodate mostly diesel engines, and includes fuel facilities and electrical distribution systems up to and including the customer's meter.

Water infrastructure includes bores, bore-pumps, tanks, transfer pumping stations and distribution and reticulation systems up to the customer's property boundary.

Sewerage infrastructure begins at the customer's boundary, and includes collection mains, wet wells, pumping stations and wastewater treatment ponds.

These assets are located in remote communities where there is generally no freehold title, and hence little security over tenure.

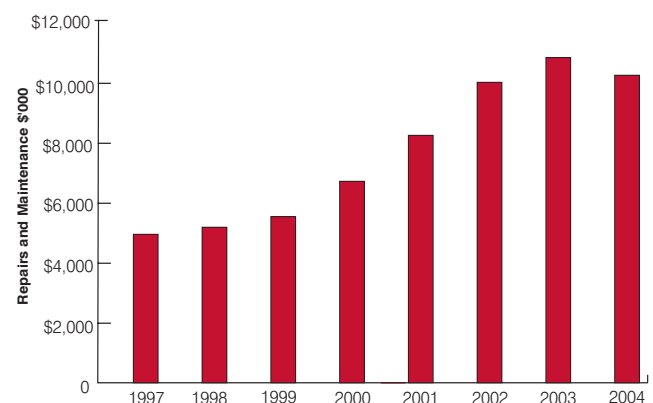


Figure 1: Repairs and maintenance 1997 - 2004.

Working in Remote Indigenous Communities

At the last census, in 2001, the Northern Territory's Indigenous population made up 28.8% of the total Northern Territory population, compared with 2.2% nationally, and 12.5% of the national Indigenous population. The Northern Territory has 44.0% of the national total of Indigenous people living in Australia's remote Aboriginal communities (Community and Housing Infrastructure Survey 2001, ABS 4710.0).

Population growth in remote Indigenous communities currently averages twice that of urban centres and consequently large building programs are in progress.

Coordination and planning is essential in order to keep pace with these programs to ensure new projects are connected to services in a timely manner.

The current replacement value of essential services assets in the communities has been determined by independent consultants at \$300 million and grows by around 5% per annum. The consultants also estimated that on average \$12 million is required each year to replace existing assets as they reach the end of their useful life. This figure does not include a component for growth.

Since 1999 our capital works program in the communities has risen incrementally from \$4.8 million, \$6.5 million, \$8.8 million, \$10.0 million, \$13.0 million and will increase in 2004/05 to \$16.5 million.

Each year Power and Water submits to DCDSCA a Capital Replacement Program and a Repairs and Maintenance Program (see graph on page 4), to which DCDSCA may add additional works.

Power and Water is working with DCDSCA to establish a longer-term agreement that would help to drive down costs and allow economies of scale to be established.



Flood plains at Oenpelli.



Power and Water's remote operations has four regional branches in Darwin, Katherine, Tennant Creek and Alice Springs, and a total of 54 staff.

Remote Operations

The Remote Operations division of Power and Water provides services to IES Pty Ltd. This division is responsible for the day to day operation and maintenance of essential services - power, water and sewerage - to remote Indigenous communities throughout the Northern Territory.

Generation is predominantly diesel-fired, water is sourced from bores and sewerage treatment is by conventional treatment ponds. Power and Water staff have extensive experience with these essential service systems. Power and Water also has experience in the application of appropriate technologies and alternative energy resources related to the supply of power and water and sewerage treatment. This includes solar powered water pumps, alternative toilets and highly efficient small diesel power stations in remote localities.

Remote Operations has four regional branches in Darwin, Katherine, Tennant Creek and Alice Springs, and a total of 54 staff.

Retail Services to remote customers

Remote Operations officers undertake retail activities in remote Indigenous communities, including processing applications for connection, disconnection and reconnection of electricity, meter changes and changes in address. Quarterly meter readings are undertaken by our staff or through a contract with each community's Essential Service Operators (ESOs).

Pensioner concessions are carried out once a year with help from the Department of Health and Community Services. This process is time consuming and discussions are underway with stakeholders to streamline the process.

As most residents use 'pre-payment' meters (a pre-paid token is inserted into the electricity meter) the sale and dispatch of power tokens to community agents also requires careful management.

Remote Operations staff also negotiate contracts with the Community Councils to provide training for the ESOs.



On the road to Kildurk.

Essential Service Operators

The day to day delivery of power, water and sewerage services in remote Indigenous communities is achieved in conjunction with Essential Service Operators who are based in each community.

The Essential Service Operators, or ESOs, are usually recruited from the communities, and undergo training with Power and Water staff. ESOs are employees of the various Community Government Councils, who are under contract with the Power and Water Corporation to look after the day to day operation of essential services.

The ESOs attend regular intensive courses in mechanical, electrical and sewer technical training, and are taught basic electrics and safety skills.

Three-day workshops, held at least twice a year in urban centres, are specifically designed to hone the skills of the community ESOs. In the past year workshops were held in Darwin and Alice Springs, with future workshops planned for Katherine and Alice Springs.

While these workshops are difficult to co-ordinate, and it is often difficult for the ESOs to leave their communities, the results are excellent and make the exercise worthwhile.

As well as undertaking field trips, the ESOs receive specific training in all facets of their work including fuel system management, engine servicing, electrical fault-finding, data collection and analysis, water testing and treatment as well as the operation of sewer systems.

Increasingly, messages on how to integrate occupational health and safety and environmental considerations are being incorporated into these training packages.

Some ESO's continue their training by undertaking a Certificate II in (Remote Essential Services Operations) with Group Training NT.



