

Indigenous Essential Services Annual Report

2017-18





Table of contents

About us	4
Chair's message	5
Chief executive's message	6
Our team	7
Where we operate	8
Safety	9
People	10
Customer service and stakeholder engagement	13
Environment	15
Operational performance	16
The future for IES	20
Financial statements and explanatory statements	23

This Report

The purpose of this Annual Report is to provide a record of operations and achievements for the 2017-18 financial year for Indigenous Essential Services Pty Ltd, a not-for-profit subsidiary company of Power and Water Corporation.



About us

Indigenous Essential Services Pty Ltd (IES) provides electricity, water and wastewater services to 72 remote communities and 66 outstations under an agreement with the Department of Housing and Community Development.



Each centre is geographically isolated and dispersed across tropical and arid environments, requiring services that are resilient to the extremes of the harsh Northern Territory climate. Rapid development in these regions requires a commitment to working with communities toward sustainable electricity and water use to meet future needs and aspirations. Power and Water contracts and trains Essential Services Operators through local councils, Aboriginal enterprises and private contractors to run facilities day-to-day.

Ninety per cent of potable water is groundwater from some 227 production bores through 181 water storage tanks and 650km of reticulation. A multi-barrier approach is taken to providing drinking water consistent with Australian Drinking Water Guidelines. Chlorination and ultraviolet systems are used as appropriate.

Fifty-seven remote towns and communities have full waterborne sewage disposal systems with waste stabilisation ponds. The remainder have individual on site systems maintained by the community.

Electricity is generated from 52 highly efficient diesel and low emission gas and renewable power stations. Remote power stations are controlled by automated systems, with local site monitoring and servicing. The electricity is distributed to communities through nearly 1,400km of powerlines.



Chair's message

Power and Water's not-for-profit Indigenous Essential Services (IES) subsidiary plays an enormously important role in the lives of our customers, spread across what is arguably one of the most geographically dispersed operating areas of any utility provider.

This presents us with some unique logistical and commercial challenges and requires us to have a strong reliance on the commitment, dedication and local knowledge of our Essential Services Operators and Technical Coordinators to keep our power and water services on-line.

Relationships are another important aspect for a business like IES, not only on-the-ground relationships between our operators and the local community, but also with our stakeholders like the Department of Housing and Community Development, as the representative agency of government responsible for remote service delivery.

I am very happy to see that our relationship with our counterparts in the department is as strong as ever, both in terms of our day-to-day service delivery arrangements, but also through our joint commitment to the Government's Remote Housing Program.

The Remote Housing Program has the potential to make a real difference in the lives of our remote customers and Power and Water is committed to supporting government in the delivery of essential service infrastructure necessary to service the new and refurbished accommodation delivered under that program.

Part of this commitment is the changes Power and Water is making to the back office support it provides IES, by horizontally integrating its common functions and making the entire business responsible for remote service delivery. By dedicating a much larger pool of resources to our remote communities and implementing many of the same 24/7 asset monitoring and better resource coordination arrangements already in place in the large customer centres, we are confident we will deliver an improved customer experience to our remote customers. But this won't happen without a continued reliance and support of our on-the-ground technical experts and service delivery personnel.

Finally, I would like to recognise the contribution made by the three retiring Directors of the IES Board: Ken Clarke, MaryAnn Bin-Salik and Djuna Pollard. In the case of the Chairman, in particular, I thank Ken for his energy, commitment and dogged determination to always deliver the best outcomes for the Territory and especially its remote communities. I have appreciated the opportunity to work with Ken and the other IES Directors over the past, almost 18 months, and I thank them for their commitment to Power and Water and IES.



John Langoulant AO
Interim IES Chair
Power and Water Chair



From the Chief Executive

We have had another great year for Power and Water's Indigenous Essential Services as we continue to deliver services to our remote communities in sometimes challenging circumstances.

But it is under challenging circumstances that our people rise to the occasion and consistently deliver for our customers. This year the second tranche of the solar SETuP project kicked off, we continued to install smart meters to our water and new pre-paid smart meters to our electricity customers, to make managing their household expenses easier.

Drinking water quality and supply management was a big focus this year, with major projects either getting underway and some coming to completion in Ngukurr, Wadeye, Barunga and Robinson River. We know having access to safe, reliable drinking water is key to life in these remote communities and we will remain ever-vigilant on this most important aspect of our commitment to our customers.

Some fantastic progress has also been made on the Government's Remote Housing Program, as Power and Water continues to work closely with the Department of Housing and Community Development to deliver on this important program, by coordinating the delivery of our essential services infrastructure with the rollout of the new and expanded accommodation in communities.

Behind the scenes, Power and Water is looking at ways it can enhance the level of service it provides to its remote communities through its IES subsidiary, by making some structural enhancements to the way we organise ourselves.

Core to these changes is broadening the responsibility of remote service delivery to all of Power and Water and providing our Essential Services Operators and Technical Coordinators with greater support and access to better information to make on-the-ground decision making easier, more effective and more joined-up with the rest of Power and Water.

We have a responsibility to look for opportunities that improve the way we deliver our services and these changes recognise the important role strong, local expertise will always have in the delivery of our remote services.

In closing, I would also like to thank our retiring IES Directors and our Chair, Mr Ken Clarke. Ken has held the role of the Chair of IES for the past five years and we have all taken something from his energy, his commitment and his passion for remote service delivery over that time and on behalf of all of Power and Water, I wish him all the best for the future.