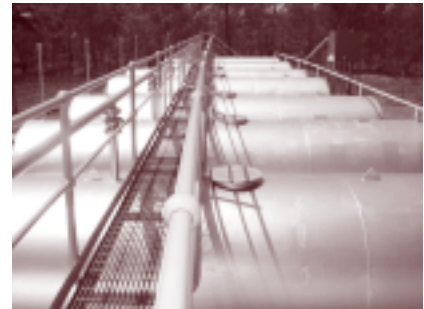
Snake Bay.

Electricity Supply

Power and Water aims to provide electricity efficiently and with the least possible interruption to supply.

Many of the remote power stations are controlled by fully automated computerised systems from the nearest regional centre. These systems monitor the community power requirements and automatically run the most appropriate engine to meet that requirement. They were developed to provide electricity more efficiently and with the least possible interruption to supply.

The power stations are equipped with diesel-powered generators. The installed generation capacity is in excess of 42 megawatts across the Territory, there is over 506km of high voltage powerlines and 260km of low voltage powerlines.

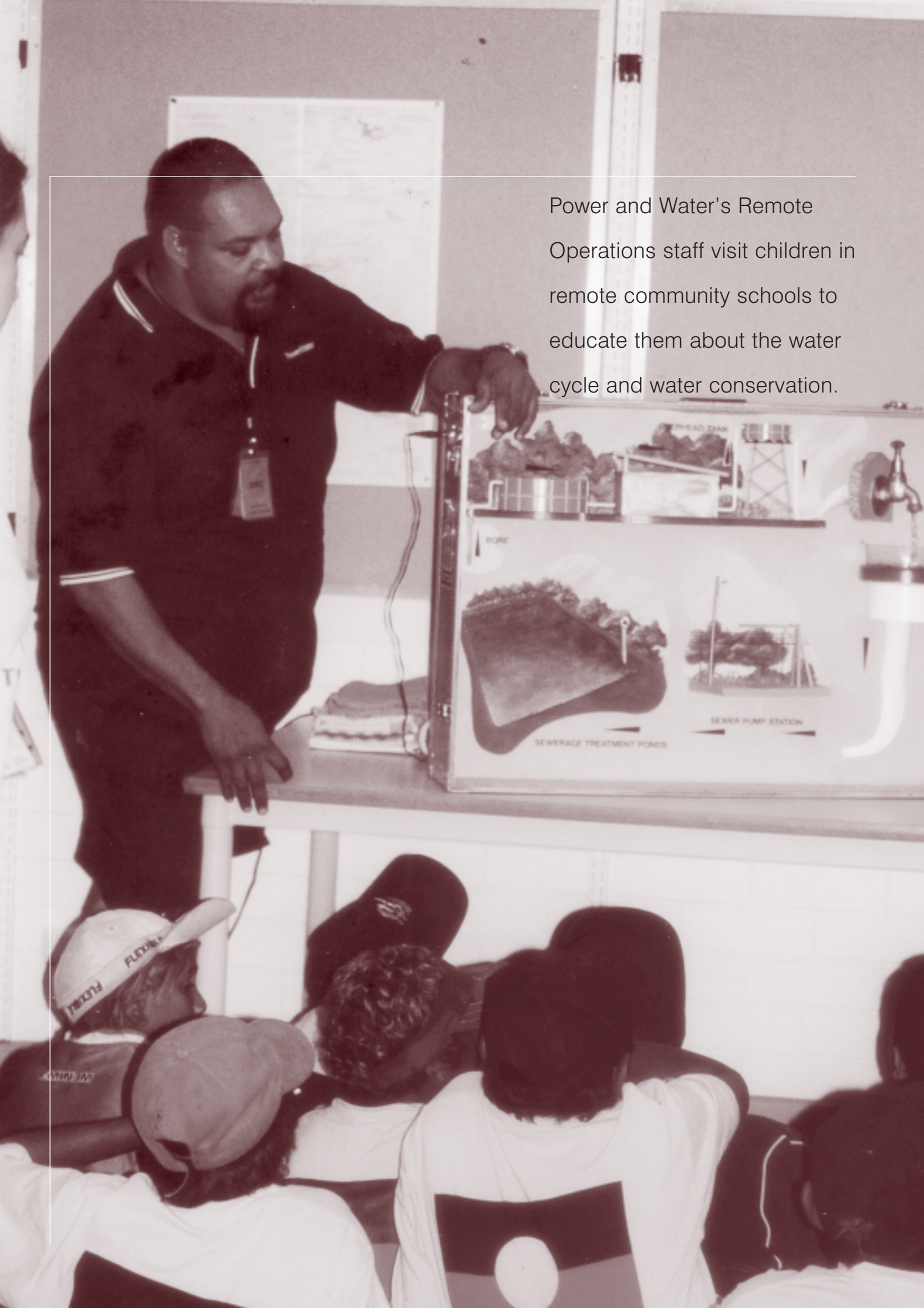


Fuel tanks at Nguiu.

ESO training in Alice Springs.



Power and Water's Remote Operations staff visit children in remote community schools to educate them about the water cycle and water conservation.



Water Quality

Power and Water aims to provide a good quality, safe and reliable drinking water supply.

Surface water and groundwater supplies vary in their quantity and quality throughout the Northern Territory. In remote areas most water is sourced from bores, or is a combination of surface water and bore water. Most water requires some form of treatment to ensure it is purified and safe for drinking.

There are around 250 production bores, 160 water storage tanks and 600 kilometres of reticulation spread across the remote Indigenous communities. Remote Operations operates and maintains water pumping, storage and reticulation systems including disinfection equipment, and is responsible for the entire system up to the metering point or point of entry into consumers' property.

Water is pumped from the source to a centrally located storage area which usually consists of at least one large tank on the ground and a smaller one elevated on a tank stand. From here the water is reticulated to consumers' properties for use.

Power and Water works with the Northern Territory Department of Health and Community Services (DHCS) to provide the people in rural and remote communities with chemically and bacteriologically safe and aesthetically acceptable drinking water. In some locations the water is chlorinated as a precaution against contamination.

Remote Operations supplies water to over 7 000 people in remote Indigenous communities.



Supplying water to Indigenous Communities.

Sewerage Systems

Thirty-six remote Indigenous communities have full water-borne sewerage disposal systems. The remainder have individual on-site systems such as septic tanks that are maintained by the community.

Responsibility for the sewerage system begins at the consumers' property. Sewage is transported through a network of mains and manholes to pumping stations.

From the pumping stations the waste is pumped to collection ponds for retention and treatment. Much of the treatment in these isolated locations is organic – allowing waste to settle and decompose naturally.



Ali Curung water and ponds under construction – installing lining.



Sewer ponds at Ali Curung.

Helping the Environment

The Territory has clean air, clean water and clean land, largely uncontaminated by industrial development.

Solar and wind powered generators are becoming increasingly viable, particularly in remote communities where partial substitution for diesel is economically feasible.

A trial of propane gas substitution at Hermannsburg Power Station is helping to reduce fuel consumption with positive outcomes for greenhouse gas emissions.

Photovoltaic equipment has been installed at King's Canyon Resort in Central Australia, in Bulman, a remote community on the Central Arnhem Road to Gove, and at Djilkminggan, an Indigenous community near Mataranka. The projects aim to use this renewable energy source to supplement diesel power generation.

New technology to continuously bleed minute amounts of sump oil into the fuel system on diesel engines has been installed at Daly River, Kalkarindji and Hermannsburg. Sump oil levels are maintained by topping up from an oil reservoir, reducing the frequency of replacing oil filters and ensures overall cleaner running, improved fuel efficiency and extended engine life.

Groundwater is the principal source of potable water across most of the Territory. Bunding, or embankments, are installed around most fuel storage areas to reduce the risk of groundwater and soil contamination at our electricity generation sites in remote areas.



Solar dishes under construction at Hermannsburg.



Kings Canyon, array of flat bed solar photovoltaic ponds.

Working with the Community

Remote Operations staff conduct a Resource Conservation Program in remote Indigenous communities, primarily in Community Schools. This program promotes the conservation and safe use of Power and Water resources and whenever possible guest speakers are invited to reinforce important points of procedures.

Regular promotional displays are held at community open days and are manned by Remote Operations staff. A series of demonstrations are set up, especially for children, and give-aways are provided to reinforce key themes and messages.

During the past 12 months, Remote Operations staff participated in a number of events in remote Indigenous communities to deliver water and electricity conservation messages. These included:

Croc Festival

This national organisation fosters healthy activity in remote parts of Australia. School groups from remote communities travelled to Tennant Creek for the three day festival, taking part in water conservation workshops and interactive games.

Barunga Festival

For the first time, Power and Water sponsored the annual Burunga Cultural and Sporting Festival, which is held every year in June. This event attracts over 10,000 people, from across Australia.

Rural Shows

Power and Water attend the regional Shows every year, in the major centres of Darwin, Alice Springs, Tennant Creek and Katherine, as well as some rural shows such as Borroloola and Fred's Pass.

The Show displays have a different focus each year, promoting water and power conservation, as well as our operational projects.

The Shows also provide a valuable opportunity for members of the community to interact with Power and Water staff.



Power and Water display at the Borroloola Show.



Power and Water provide books to remote schools about conserving energy and water.

2003/2004 Major Projects

- A permanent pipeline was installed to connect a bore to the artificial storage and recovery system at **Warruwi** (Goulburn Island). This project involves pumping water into an empty underground aquifer in the wet season and then pumping it out again in the dry, when the Community runs low on water supplies. This project, using leading edge technology, is run in conjunction with the CSIRO.
(Project cost \$56,864.)



Old 120 KL Nyirripi ground tank.



New 486 KL Nyirripi tank.

- A new production bore was equipped and commissioned at **Harts Range**, along with a low voltage power line. The new bore will improve supply reliability. (Project cost \$131,839.)
- A new 486kL ground level water tank was installed at **Nyirripi**, to replace the old 90kL ground tank. The new tank has enough capacity to adequately supply the 400 residents of the community.
(Project cost \$198,078.)
- A new 120kL ground level water tank was constructed at **Haasts Bluff**, which is bigger than the previous 115kL tank. The old tank had been in service for over 25 years. (Project cost \$100,786.)



Old Haasts Bluff borefield tank.



New Haasts Bluff borefield tank.

- 585 metres of high voltage and 260 metres of low voltage power line was constructed from the powerstation to the borefield at **Alcoota**. Both these production bores have electro-submersible pumping equipment and are fully automated, so they can be controlled from the community water storage tanks. **(Project cost \$194,887.)**



Alcoota borefield.

- Around seven kilometres of high voltage power line was constructed to connect the **Hermannsburg** borefield to the community. The four production bores here were converted to electric drive motors with new switchboards. Previously the bore pumps were run on diesel motors that required fueling on a daily basis.

(Project cost \$425,378.)

- The fluoride injection trial, which aims to reduce dental decay, continued in the two communities of **Nguiu** and **Maningrida**. This project is undertaken in conjunction with Menzies School of Health, Adelaide University and the Northern Territory Government.

(Project cost \$324,455.)