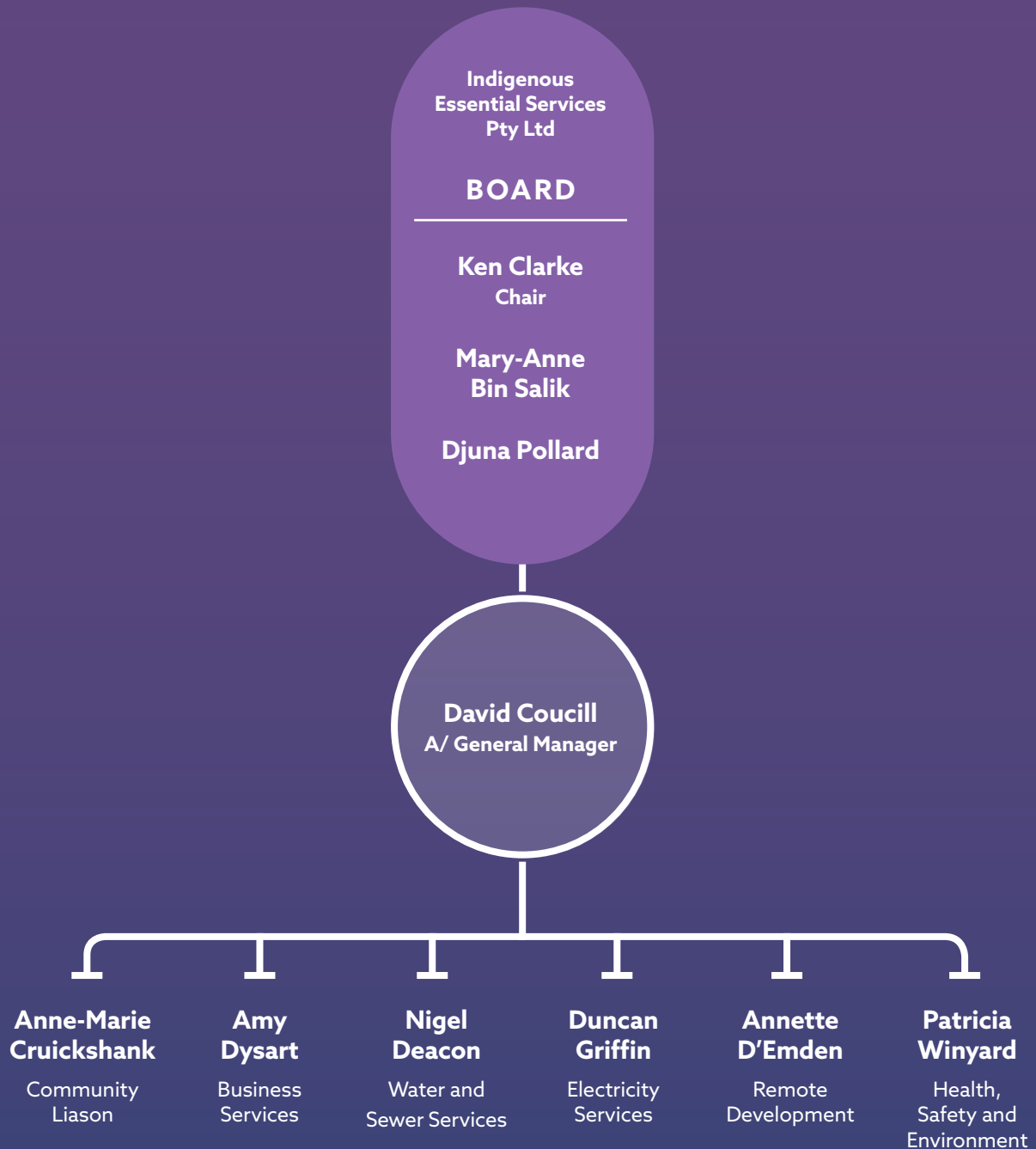


Michael Thomson
Chief Executive

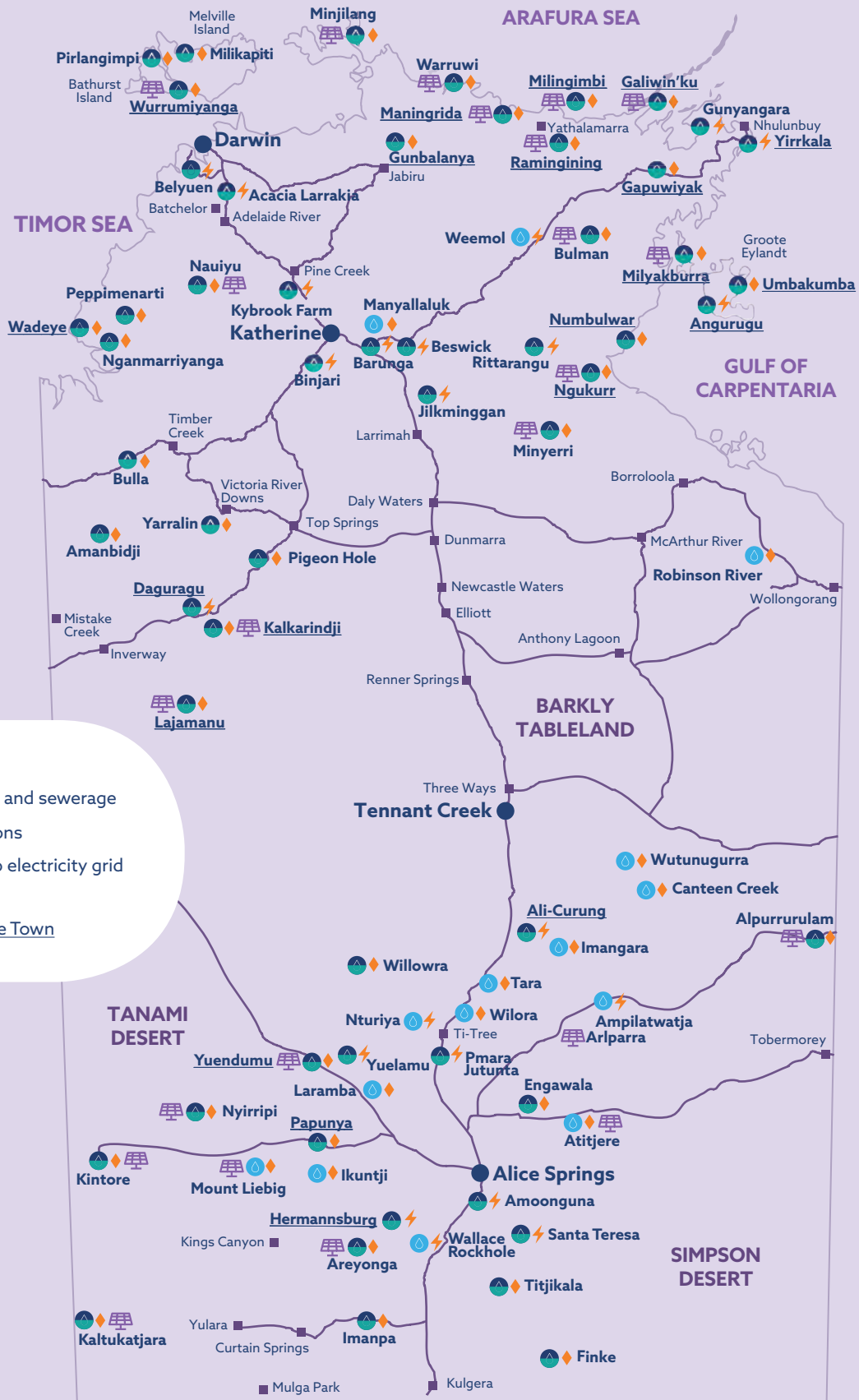








Our Team

(as at 30 June 2018)



Where we operate



-  Water supply
-  Water supply and sewerage
-  Power stations
-  Connected to electricity grid
-  Solar site
-  Major Remote Town



Safety

WORKING TOWARDS OUR GOAL OF
ZEROHARM



Power and Water has renewed its ongoing commitment to achieve a zero harm workplace – a workplace free of injury or illness.

Over the course of 2017-18 Power and Water has developed a new health and safety policy, organisational health and safety management standard, various high risk procedures and a range of supporting documents.

The implementation of a “Just Culture” procedure will occur during this calendar year, which will form the foundation of a behavioural based safety leadership model for the organisation.

The “Just Culture” model accepts and understands that employees will sometimes make honest mistakes while performing work and consistently separates mistakes from deliberate violations or breaches of safety values and procedures. The model is proven to improve reporting, investigation quality and individual accountability for safety behaviours.

Following on from a detailed project planning and benchmarking period, the health and safety strategic improvement project will also implement a range of refreshed safety systems to achieve a

culture maturity level of “calculative” based on the Professor Patrick Hudson maturity model.

Power and Water will begin scoping the behavioural safety component of the strategic project in late 2018 to support the implementation of the refreshed safety management system.

Broader Performance Metrics

Over the coming four year period of the current Statement of Corporate Intent, health and safety performance will be measured using a balanced suite of performance indicators covering leading, lagging and system specific indicators.

These include mandatory safety leadership interactions for all executive employees, along with targets for incident and hazard reporting, monthly safety auditing as well as investigation and corrective action closure rates.

Although the organisation is not currently achieving these new targets, it is anticipated that safety performance against these targets will improve as our health and safety culture project begins to influence employee behaviours and leadership and responds to the influence of the refreshed safety management system.



People: We are one team doing one big job

The conditions in which we supply essential services to remote communities across the Territory varies greatly throughout the year.



Emergency and outage management and related issues play a key role in our annual planning and operations.

Our people play a key part in this and work tirelessly day and night, weekdays and weekends. They are sometimes away from their families for days at a time.

Our priority is to make sure our community members are safe and have access to electricity, sewerage services and safe drinking water before, during and after an emergency or outage event.

Aboriginal employment and engagement

Power and Water continues to work in line with our Indigenous Employment and Career Development Strategy (IECDS) 2015-2020, which is an integral part of the corporation's commitment to increasing Aboriginal employment and career development opportunities.

A key component of IECDS is working towards developing a workforce that is more representative of the community we service. This has enabled Power and Water to take part in the Northern Territory Government's Special Measures





recruitment strategy to encourage and promote the engagement of Aboriginal personnel into the organisation. The strategy has aided in the recruitment of Aboriginal personnel into positions across Power and Water's workforce and is making a strong contribution to our targets.

In 2017-18 eight Aboriginal employees have worked across Regions and Remote Operations.

The IECDS outlines actions aimed at increasing Aboriginal participation in our workforce in the next five years. Key priority areas for IECDS are:

- Targets for Aboriginal employment and participation: Ensuring a commitment to Aboriginal career pathways is built, maintained and followed.
- Engagement and support: Providing a mentoring and support system to Aboriginal employees, trainees and apprentices to assist their career growth.
- Attraction and retention of Aboriginal people: Providing recognition and support for all Aboriginal employees throughout the corporation to provide equal opportunities and career growth.
- Whole of corporation development to build capability and careers: Supporting the career development of Aboriginal employees and commitment to increasing capability through development opportunities across the corporation.
- Within IES specifically we encourage and support the application of these same principles with our ESO contract providers.

Other achievements in relation to Aboriginal employment and engagement throughout the year include:

- Power and Water's Chief Executive and two senior staff attended the 2017 GARMA Festival
- Our Reconciliation Action Plan (RAP) was released in July 2017 to lead reconciliation and promote Power and Water as an employer of choice for Aboriginal people.
- We supported an intake of five Aboriginal trainees through the DCIS Aboriginal Employment Program which combines formal study and on the job training. One participant continues to work supporting remote service delivery.

Essential Services Operators (ESOs) – employment and training

Essential Services Operators are locally based contractors, who undertake day to day operations and maintenance activities on essential service infrastructure in their community and local region.

By the end of 2017-18, IES had a pool of 174 available Essential Services Operators of which 43 were identified as Aboriginal and Torres Strait Islander.

During 2017-18 much work went into improving essential services operator commercial arrangements and accountabilities to optimise the safe delivery of services through the development of an ESO competency framework and more robust contract management of the ESO contracts.



The improved contractual arrangements now put the onus on the contractor to carry out duties accordingly and provide evidence of works being completed and correct invoicing and the ESO manual has been revised and rewritten to make it easier to refer to and comprehend. These arrangements will transition into implementation commencing in 2017/18 with the tendering for services in the Southern Region.

An ESO competency framework was also developed focusing on the key areas including recruitment, support, feedback, on and off site training and supervision.

IES rolled out a new initiative to deliver electrical duties training modules for ESOs, allowing them to undertake training and receive a restricted limited licence through the Electrical Workers and Contractors Licensing Board. This initiative not only provides additional capacity in remote communities, but delivers cost savings for Power and Water as ESOs are able to undertake some essential work on-the-ground, without a qualified electrician needing to travel out to community.

New ESO contracts were also implemented in the Southern Region, placing increased emphasis on ESO contractor responsibilities to ensure appropriate safety systems and to manage competency of staff.

The focus at the end of the day is to ensure the ESOs are suitably trained and supported to deliver front line services in the community.





Customer service and stakeholder engagement

Michael Long Learning and Leadership Centre

Power and Water has worked in partnership with remote schools and the Michael Long Learning and Leadership Centre (MLLLC), engaging students to start thinking about a career pathway and understanding what Power and Water and Essential Services Operators do in their remote community.

In 2017-18, 200 students visited the Michael Long Learning Centre from 20 communities across the Northern Territory. The MLLLC encourages Aboriginal youths to learn and lead through sport. Power and Water is engaged with the MLLLC program as our work has direct relevance to youth in remote communities. The focus of the program this year was in relation to safety at Power and Water assets and on programs to reduce water consumption in remote communities. The presentations also covered employment opportunities with Power and Water in communities and project examples such as the Solar SETuP and its benefits.

Contracting and industry engagement

Power and Water relies on collaboration with local industry to deliver essential services, particularly in remote communities. In 2017-18 a range of activities contributed to establishing and maintaining positive relationships with industry and to creating economic development opportunities. These included:

- IES contracting five Aboriginal Ranger Groups for fee for service work including weed and flora surveys. These were the: Tiwi Land Rangers, Wanga Djakamirr, Gurruwiling, Malak Malak and Djelk groups.
- A fencing sub-contract creating training and employment opportunities with participants from Ironbark Aboriginal Corporation.
- Two Aboriginal-owned contractors, Yingwati and Piening Contracting, winning clearing and fencing contracts.
- Engagement of 10 Aboriginal employees on the construction of solar arrays, in conjunction with John Holland Territoria Civil.
- Contracting a new Aboriginal Business Enterprise in Yuendumu that provided Essential Services Operators (ESOs) to four communities.
- Meeting government targets to achieve 30% Aboriginal employment on all IES major capital water projects.





Community engagement

The IES team instigated wide scale community engagement in the 2017-18 year including:

- Development of community specific messaging about water supply and demand, power and sewer services – Power and Water in YOUR Community, through a pilot program to install community noticeboards for a ‘one-stop-shop’ message point.
- Development of the Regions and Remote Operations tactical communication strategy.
- Participation on the interagency Aboriginal Justice Agreement working group.
- Engagement and local employment during all stages of capital works projects at Angurugu, Ali Curung and Wadeye.

Garma Festival 2017

In 2017 four Power and Water delegates including the Chief Executive and two General Managers attended the 2017 Garma Festival at the Gulkula site, just 30 minutes from the township of Nhulunbuy.

While there, Power and Water met and engaged with a number of Aboriginal business operators, took the opportunity to attend lectures on Aboriginal and remote issues and participated in a range of cultural events.

Being able to attend this important cultural festival provided the representatives with an opportunity to engage with interested parties and broaden their knowledge and understanding of operating and living in these remote communities.



Environment

Power and Water is committed to the protection of, and minimisation of harm to the environment in which it operates.

Power and Water has developed an Environmental Strategy that will achieve the following objectives:

- Leadership and culture – we foster a proactive culture of protection and risk minimisation and drive our environmental management outcomes.
- Integrated planning and operations – risk based environmental management forms an integrated part of planned processes and operations.
- Capability – environmental responsibilities are known and acted upon by a workforce with the capability and systems to assess and minimise the risk of environmental harm from our operations.
- Sustainability – we continue to implement a range of resource sustainability initiatives.
- Stakeholder engagement – sustain positive strategic partnerships with key stakeholders and the community to support our environmental and sustainability outcomes and targets.
- Assurance and continual improvement – ensuring there are appropriate mechanisms in place for monitoring, responding to change, gaining assurance and continuously improving the effectiveness of our environmental management system.





Operational Performance

Solar SETuP

2017-18 marked the continuation of the Solar Energy Transformation Program (SETuP) under the second tranche, a \$55 million joint project between Power and Water and the Federal Government's Australian Renewable Energy Agency (ARENA). Construction commenced in May 2018 and is anticipated to be complete by April 2019.

These solar farms are designed to supplement power to the communities during daylight hours, in conjunction with the existing diesel generators, providing hybrid energy solutions.

S O L A R
SETUP



Tranche 1 comprising of ten medium penetration solar sites were completed, fully commissioned and handed over to the operations teams in July 2017. The sites have been meeting expectations, with overall diesel savings of approximately 15% being achieved.

Diesel savings are being supported by the generation team's deployment of low load rated diesel gensets, which enable higher solar contribution without compromising system reliability.

The landmark Nauiyu (Daly River) high penetration project went on line in late March 2018, with the community now operating off diesel with 100% solar power for extended periods. Diesel savings of up to 70% are being achieved.

The Nauiyu battery is designed to work with the solar panels to meet the power demands of the community by storing electricity during the daylight hours and discharging later in the day and during times of cloud cover. This solar-battery arrangement is a unique project for Australia and is hoped will be the base case configuration for future generation projects in remote communities. This hybrid site is targeted to provide 100 per cent solar in the day with diesel on overnight only.

On the Tiwi Islands, the SETuP rollout was amended to include only Wurrumiyanga in anticipation of the plans for electrical interconnection of the three major communities.

In the 2017-18 year, lease establishment and site preparations were completed for Tranche 2 and delivery of the fifteen solar arrays was awarded to local company, John Holland T/A Territoria Civil, with construction underway.

Community engagement continued across the project communities to inform community members of works and maximise opportunities for local employment. Learnings from the project were shared with industry peers and through presentations at conferences.