- The Water Consumption Patterns in Remote Communities project, funded by Power and Water, aims to identify different Indigenous water requirements resulting from different lifestyles, values and needs. This project will endeavour to pinpoint research at the household level to determine lifestyle and health requirements.

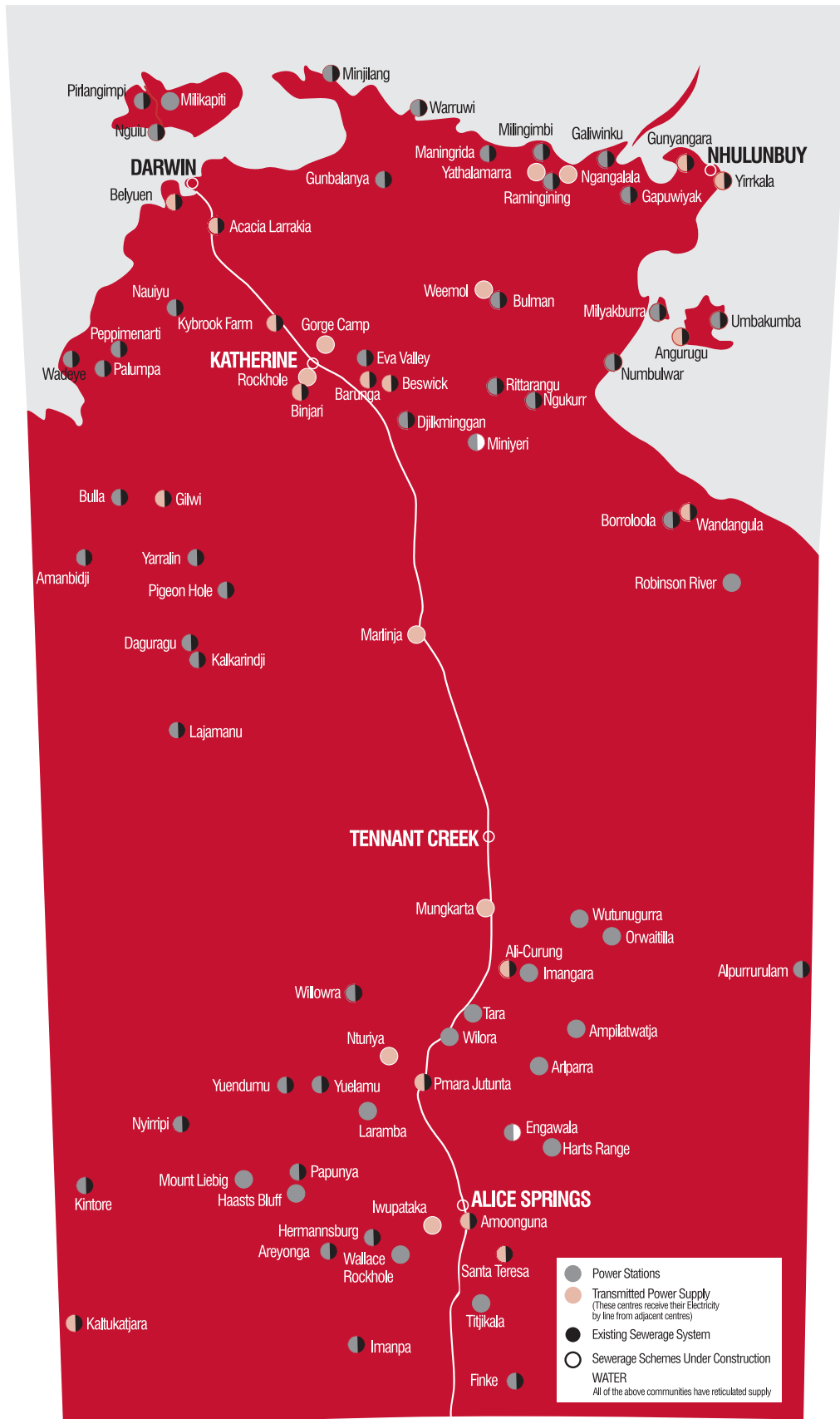


The Harts Range production bore.

- Mutijulu Rainwater Tank and Point of Use Treatment System Trial project is trialing a rainwater harvesting system and a point-of-use filtration device on a number of houses in the remote township of **Mutijulu**, near Uluru. Power and Water offered support to this project and contributed water meters. The aim is to develop and provide a well designed, robust and reliable system for rainwater harvesting suitable for use in remote communities.

- The Mabunji Rainwater Management Program draws on lessons learnt from the Mutijulu trial and involves significant participation for the development of sustainable water supplies for the community. The aim is to develop an appropriate design, implementation and maintenance system for the Borroloola community of **Mabunji**.

Northern Territory Indigenous Community Electrical, Sewerage and Water Services



Indigenous Essential Services Pty Ltd

Statistics Summary as at 30 June 2004

		2001	2002	2003	2004
Electricity					
Generation					
Installed Capacity	MW	36	36	36	42
IPP Contracted Capacity	MW	0	0	0	0
Generated	GWh	60	64	70	85
Sent Out (inc Purchases from Private Suppliers)	GWh	52	64	68	78
Efficiency (based on Net Heat Value)	GWh	NA	NA	NA	NA
Purchases from Private Suppliers	GWh	6	6	6	7
NETWORKS					
Distribution (22/11kV & below)					
HV Overhead	km	356	277	255	506
HV Underground	km	3	0	0	0
LV Overhead	km	275	259	267	260
LV Underground	km	5	0	0	1
SWER All Voltages	km	0	0	0	81
Sales	MWh	47,667	61,500	52,968	58,023
Customers (ie Services – billed)		6,656	6,625	6,905	6,717
Water					
Production	ML	6,415	8,059	8,134	9,970
Length of Mains	km	480	702	719	667
Customers (ie Services)		741	758	783	522
WASTEWATER					
Volume of Sewage Treated	ML	U/A	U/A	U/A	U/A
Length of Sewer Mains	km	164	294	309	340
Volume of Effluent Reused	ML	0	0	0	0
Customers (ie Services – billed)		399	400	396	401

Notes:

U/A = Data unavailable

SWER = Single Wire Earth Return

Some length of line that was previously recorded as IES is now reported as Commercial.

Note 1: Approximately 56km of non-potable water mains were removed.

Note 2: A number of minor centres were excluded from this years assesement.

Directors' Report

Indigenous Essential Services Pty Ltd



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Directors' Report

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

The directors present their report together with the financial report of Indigenous Essential Services Pty Limited for the year ended 30 June 2004 and the auditors' report thereon.

Directors

The directors at any time during or since the end of the financial year are:

Name	Age	Experience and Special Responsibilities
Mr Neil Philip, LLB (Hons) Chairman	51	Mr Philip, former senior partner of Clayton Utz, Darwin is Chairman of Nexus Energy Limited, a Melbourne based public listed Company.
Independent Non-Executive Director		Mr Philip has been involved as a legal adviser to both private sector and public organisations in many of the recent largest and most complex commercial, development and infrastructure transactions to occur in the Northern Territory across a range of industry sectors. Director and Chairman since 2003.
Dr Michael Vertigan AC, B.Ec(Hons), Ph.D, FAICD	62	Dr Vertigan is currently Chancellor of the University of Tasmania, and holds appointments in a number of organisations involved in energy, finance and investment.
Independent Non-Executive Director		Dr Vertigan is a former Secretary of the Department of Treasury and Finance in Victoria, and Secretary of the Department of Treasury and Finance in Tasmania. Director since 2003.
Mrs Judith King, BA., Foundation Fellow AICD	62	Mrs King is a Company director and business adviser with expertise in the growth and export of services.
Independent Non-Executive Director		Mrs King is currently Chairman of Information City Victoria Management Limited, a director of Federation Square Management Limited. Mrs King is also a Council Member of Swinburne University and was previously a director of AXA Health, Melbourne Water Corporation, Citipower Limited and MITS Limited. Director since 2003.

Directors' Report (continued)

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

**Dr Michael Sargent AM, B.Eng,
Ph.D, FAICD**

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Dr Sargent was formerly Chief Executive Officer of ACTEW Corporation, previously the ACT Electricity and Water Corporation, and Chief Executive Officer of Transfield Energy. Currently the co-chair of the Australian Electric Energy Industry Export Council and has held numerous appointments in national industry and government organisations. Dr Sargent has 36 years of engineering experience in the utilities industry.

Independent Non-Executive Director

Director since 2003.

**Mr Kimley (Kim) Wood,
B.Eng, DipEng, MBA, FIEAust,
MAICD**

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Managing Director since 2003. His previous roles included Managing Director of Datafast Telecommunications, Chief Executive Officer of Victorian electricity transmission business GPU PowerNet, and Managing Director of City West Water. Prior to that, Mr Wood was Managing Director of GEC Plessey Telecommunications. Mr Wood has also held senior roles with BellSouth Australia and Hewlett-Packard. He initially commenced work as an engineer with the Victorian State Electricity Commission.

Executive Director

Company Particulars

Indigenous Essential Services Pty Limited is an Australian proprietary Company, incorporated and operating in Australia.

Principal Registered Office and Principal Place of Business:
4th Floor, Energy House, 18-20 Cavenagh Street, Darwin NT 0800

Company Secretary: Mr Andrew Macrides

Principal Activities

The Company was formed on 26 June 2003 and commenced operations on 1 July 2003.

The principal activities of the Company during the course of the financial year were to provide electricity, water and sewerage services to remote communities in the Northern Territory.

There were no significant changes in the nature of the activities of the Company during the year.

Controlling Entity

The Company's controlling entity is the Power and Water Corporation, a government owned corporation pursuant to the *Government Owned Corporation Act 2001*.

Directors' Report (continued)

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

Review and Result of Operations

The profit from ordinary activities after income tax amounted to \$nil (2003: \$nil).

Dividends

No dividends were paid or proposed by the Company during the financial year, and the directors recommend that no dividends be proposed for the financial year ended 30 June 2004.

State of Affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

Environmental Regulations

The Company's operations are subject to various environmental regulations under both Commonwealth and Territory Legislation.

The Company regularly monitors compliance with environmental regulations. The directors are not aware of any significant breaches during the period covered by this report.

Events Subsequent to Reporting Date

For reporting periods starting on or after 1 July 2005, the Company must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board. At reporting date, it was not possible to quantify the effect of the convergence to IFRS due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Likely Developments

The Company will continue to pursue its policy of providing cost effective electricity, water and sewerage services to remote communities in the Northern Territory.

Further information about likely developments and operations of the Company and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would be likely to be commercially sensitive or result in unreasonable prejudice to the Company.

Directors' Report (continued)

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

Indemnification and Insurance of Officers and Auditors

Indemnification of Directors and Officers

Upon their appointment, directors and officers of the Company are granted indemnity by the Northern Territory Government. The Territory indemnifies directors and officers against all actions, proceedings, claims, suits, damages, demands, liabilities, losses, expenses (legal or otherwise) and payments made by the directors or the officers arising out of any act or omission other than out of actual dishonesty on the part of the directors or officers. No payments have been made in respect to these indemnities.