Pre-payment electricity metering

Approximately 7,000 customers across the Northern Territory use pre-payment electricity meters, with 5,000 used in remote IES communities.

The current pre-payment electricity meters are no longer produced and a new pre-payment metering solution is being progressively installed in remote communities to ensure ongoing revenue assurance.

The new meters can be read and tariffs can be updated remotely, which greatly reduces labour and travel costs. They also have the ability to integrate with the smart water metering system and use the same communication infrastructure.

Community and stakeholder engagement is an important part of the deployment process and customers and communities are engaged in advance of the installation and post installation including house to house engagement with Aboriginal interpreters.

In the 2017-18 year, 971 meters were installed, taking the total delivery to 2,800 out of a planned 3,600 meter installations. Meter installation was completed in Hermannsburg, Amoonguna, Galiwin'ku, Ramingining, Numbulwar, Gapuwiyak, Ngukurr, Peppimenarti and Palumpa. Indirectly, IES employed 20 Aboriginal Engagement Officers through this work.

In terms of future works, there are 12 communities still to have 800 meters replaced under the program.



Remote smart water metering

Smart water meters provide real time automated flow readings to identify water loss from leaks or excessive use. This enables targeted community and stakeholder engagement to reduce water loss.

Smart water meters have been installed in nine remote communities, Santa Teresa, Gunbalanya (Oenpelli), Yurrawi (Milingimbi), Ali Curung, Epenarra, Galiwin'ku (Elcho Island), Yuelamu, Yuendumu and Kybrook Farm.

The smart water meters in Milingimbi have also been used as part of a collaborative water charging agreement with the Department of Housing and Community Development (DHCD) to further reduce water losses in Milingimbi.

Smart water metering has achieved up to 20-30% reduction at Milingimbi in water use due to the prompt identification and resultant fixing of leaks in partnership with customers.

Other water conservation programs without smart water metering have typically achieved savings of only 5-10%, with savings being harder to sustain without ongoing monitoring via smart meters.

Further investment and implementation of smart water metering across priority water constrained communities is proposed, as a key tool for cost effectively reducing water loss and improving the sustainability of water.

Water quality in remote communities

Providing clean, safe water remains a top priority for Power and Water and none more important than in our remote communities. Work has been delivered in a number of Territory communities over the past year including:

Milingimbi

A three year \$450,000 Australian Research Council (ARC) project due to be completed in May 2019 is developing an advanced groundwater model to inform water management planning and options for augmenting the water supply. To further inform the model an Aerial Electromagnetic Survey (AEM) study is expected to significantly improve our understanding of groundwater salinity on the island.

Power and Water is aligning its work on the ARC funded project with its ongoing community engagement work, and its use of smart meter technology to target leaks and high water using customers to preserve water.

Yuendumu

Since 2013, a pump testing program and three investigation bore drilling programs have been undertaken up to 10km from the existing bores, revealing that there is only one potable water source within an economically feasible distance of the community and Power and Water infrastructure. The ability of this water source to support long term growth is still unknown.

An options study will be advanced to determine the optimal water source solution. Significant investment will be required – whether this is to extend the borefield in the only potable aquifer, or implement advanced water treatment (likely desalination) of a non-potable source.

Warruwi

In 2016, the shallow freshwater lens suffered from salt water ingress during the dry season as the community water consumption exceeded the recharge from rainfall that is required to keep the groundwater fresh. Salinity of the potable supply exceeded guideline levels and complaints were received.

In 2017-18, Power and Water invested \$250,000 in collaboration with CSIRO to undertake an AEM survey of the island, to map the extent and volume of the shallow freshwater lens and to determine how the freshwater and salt water are connected. This information will better define the sustainable yield of the freshwater lens and place an upper limit on freshwater availability for extraction. It will also help to optimise the Aquifer Storage and Recovery (ASR) system to provide more of a buffer against salt water intrusion to the aquifer during prolonged dry seasons.



Other Major Capital Works

Angurugu Sewerage Reticulation Upgrade

This was a \$5.6 million project involving approximately three kilometres of new sewerage reticulation and new sewer connections to approximately 90 allotments. During the project 34% Aboriginal employment was achieved. The project involved replacing a high risk section of existing asbestos cement effluent drainage that was prone to failure. Future investment will be required to upgrade the rest of the community with a new sewerage reticulation system.

Ngukurr New Water Source Equipping

Completion of a \$3.7 million project including one new bore and construction of six kilometres of rising main and six kilometres of overhead power line at Ngukurr. The project achieved 14% Aboriginal employment and has provided the community with additional water source capacity.

Robinson River New Water Source Equipping

Completion of a \$1.97 million project equipping four new bores and constructing 500 metres of rising main and 800 metres of overhead powerline. The project achieved 40% Aboriginal employment and has provided the community with additional water source capacity.

Wadeye Asbestos Cement Main Replacement

Completion of a \$2 million project at Wadeye to replace the failing old asbestos cement water main. The project was completed in December 2017 and achieved over 30% Aboriginal employment.



Barunga New Water Source Equipping

Completion of a \$3 million project to equip new production bores in Barunga to provide the community with a secure, safe water source. The project was completed in December 2017 and achieved 18% Aboriginal employment.

Tiwi Islands Powerline Construction

Commencement of Stage 1 valued at \$2.6 million to construct powerlines on the Tiwi Islands. The work has involved survey, design and environmental approvals and opens up land for government's remote housing program. The powerline will create the opportunity for existing customers to connect to the grid and result in the closure of two diesel-fired power stations. The project will reduce costs to generate electricity across the Tiwi Islands, as well as reducing greenhouse gas emissions.



The future for IES





Capital Projects

The IES team will continue to work on delivering a number of capital projects during the coming financial year including:

- The upgrade of Numbulwar Water Storage Tank valued at \$5 million.
- Ali Curung Sewerage Reticulation Upgrade Stage 1 valued at \$6 million.
- Construction of a gas chlorination upgrade valued at \$1.7 million at Numbulwar and Galiwin'ku, commencing in the 2018-19 Dry Season.
- Asbestos cement main replacement at Laramba which includes replacement of 22 kilometres of main being replaced, commencing in the 2018-19 Dry Season. The project is valued at \$7 million.
- Construction of four new production bores equipped and rising main and overhead power line at Pirlangimpi, valued at \$3 million. The project will commence in the 2018-19 Dry Season.
- Installation of smart water meters and service line replacements at six water stressed communities with a total project value of \$2 million.



Remote Housing Initiative

The Northern Territory Government's Remote Housing Program is a \$1.1 billion, 10 year program that commenced in July 2017 and is aimed at delivering new public housing, housing for local recruits (government employee housing), additional repairs and maintenance as well as more living spaces.

The delivery of additional houses in these remote communities requires the provision of additional serviced land and in many communities, the existing essential infrastructure does not have the required spare capacity to meet the demand of the additional housing to be delivered under the Remote Housing Program.

Power and Water is working closely with the Department of Housing and Community Development through its Remote Community Infrastructure Delivery Committee. The committee has been established and tasked with identifying options for securing serviced land, including through sub divisions and ensuring that essential service infrastructure has adequate capacity to support the additional housing to be delivered through this important initiative.



Improved water quality management

Part of our ongoing commitment to providing safe, clean drinking water, Power and Water is launching a Sodium Hypochlorite Disinfection Barrier Project to standardise sodium hypochlorite installations throughout the Northern Territory.

This project will focus on reducing multiple risks to 33 chlorine dosing sites across the Top End (Darwin and Katherine regions). We are jointly working with the Department of Housing and Community Development and the Department of Health to consider prioritisation of capital investment funding accordingly.

The program will also drive significant system improvements to fully align Power and Water's processes with the Australian Drinking Water Guidelines.

Improving the performance of remote electricity systems

IES is working hard to capitalise on the solar SETuP project by using the delivery of photovoltaic (PV) infrastructure and interconnection of key remote power stations to improve electrical service reliability and realise the economies of scale for larger power stations.