Indemnification and Insurance Premiums of Auditors

Since the end of the previous financial year, the Company has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an auditor of the Company. No indemnities have been given or insurance premiums paid, since the end of the previous financial year, to any person who is or has been an auditor of the Company.

Dated at Darwin this 8th day of October 2004.

Signed in accordance with a resolution of Directors:



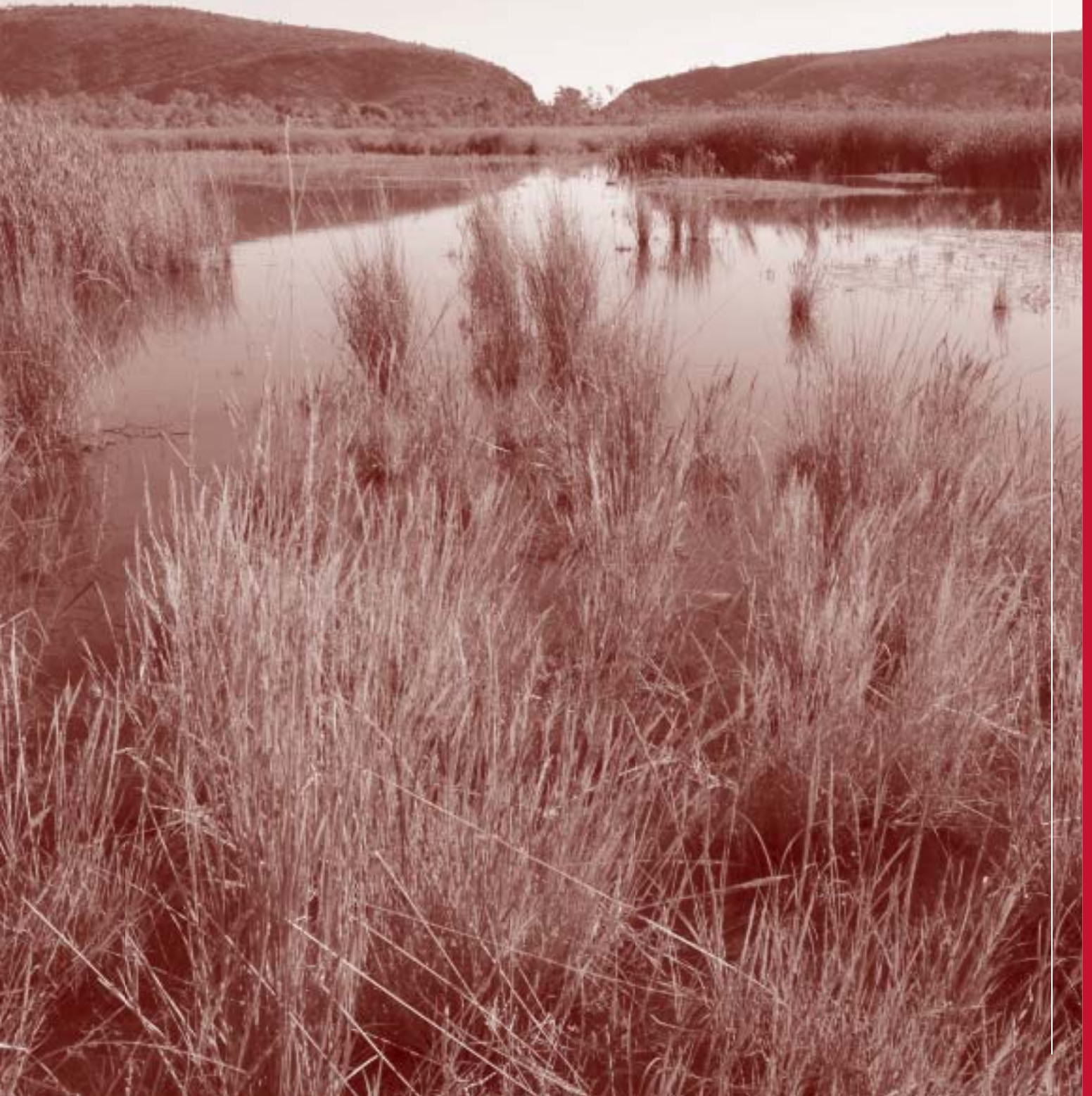
Director
Managing Director



Director
Chairman of the Board

Financial Statements

Indigenous Essential Services Pty Ltd





Auditor-General's report to the Members of Indigenous Essential Services Pty Ltd Year ended 30 June 2004

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Indigenous Essential Services Pty Ltd, for the financial year ended 30 June 2004.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. My audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

I performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with my understanding of the company's financial position, and performance as represented by the results of its operations and its cash flows.

My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While I considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of my procedures, my audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Independence

In conducting my audit, I followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit Opinion

In my opinion, the financial report of Indigenous Essential Services Pty Ltd is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2004 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Frank McGuiness
Auditor-General for the Northern Territory
Darwin, Northern Territory
10 October 2004

Statement of Financial Performance

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

	Note	2004 \$	2003 \$
Revenue from sale of goods	2	11,227,150	-
Revenue from rendering of services	2	48,291,310	-
Other revenues from ordinary activities	2	1,083,031	-
Total revenue	2	60,601,491	-
Raw materials and consumables used		(30,684,583)	-
Repairs and maintenance		(10,608,770)	-
Employee expenses		(486,088)	-
Recoverable amount write down		(14,142,064)	-
Other expenses from ordinary activities		(4,679,986)	-
Profit from ordinary activities before related income tax expense		-	-
Income tax expense relating to ordinary activities	1(d)	-	-
Net profit	10	-	-
Total changes in equity from non-owner related transactions attributable to the members of the parent entity		-	-

The statement of financial performance is to be read in conjunction with the notes to the financial statements set out on pages 30 to 38.