Transitioning from diesel reliance to a portfolio that increasingly includes renewable and low emission energy sources will be challenging however, if successfully achieved in an economically responsible manner, the rewards will be lower cost of energy production, lower risk exposure (diesel), enhanced reliability and reduced greenhouse emissions.

The rate of diesel reliance is expected to slow through Solar SETuP and ongoing targeted solar medium penetration installs however gross electricity demand in remote communities is projected to increase from 139GWh to approximately 152GWh by 2036.

A large shift away from diesel is expected in the medium term (within five years) where cost effective when compared to other energy options. The proposed approach is therefore to pursue a diversified energy source mix in the near term to allow a range of renewable and low emission energy source options to be assessed and embedded into ongoing strategy and operations.

With fuel prices expected to increase and battery technology expected to decrease within five years, under current modelling battery storage becomes commercial viable without subsidy and as such, IES will continue to investigate energy storage (batteries) to optimise PV in remote communities.

Now that the Naiyu diesel off project has demonstrated its viability, opportunities to employ similar cost-effective diesel off solutions in other communities will be investigated. Low load diesels will be implemented in conjunction with solar PV to maximise the use of renewable energy.

Financial Statements and Explanatory Statements

Index

Financial Statements and Explanatory Statements

Description	Page
Directors' report	25
Lead auditor's declaration of independence	28
Independent audit report to the members	29
Directors' declaration	32
Statement of profit or loss and other comprehensive income	33
Statement of financial position	34
Statement of changes in equity	35
Statement of cash flows	36

No.	Notes to the financial statements	Page
1	General information	37
2	Significant accounting policies	37
3	Application of new and revised Accounting Standards	44
4	Critical accounting judgements and key sources of estimation uncertainty	50
5	Revenue and expenses	51
6	Cash and cash equivalents	52
7	Trade and other receivables	53
8	Inventories	53
9	Property, plant and equipment	53
10	Trade and other payables	56
11	Unearned revenue	56
12	Finance lease liabilities	56
13	Borrowings	57
14	Contributed equity	58
15	Retained earnings	58
16	Asset revaluation reserve	58
17	Commitments	58
18	Operating lease arrangements	58
19	Financial instruments	59
20	Related party transactions	61
21	Economic dependency	62
22	Auditor's remuneration	62
23	Events after the reporting period	62

Indigenous Essential Services Pty Limited

Directors' report for the year ended 30 June 2018

The Directors present their report together with the financial report of the Indigenous Essential Services Pty Ltd (Company) for the year ended 30 June 2018 and the auditor's report thereon. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

Information about the Directors

The Directors of the Company at any time during or since the end of the financial year were as follows:

Mr Ken Clarke	Director since 1 December 2013 Appointed Chairman 28 July 2015 Resigned 31 August 2018
Mr John Langoulant	Director since 26 June 2018 Appointed Chairman 31 August 2018
Ms MaryAnn Bin-Sallik	Director since 16 July 2015 Resigned 18 April 2018
Ms Djuna Pollard	Director since 16 July 2015 Resigned 20 August 2018
Ms Rowena McNally	Director since 26 June 2018
Ms Gaye McMath	Director since 1 September 2018

Company Secretary

Mr Antoni Murphy	Appointed 25 July 2014 Resigned 30 November 2017
Ms Lucia Ku	Appointed 30 November 2017

Company particulars

The Company is an Australian proprietary company, incorporated and operating in Australia.

Principal Registered Office and Principal Place of Business:	Level 2 Mitchell Centre 55 Mitchell Street Darwin NT 0800
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The Company was formed on 26 June 2003 and commenced operations on 1 July 2003.

Controlling entity

The Company's controlling entity is Power and Water Corporation, a government owned corporation pursuant to the *Government Owned Corporations Act 2014*. Power and Water Corporation provides all of the Company's services, including management and accounting services.

Principal activities

The Company's principal activities in the ordinary course of the financial year as a not-for-profit entity were the provision of electricity, water and sewerage services to 72 remote communities and 66 outstations.

The Company's services are provided by Power and Water Corporation staff under a purchaser / provider type agreement with the Department of Housing and Community Development.

Indigenous Essential Services Pty Limited

Directors' report for the year ended 30 June 2018

Review of operations

During the year the Company made a net deficit of \$9.3 million compared to a net deficit of \$47.2 million for the year ended 30 June 2017.

These shortfalls are primarily the result of the Company being mostly funded on a cash basis whereas these accounts are prepared on an accruals basis consistent with the Accounting Standards. This means that depreciation, as a non cash cost, is not funded by the purchaser of the Company's services. As the Company has substantial assets (which are valued on a depreciated replacement cost basis) with a replacement cost of approximately \$1.8 billion, depreciation is by far the largest single cost item recorded in the accounts. This unfunded depreciation charge, \$59.5 million, is partly offset by the Accounting Standards requiring the funding grant received and cash spent on capital, \$49.5 million, to be recognised as operating revenue.

The improvement in the net loss of \$37.9 million compared to the prior year net loss is due to a decrease in total expenses incurred of \$16.0 million and an increase in total revenue of \$21.9 million. Expenditure decreased primarily due to fewer assets being retired throughout the year, a total of \$2.7 million compared to \$13.9 million for the year ended 30 June 2017, which was due to the fixed asset rebuild project that was completed in the year ended 30 June 2017.

Depreciation charge decreased by \$5.0 million compared to the prior year due to the re-life adjustment resulting from a review of the useful lives of property, plant and equipment to bring fixed assets end life into line with the Capital Delivery Program.

The increase in revenue is primarily due to the release of capital grant revenue of \$49.5 million, an increase of \$24.7 million compared to \$24.8 million capital grant revenue released in the prior year. The increase in capital grant revenue is as a result of the continued progress on the solar setup project and other major projects that commenced throughout the year. Grant funding is initially recognised on the Statement of financial position and is released to the Statement of profit or loss and recognised as revenue as the related operational or capital expenditure is incurred as required under AASB 1004 'Contributions'.

The total cost of the solar setup project is estimated at \$59.0 million (Funding Plan \$27.5 million committed by PWC loan funding and \$31.5 million ARENA grant funding). Power and Water Corporation loaned \$11.0 million in 2016-17 at an interest rate of 4.55% for a term of 5 years. A further \$14.0 million loan is planned in 2018-19 and \$2.5 million in 2019-20. Phase One of the project was completed in 2016-17 and Phase Two has commenced and is expected to be completed in 2018-19.

The Company had a cash balance as at 30 June 2018 of \$44.9 million, a decrease of \$4.8 million compared to the prior year. The decrease is due to the Company undertaking projects throughout the year for which part of the funding was received in the prior year and only spent in the current year.

Change in state of affairs

There were no significant changes in the state of affairs of the Company during the financial year.

Subsequent events

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, in the opinion of the Directors of the Company, to significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Future developments

At the date of this report, there are no developments in the operations of the Company that, in the opinion of the Directors, are likely to significantly impact the Company during the 2018-19 financial year.

Indigenous Essential Services Pty Limited**Directors' report
for the year ended 30 June 2018****Environmental regulation**

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

Dividends

As a not-for-profit entity the Company did not declare or pay any dividends during the financial year (2016-17: nil).

Going concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities, the realisation of assets and the settlement of liabilities in the ordinary course of business. The Company is economically dependent on the Northern Territory Government to fund its future expenditure and the continued support from its parent entity, Power and Water Corporation. Refer to Note 2(b) for further details.

Independence declaration under Section 307C of the *Corporations Act 2001*

The Auditor-General for the Northern Territory's declaration of independence is set out on page 6 of the financial report.

Indemnification and insurance of Directors and Officers***Indemnification***

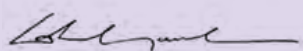
The Northern Territory Government has indemnified the Directors of the Company's controlling entity Power and Water Corporation as well as the Directors of Power and Water Corporation's wholly controlled entity, being the Company, for all liabilities that may arise from their position, except where the liability is incurred or arises out of actual dishonesty on the part of the Director. The indemnity covers the full amount of any such liabilities, including costs and expenses.

Insurance premiums

The following insurance policies were purchased by Power and Water Corporation to cover its Directors and Officers, and those of its subsidiaries. In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of premiums are confidential.