Statement of Financial Position

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

	Note	2004 \$	2003 \$
Current assets			
Cash assets	5	14,813,546	-
Receivables	6	2,106,758	10
Total current assets		16,920,304	10
Non-current assets			
Capital works in progress	7	-	-
Total non-current assets		-	-
Total assets		16,920,304	10
Current liabilities			
Payables	8	16,920,294	-
Total current liabilities		16,920,294	-
Total liabilities		16,920,294	-
Net assets		10	10
Equity			
Contributed equity	9	10	10
Retained profits	10	-	-
Total equity		10	10

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on page 30 to 38.

Statements of Cash Flows

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

	Note	2004 \$	2003 \$
Cash flows from operating activities			
Cash receipts in the course of operations		64,237,680	-
Cash payments in the course of operations		(35,912,733)	-
Interest received		630,663	-
Borrowing costs paid		-	-
Net cash provided by operating activities	12	28,955,610	-
Cash flows from investing activities			
Payments for property, plant and equipment		(14,142,064)	-
Net cash used in investing activities		(14,142,064)	-
Cash flows from financing activities			
Proceeds from issue of shares		-	10
Receivable from controlling entity		-	(10)
Net cash used in financing activities		-	-
Net increase/(decrease) in cash held		14,813,546	-
Cash at the beginning of the financial year	5	-	-
Cash at the end of the financial year	5	14,813,546	-

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 30 to 38.

Notes to the Financial Statements

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

1. Statement of Significant Accounting Policies

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

The accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with those of the previous year.

(b) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Rendering of services

Revenue from rendering of services is recognised in the period in which the services are provided, having regard for the costs incurred in providing those services.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(c) Goods and services tax

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

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

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

Notes to Financial Statements

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

1. Statement of Significant Accounting Policies (continued)

(d) Taxation

The Company is a wholly-owned subsidiary in a tax consolidated group, with Power and Water Corporation as the head entity. The implementation date for the tax-consolidated group is 1 July 2002.

The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

The Company is a wholly owned subsidiary of a government owned entity and would be exempt from income tax under section 24AO of the *Income Tax Assessment Act* 1936 if the National Tax Equivalent Regime did not apply. IES Pty Ltd is not considered to be an entity that should be covered by the National Tax Equivalent Regime since its prime objective is to provide essential services to remote communities on a not for profit basis. An application is being made to the Northern Territory Commissioner for Taxes to remove the Company from the list of participating NTER entities. Should this application be unsuccessful, the potential tax impact of the write down of assets in the 2004 accounts would give rise to a notional tax liability of \$3.9 million in the consolidated accounts.

(e) Net fair values

The net fair values of assets and liabilities approximate their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments. Financial assets where the carrying amount exceeds net fair values have not been written down as the Company intends to hold these assets to maturity. The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

(f) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value.

(g) Cash assets

Cash assets are carried at face value of the amounts deposited or drawn.

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts as stated at note 8 to the accounts.

Notes to Financial Statements

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

1. Statement of Significant Accounting Policies (continued)

(h) Receivables

The collectability of debts is assessed at reporting date and specific provision is made for any doubtful accounts. Trade debtors are generally settled within 30 days and are carried at amounts due.

(i) Acquisitions of assets

All assets acquired including property, plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

The costs of assets constructed or internally generated by the Company include the cost of materials and direct labour.

Expenditure, including that on internally generated assets, is only recognised as an asset when the Company controls future economic benefits as a result of the costs incurred that are probable and can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Subsequent additional costs

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Company in future years, otherwise, the costs are expensed as incurred.

From 1 July 2003, Indigenous Essential Services Pty Limited is responsible for, and the nominal owner of, plant and equipment that is located at remote communities for the primary purpose of providing electricity, water, and sewerage services to the Indigenous population of the Northern Territory. The land on which this plant and equipment is situated is not under the control of Indigenous Essential Services Pty Limited.

Property, plant and equipment provided for this use (primarily situated at remote communities) is valued at a recoverable value of \$nil (2003: \$nil) at reporting date.

(j) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 30 days.

(k) Additional financial instrument disclosures

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company does not have significant credit risk exposure to any counterparty or group of counterparties.

Notes to Financial Statements

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

	2004	2003
	\$	\$
2. Revenue from Ordinary Activities		
<i>From operating activities</i>		
Revenue from sale of goods		
– controlling entity	11,227,150	-
Revenue from rendering of services		
– controlling entity	48,291,310	-
	59,518,460	-
<i>Other revenues</i>		
Interest – other parties	630,663	-
Developer contributions	96,000	-
Other recharges to controlling entity	356,368	-
	1,083,031	-
Total revenue from ordinary activities	60,601,491	-
3. Auditors' Remuneration		
Audit services	-	-
Audit fees are borne by the controlling entity.		
4. Segment Information		
The Company operates predominantly in one industry, the provision of electricity, water and sewerage services to remote communities of the Northern Territory, and operates in one geographical location – Australia.		
5. Cash Assets		
Cash on hand and at bank	14,813,546	-
The weighted average interest rate on cash assets at 30 June 2004 is 4.71% (2003: nil%).		
6. Receivables		
Current		
Trade debtors	2,071,468	10
Other debtors	35,290	-
	2,106,758	10

Receivables at 30 June 2004 are non-interest-bearing.