- *Group Personal Accident Insurance*
- *Professional Indemnity Insurance*
- *Directors' and Officers' Liability*

This report is made in accordance with a resolution of Directors pursuant to s.298(2) of the *Corporations Act 2001*.



John Langoulant
Chairman

Dated at Darwin this 28th day of September 2018



Auditor-General

Auditor's Independence Declaration to the Directors of Indigenous Essential Services Pty Limited

As auditor for the audit of the financial statements of Indigenous Essential Services Pty Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Julie Crisp'.

Julie Crisp
Auditor-General for the Northern Territory
Darwin, Northern Territory
27 September 2018



Auditor-General

Independent Auditor's Report to the Board of Directors of Indigenous Essential Services Pty Limited

Page 1 of 3

Opinion

I have audited the financial report of Indigenous Essential Services Pty Limited (the Company), which comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

In my opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

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

Basis for Opinion

I conducted my audit in accordance with 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 Company in accordance with auditor independence requirements of the *Corporations Act 2001* the 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 in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

I confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report comprises the Directors' Report included in the Company's financial report for the year ended 30 June 2018, but does not include the financial report and my auditor's report thereon.

My opinion on the financial report does not cover the other information and I do not and will not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.



Auditor-General

Page 2 of 3

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement 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 Company'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 Company'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. However, future events or conditions may cause the Company to cease to continue as a going concern.

**Auditor-General****Page 3 of 3**

- 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 those charged with governance 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.

A handwritten signature in cursive script, appearing to read 'Crisp'.

Julie Crisp
Auditor-General for the Northern Territory

Darwin, Northern Territory

28 September 2018

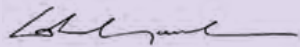
Indigenous Essential Services Pty Limited**Directors' declaration
for the year ended 30 June 2018**

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial statements and notes thereto 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 2018 and its performance for the year then ended; and
 - (ii) complying with Australian accounting standards.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the *Corporations Act 2001*.

On behalf of the Directors



John Langoulant
Chairman

Dated at Darwin this 28th day of September 2018

Indigenous Essential Services Pty Limited

Statement of profit or loss and other comprehensive income
for the year ended 30 June 2018

	Note	2018 \$	2017 \$
Revenue from sale of electricity		32,150,340	31,151,090
Revenue from sale of water		5,302,203	5,314,705
Revenue from rendering of services		3,079,432	3,095,783
Government grant - recurrent		49,347,265	49,437,408
Government grant - capital		49,520,628	24,778,862
Government grant - other		-	3,851,000
Interest revenue		558,536	332,682
Other income	5 (a)	1,802,790	1,957,348
Total revenue and income		141,761,194	119,918,878
Raw materials and consumables used	5 (f)	6,357,240	6,720,518
Electricity		6,770,829	6,076,500
Distillate consumption		18,665,372	18,056,309
Direct personnel costs	5 (b)	18,484,672	18,528,389
Repairs and maintenance		15,714,452	16,335,695
Corporate allocation costs	5 (c)	6,153,996	5,969,511
Agents - community contract fees		10,414,123	10,199,111
Other expenses	5 (d)	8,292,112	20,433,205
Depreciation and amortisation expenses	9	59,478,890	64,471,907
Finance costs	5 (e)	772,472	289,680
Total expenses		151,104,158	167,080,825
Deficit for the year		(9,342,964)	(47,161,947)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of assets	15	-	-
Other comprehensive deficit for the year		-	-
Total comprehensive deficit for the year		(9,342,964)	(47,161,947)

The Statement of profit or loss and other comprehensive income is to be read in conjunction with the Notes to the financial statements.

Indigenous Essential Services Pty Limited

Statement of financial position
as at 30 June 2018

	Note	2018 \$	2017 \$
Assets			
Current assets			
Cash and cash equivalents	6 (a)	44,850,850	49,650,694
Trade and other receivables	7	269,802	471,227
Inventories	8	6,379,217	5,025,828
Intangible assets		57,918	-
Other assets		249,929	238,489
Total current assets		51,807,716	55,386,238
Non-current assets			
Property, plant and equipment	9	730,818,568	737,984,327
Total non-current assets		730,818,568	737,984,327
Total assets		782,626,284	793,370,565
Liabilities			
Current liabilities			
Trade and other payables	10	23,291,999	22,966,681
Unearned revenue - operational	11	8,029,602	10,132,969
Unearned revenue - capital	11	33,698,096	32,354,100
Unearned revenue - other	11	831,881	1,366,009
Finance lease liabilities	12	1,045,152	929,950
Borrowings	13	-	966,651
Total current liabilities		66,896,730	68,716,360
Non-current liabilities			
Finance lease liabilities	12	7,984,914	7,566,601
Borrowings	13	11,000,000	11,000,000
Total non-current liabilities		18,984,914	18,566,601
Total liabilities		85,881,644	87,282,961
Net assets		696,744,640	706,087,604
Equity			
Contributed equity	14	10	10
Retained earnings	15	215,235,068	221,460,140
Asset revaluation reserve	16	481,509,562	484,627,454
Total equity		696,744,640	706,087,604

The Statement of financial position is to be read in conjunction with the Notes to the financial statements.

Indigenous Essential Services Pty Limited**Statement of changes in equity
as at 30 June 2018**

	Asset revaluation reserve \$	Retained earnings \$	Contributed equity \$	Total \$
30 June 2017				
Balance at 1 July 2016 Restated	499,133,860	254,115,681	10	753,249,551
Assets retired transferred from the asset revaluation reserve	-	14,506,406	-	14,506,406
Deficit for the year	-	(47,161,947)	-	(47,161,947)
Assets retired transferred to retained earnings	(14,506,406)	-	-	(14,506,406)
Balance at 30 June 2017	484,627,454	221,460,140	10	706,087,604
30 June 2018				
Balance at 1 July 2017	484,627,454	221,460,140	10	706,087,604
Assets retired transferred from the asset revaluation reserve	-	3,117,892	-	3,117,892
Deficit for the year	-	(9,342,964)	-	(9,342,964)
Assets retired transferred to retained earnings	(3,117,892)	-	-	(3,117,892)
Balance at 30 June 2018	481,509,562	215,235,068	10	696,744,640

The Statement of changes in equity is to be read in conjunction with the Notes to the financial statements.

Indigenous Essential Services Pty Limited**Statement of cash flows
for the year ended 30 June 2018**

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		51,101,604	50,209,494
Receipt of government grants - operational		57,376,866	58,018,520
Receipt of government grants - other		976,818	9,219,420
Payments to suppliers		(99,277,640)	(99,520,551)
Interest received		545,535	322,384
Interest paid		(771,600)	(287,810)
Net cash (used in)/provided by operating activities	6 (b)	9,951,583	17,961,457
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		86,853	302,299
Receipt of government grants - capital		40,731,655	31,582,959
Purchase of property, plant and equipment		(53,607,489)	(37,974,638)
Net cash used in by investing activities		(12,788,981)	(6,089,380)
Cash flows used in financing activities			
Proceeds from loan advance from parent entity		-	966,651
Proceeds from loan from parent entity		-	11,000,000
Repayment of finance leases		(995,796)	(1,021,036)
Repayment of loan advance from parent entity		(966,651)	-
Net cash (used in)/generated by financing activities		(1,962,447)	10,945,615
Net (decrease)/increase in cash and cash equivalents		(4,799,844)	22,817,692
Cash and cash equivalents at beginning of year		49,650,694	26,833,002
Cash and cash equivalents at end of year	6 (a)	44,850,849	49,650,694

The Statement of cash flows is to be read in conjunction with the Notes to the financial statements.

Indigenous Essential Services Pty Limited

Notes to the financial statements for the year ended 30 June 2018

1 General information

Indigenous Essential Services Pty Ltd (the Company) is a not-for-profit proprietary company operating and domiciled in Australia.

2 Significant accounting policies

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

(a) Statement of compliance

These financial statements are general purpose financial statements, which have been prepared in accordance with Australian Accounting Standards and Interpretations, the *Corporations Act 2001* and comply with any other requirements of the law.

The Company is a not-for-profit entity for the purpose of financial reporting.

The financial statements were authorised for issue by the Directors on 28 September 2018.

(b) Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain classes of property, plant and equipment and financial instruments, that are measured at revalued amounts or fair value at the end of each reporting date as explained in the accounting policies below.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

The fair value of the infrastructure assets was determined using the depreciated replacement cost approach. This reflects the cost to a market participant that would be required to replace the current service capacity of an asset. It represents the current cost of the asset less depreciation and any adjustments that allow a lower cost solution for achieving the current service standard. The fair value of non-specialised plant and equipment was determined using historical cost as these are minor asset items such as office equipment with short lives (3-5 years.)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- (i) Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- (ii) Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- (iii) Level 3 inputs are unobservable inputs for the asset or liability.

Going concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The Company has made a net deficit for the year ended 30 June 2018 of \$9.3 million compared to a net deficit of \$47.2 million for the year ended 30 June 2017. The Company's net working capital at 30 June 2018 and 2017 were deficits of \$15.1 million and \$13.3 million respectively. Current liabilities, excluding unearned revenue and finance lease liabilities at 30 June 2018 and 2017 include \$23.3 million and \$23.0 million of trade and other payables respectively.

Indigenous Essential Services Pty Limited**Notes to the financial statements
for the year ended 30 June 2018****2 Significant accounting policies (Cont'd)**

Assets are fundamental to the essential services provided by the Company and as such the Company's performance is significantly impacted by its capital delivery program and the associated depreciation on assets. Accordingly, the Company is economically dependent on the Northern Territory Government to fund its future capital expenditure as well as a significant portion of its operating expenses. The Company's cash balance as at 30 June 2018 decreased by \$4.8 million to \$44.9 million due to cash outflows from operating activities exceeding cash inflows by \$0.20 million, purchase of property, plant and equipment exceeding receipt of capital government grants by \$2.7 million and the Company making repayments of \$0.97 million on the loan provided by Power and Water Corporation and payments for finance leases of \$0.99 million throughout the year.

To ensure that the Company is able to pay its debts as and when they fall due, a letter of financial support dated 28 October 2015 was received from the parent entity, Power and Water Corporation, which guarantees support should the Company not be able to pay its debts as and when they fall due and is valid for the period from 28 October 2015 to such time as the Company ceases to be a wholly owned subsidiary of Power and Water Corporation.

Accordingly, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

(c) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

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

Sale of goods

Revenue from the sale of goods is recognised (net of discounts and allowances) when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of goods to the customer. Sale of goods includes estimates for unbilled consumption of electricity and water as at reporting date. For further information on unbilled consumption, refer to Note 4 (b).

Rendering of services

Rendering of services includes the provision of sewerage services and government grant revenue. The revenue from the rendering of services in relation to sewerage services is recognised when the service is provided, having regard for the costs incurred in providing those services. For further information on government grant revenue, refer to Note 2 (d) below.

Interest revenue

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is recognised as it accrues.

(d) Government grants

Revenue in the form of government grants is received from the Northern Territory and Commonwealth Governments. Revenue arising from the contribution of an asset to the entity shall be recognised when, and only when, all the following conditions have been satisfied:

- (i) the Company obtains control of the contribution or the right to receive the contribution;
- (ii) it is probable that the economic benefits comprising the contribution will flow to the entity; and

Indigenous Essential Services Pty Limited

Notes to the financial statements for the year ended 30 June 2018

2 Significant accounting policies (Cont'd)

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received.

Grants received on the condition that specified services are delivered, or conditions are fulfilled, are considered reciprocal. Such grants are initially recognised as a liability and revenue is recognised as services are performed or conditions fulfilled. Revenue from non-reciprocal grants is recognised when received.

(e) 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 the GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority (through Power and Water Corporation) is included as a current asset or liability in the statement of financial position. From 1 July 2003, the Company has been grouped with Power and Water Corporation for GST purposes. Power and Water Corporation is the representative member and lodges the business activity statement on behalf of the Group.

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 taxation authority (through Power and Water Corporation) are classified as operating cash flows.

(f) Borrowing costs

All borrowing costs are recognised as an expense in the period in which they are incurred.

(g) Income tax

The Company is exempt from income tax as it was removed from the National Tax Equivalents Regime due to it being a not-for-profit entity effective from 1 July 2003.

Additionally, the Company is not subject to taxation as it is a not-for-profit entity and therefore exempt under section 24 of the *Income Tax Assessment Act 1936*.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at bank.

(i) Financial instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All purchases or sales of financial assets are recognised and derecognised on a trade date basis.

Indigenous Essential Services Pty Limited

Notes to the financial statements for the year ended 30 June 2018

2 Significant accounting policies (Cont'd)

Loans and receivables

Receivables that have fixed or determinate payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost less any impairment.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows.

The carrying amount of the receivables are reduced by the impairment loss through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised as the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at Fair Value Through Profit and Loss' (FVTPL) or 'other financial liabilities'.

Indigenous Essential Services Pty Limited**Notes to the financial statements
for the year ended 30 June 2018****2 Significant accounting policies (Cont'd)**Other financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value. Costs are assigned to inventory based on the weighted-average purchase cost of bringing each item to its present location and condition. Net realisable value represents the amounts expected to be realised from the use of the inventory.

(k) Infrastructure, plant and equipment

Freehold land, buildings, plant and infrastructure assets held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Freehold land, buildings, plant and infrastructure are originally stated at cost less accumulated depreciation (apart from freehold land as this is not depreciated) and any accumulated impairment losses. Such cost includes, for qualifying assets, borrowing costs capitalised in accordance with the consolidated entity's accounting policy. Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the entity. Ongoing cost of repairs and maintenance are expensed as incurred.

Any revaluation increase arising on the revaluation of such land, buildings, plant and infrastructure assets is recognised in other comprehensive income and accumulated within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land, buildings, plant and infrastructure assets is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Non-specialised assets such as minor items of office equipment with short useful lives are measured at depreciated historical cost.

Where an asset is acquired at no cost or for nominal value, the cost is recorded at fair value as at the date of acquisition.

Subsequent to initial recognition, infrastructure and plant and equipment assets are held at fair value and are revalued in accordance with AASB 116 Property, Plant and Equipment and AASB 13 Fair Value Measurement.

Infrastructure, plant and equipment is measured at the highest and best use by market participants that is physically possible, legally permissible and financially feasible. The highest and best use must be available at a period that is not remote and takes into account the characteristics of the asset being measured, including any socio-political restrictions imposed by government. In most cases, after taking into account these considerations, the highest and best use is the existing use. In limited circumstances, the highest and best use may be a feasible alternative use, where there are no restrictions on use or where there is a feasible higher restricted alternative use.

Indigenous Essential Services Pty Limited**Notes to the financial statements
for the year ended 30 June 2018****2 Significant accounting policies (Cont'd)**

Fair value of infrastructure, plant and equipment is based on the cost approach (i.e. depreciated replacement cost), reflecting the amount that would be required currently to replace the service capacity of an asset, adjusted for obsolescence. The replacement cost is the minimum that it would cost, in the normal course of business, to replace the existing asset with a technologically modern equivalent new asset with the same economic benefits, allowing for any differences in the quantity and quality of output and in operating costs.

Non-specialised assets with short useful lives (such as minor office equipment) are measured at depreciated historical cost, as a surrogate for fair value. Work in progress is measured at cost.

Each class of infrastructure, plant and equipment held at fair value is to be subject to revaluation at least every five years or with sufficient regularity to ensure that the carrying amount of each asset does not differ materially from its fair value at reporting date.

Revaluation increments are credited directly to the revaluation surplus, except that, to the extent that an increment reverses a revaluation decrement for that class of asset previously recognised as a loss in the operating result, the increment is recognised as a gain.

Revaluation decrements are recognised immediately as losses, except that they are debited directly to the revaluation surplus to the extent that a credit exists in the revaluation surplus in respect of the same class of asset.