Notes to Financial Statements

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

	2004	2003
	\$	\$
7. Work in Progress		
Capital works in progress – at cost	-	-
Less: accumulated depreciation	-	-
Capital works in progress, at net book value	-	-
Reconciliation		
Capital works in progress		
Carrying amount at beginning of year	-	-
Additions	14,142,064	-
Less: Depreciation	-	-
Less: Recoverable amount write-down	(14,142,064)	-
Carrying amount at end of year	-	-
8. Payables		
Payable to controlling entity	8,899,264	-
Other creditors and accruals	8,021,030	-
	16,920,294	-
Payables at 30 June 2004 are non-interest-bearing.		
9. Contributed Equity		
Issued and paid-up share capital		
10 (2003:10) ordinary shares, fully paid	10	10
10. Retained Profits		
Retained profit at the beginning of the year	-	-
Net profit	-	-
Retained profits at the end of the year	-	-

Notes to Financial Statements

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

11. Directors' Remuneration

Directors' income

The number of directors whose income from related entities falls within the following bands:

\$ 20,000 – \$ 29,999
\$ 30,000 – \$ 39,999
\$ 40,000 – \$ 49,999
\$ 60,000 – \$ 69,999
\$ 260,000 – \$ 269,999

Total income paid or payable, or otherwise made available, to all directors from the Company or any related party.

Directors' income excludes insurance premiums of \$57,475 paid by related parties in respect of directors' and officers' liabilities and personal accident insurance, in accordance with common commercial practice. The insurance premiums have not been allocated due to impracticality.

12. Notes to the Statement of Cash Flows

Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities

Profit from ordinary activities after income tax

Add non-cash items:

Recoverable amount write-down

Net cash provided by operating activities before change in assets and liabilities

Change in assets and liabilities during the financial year:

(Increase) in receivables

Increase in payables

Net cash provided by operating activities

13. Commitments

Capital expenditure commitments

Contracted but not provided for and payable within one year

	2004	2003
	\$	\$
	No.	No.
	1	-
	1	-
	1	-
	1	-
	1	-
	432,279	-
	-	-
	14,142,064	-
	14,142,064	-
	(2,106,748)	-
	16,920,294	-
	28,955,610	-
	2,593,017	-

Notes to Financial Statements

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

14. Related Party Disclosures

(a) Directors

The names of each person holding the position of director of Indigenous Essential Services Pty Limited during the financial year are Mr Neil Robertson Philip, Dr Michael Vertigan, Mrs Judith King, Dr Michael Anthony Sargent and Mr Kimley John Wood.

Details of directors' remuneration are set out in Note 11.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

(b) Transactions within the wholly-owned group

- (i) The controlling entity of the Company is the Power and Water Corporation, a government owned corporation pursuant to the *Government Owned Corporations Act 2001*.
- (ii) The Company sold electricity, water and sewerage to Power and Water Corporation totalling \$11,458,439 (2003: \$nil). As at reporting date, \$2,071,458 remains to be received.
- (iii) The Company recharged Power and Water Corporation \$356,368 (2003:\$nil) for works undertaken in the remote communities during the year.
- (iv) During the year, the Company recognised the administration fee charged by Power and Water Corporation totalling \$4,679,932 (2003: \$nil). The fee is based on the cost of administration of the Company incurred by the Power and Water Corporation.
- (v) The Company incurred \$41,779,441 (2003: \$nil) of operating expense recharges from Power and Water Corporation during the year. As at reporting date, \$8,899,264 (2003: \$nil) remains outstanding.

15. Economic Dependency

100% of the Company's operating revenue is derived from its controlling entity, and 98% of the Company's other revenue is derived from the Northern Territory Government.

16. Events Subsequent to Balance Date

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the Company must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

Notes to Financial Statements

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

16. Events Subsequent to Balance Date (continued)

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the Company's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The Company has not quantified the effects of the differences discussed below. Accordingly, there can be no assurance that the financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the Company's financial reports in the future. The potential impacts on the Company's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation cost which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The controlling entity has established a formal project, monitored by a steering committee, to achieve transition to IFRS reporting, beginning with the year ending 30 June 2006. The controlling entity's implementation project consists of three phases as described below.

Assessment and planning phase

The assessment and planning phase aims to produce a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase includes:

- High level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS
- Assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes
- Evaluation of the implications for staff, for example training requirements
- Preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

Notes to Financial Statements

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

16. Events Subsequent to Balance Date (continued)

The Company considers the assessment and planning phase to be complete in most respects as at 30 June 2004.

Design phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS. The design phase will incorporate:

- Formulating revised accounting policies and procedures for compliance with IFRS requirements
- Identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS
- Developing revised IFRS disclosures
- Designing accounting and business processes to support IFRS reporting obligations
- Identifying and planning required changes to financial reporting and business source systems.

The Company has not yet commenced the design phase. However, the Company expects this phase to be completed by 30 June 2005.

Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the Company to generate the required disclosures of AASB 1 as it progresses through its transition to IFRS.

The Company has not yet commenced the implementation phase. However, the Company expects this phase to be substantially complete by 30 June 2005.

A key potential implication of the conversion to IFRS on the Company is that impairments of assets will be determined on a discounted basis.

Directors' Declaration

Indigenous Essential Services Pty Limited For The Year Ended 30 June 2004

In the opinion of the directors of Indigenous Essential Services Pty Limited ("the Company"):

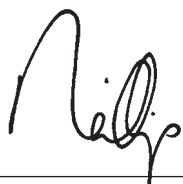
- (a) the financial statements and notes, set out on pages 30 to 38 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2004 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Darwin this 8th day of October 2004.

Signed in accordance with a resolution of directors:



Director
Managing Director



Director
Chairman of the Board



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