Depreciation has been calculated based on the estimated useful lives used for each class of asset as follows:

Infrastructure, plant and equipment	2018	2017
Infrastructure	8 to 60 years	8 to 60 years
Plant and equipment	3 to 35 years	3 to 35 years

Depreciation and amortisation of assets related to finance leases have been calculated based on the estimated useful lives used for each class of asset (being the shorter of the lease term and their useful lives) as follows:

Infrastructure, plant and equipment situated on finance leased land	2018	2017
Infrastructure	8 to 40 years	8 to 40 years
Plant and equipment	1 to 40 years	1 to 40 years

Depreciation on revalued infrastructure, plant and equipment assets is recognised in profit or loss. On the subsequent disposal, sale or retirement of a revalued infrastructure, plant and equipment asset, the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and capital works in progress) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are recognised in the profit or loss.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from the continued use of the asset. Any gain or loss arising on derecognition of the asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Indigenous Essential Services Pty Limited**Notes to the financial statements
for the year ended 30 June 2018****2 Significant accounting policies (Cont'd)****(l) Intangible assets***Intangible assets acquired separately*

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Renewable Energy Certificates

The solar setup project is being undertaken by the Company as an initiative for cheaper electricity in remote communities and savings in distillate. The Renewable Energy Certificate Scheme operates under Federal Government legislation which requires energy retailers to source a target proportion of their electricity purchases from renewable sources. The Company has finalised Phase one of the solar setup project and is generating Green Certificates and will be able to sell the Green Certificates generated to electricity retailers. Green Certificates held are of the nature of intangible assets and are disclosed in the statement of financial position as current assets.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no further future economic benefits are expected from the continued use of the asset or its disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

The amortisation of useful lives used for each class of intangibles are as follows:

	2018	2017
Intangible assets	2 to 4 years	2 to 4 years

(m) Impairment of tangible and intangible assets

At the end of each reporting period the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Indigenous Essential Services Pty Limited

Notes to the financial statements for the year ended 30 June 2018

2 Significant accounting policies (Cont'd)

(n) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Finance leases are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of financial position as a finance lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability and recognised as a reduction of rental expense on a straight line basis.

3 Application of new and revised Accounting Standards

(a) Amendments to Accounting Standards and new Interpretations that are mandatorily effective for the current year

The Company 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 an accounting period that begins on or after 1 July 2017.

New and revised Standards and amendments thereof and Interpretations effective for the year ended 30 June 2018 that are relevant to the Company include:

<i>Standard or Interpretation</i>	<i>Nature of Change to Accounting Policy</i>
AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107	<p>AASB 107 Statement of Cash Flows has been amended to provide disclosures enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.</p> <p>The Company has liabilities arising from financing activities consisting of finance leases (Note 12) and borrowings (Note 13). A reconciliation between the opening and closing balances of these items is provided in Note 13 (a). Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 13 (a), the application of these amendments has had no impact on the company's financial statements.</p>
AASB 2017-2 Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle	<p>AASB 12 Disclosure of Interests in Other Entities has been amended so that summarised financial information of an entity's interest in a subsidiary, joint venture or an associate are not required to be disclosed if they are classified as held for sale.</p> <p>The application of these amendments has had no effect on the Company's financial statements as none of the Company's interests are classified, or included in a disposal group that is classified, as held for sale.</p>
AASB 2016-4 Amendments to Australian Accounting Standards - Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-For-Profit Entities (AASB 136)	<p>Amends AASB 136 Impairment of Assets to clarify that the recoverable amount of primarily non-cash-generating assets of not-for-profit entities is expected to be materially the same as fair value determined under AASB 13 Fair Value Measurement.</p>

Indigenous Essential Services Pty Limited**Notes to the Financial Statements
for the year ended 30 June 2018****3 Application of new and revised Accounting Standards (Cont'd)****(b) Standards and Interpretations in issue not yet adopted**

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective are listed below. The Company does not intend to adopt any of these pronouncements before their effective dates.

<i>Standard or Interpretation</i>	<i>Effective annual reporting periods beginning on or after</i>	<i>Expected to be initially applied in the financial year ending</i>
AASB 9 Financial Instruments, and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 Revenue from Contracts with Customers. AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15. AASB 2015-8 Amendments to Australian Accounting Standards - Effective date of AASB 15	1 January 2019	30 June 2020
AASB 16 Leases	1 January 2019	30 June 2020
AASB 17 Insurance Contracts	1 January 2018	30 June 2019
AASB 1058 Income of Not-for-Profit Entities	1 January 2019	30 June 2020
AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions	1 January 2018	30 June 2019
AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts	1 January 2018	30 June 2019
AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities	1 January 2019	30 June 2020
AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities	1 January 2019	30 June 2020
AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property Annual Improvements 2014-2016 Cycle and Other Amendments	1 January 2018	30 June 2020
AASB 2017-3 Amendments to Australian Accounting Standards – Clarification to AASB 4	1 January 2018	30 June 2019
AASB 2018-1 Amendments to Australian Accounting Standards - Annual Improvements 2015-2017 Cycle	1 January 2019	30 June 2020

AASB 9 – Financial instruments

AASB 9 Financial Instruments sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 Financial Instruments: Recognition and Measurement.

Based on an analysis of the company's financial assets and financial liabilities as at 30 June 2018 on the basis of the facts and circumstances that exist at that date, the impact of AASB 9 on the company's financial statements are as follows:

Classification - Financial Assets

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale.

Indigenous Essential Services Pty Limited**Notes to the Financial Statements
for the year ended 30 June 2018****3 Application of new and revised Accounting Standards (Cont'd)****(b) Standards and Interpretations in issue not yet adopted (Cont'd)**

Under AASB 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

It is anticipated that the new classification requirements will not have a material impact on the company's accounting for trade receivables.

Impairment – Financial assets

AASB 9 replaces the 'incurred loss' model in AASB 139 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under AASB 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the company has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

It is anticipated that the company will apply the simplified approach to recognise lifetime expected credit losses for its trade receivables and amounts due from customers under construction contracts as required or permitted by AASB 9.

In general, it is anticipated that the application of the expected credit loss model of AASB 9 will result in no change to the recognition of credit losses for the respective items and the amount of loss allowance recognised for these items.

Classification – Financial liabilities

AASB 9 largely retains the existing requirements in AASB 139 for the classification of financial liabilities. However, under AASB 139 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under AASB 9 these fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

The company has not designated any financial liabilities at FVTPL and it has no current intention to do so. It is anticipated that the application of AASB 9 will not have a material impact on the company's classification of financial liabilities at 1 July 2018.

Transitioning to AASB 9

Changes in accounting policies resulting from the adoption of AASB 9 will generally be applied retrospectively, except the company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of AASB 9 will generally be recognised in retained earnings and reserves as at 1 July 2018.

AASB 15 - Revenue from Contracts with Customers

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 will supersede the current revenue recognition guidance including AASB 118 Revenue, AASB 111 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Indigenous Essential Services Pty Limited**Notes to the Financial Statements
for the year ended 30 June 2018****3 Application of new and revised Accounting Standards (Cont'd)****(b) Standards and Interpretations in issue not yet adopted (Cont'd)**

An entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Extensive disclosures are required under AASB 15.

The standard is effective for annual periods beginning on or after 1 January 2019 for not-for-profit entities. Early adoption is permitted for not-for-profit entities only where the not-for-profit entity also early adopts AASB 1058.

Management has assessed the effects of applying the new standard on the consolidated entity's major sources of revenue as follows:

Revenue from the sale of goods and services

Revenue is currently recognised as goods or services are delivered to the customer's premise, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under AASB 15, revenue from the sale of electricity and water will be recognised over time as the company transfers control of the electricity or water to the customer who simultaneously receives and consumes the benefits of the electricity or water delivered which is consistent with current accounting practices. Likewise for the sale of standard control services, revenue will be recognised as the company distributes the electricity to the customer who simultaneously receives and consumes the electricity as the company performs satisfying its performance obligations.

For those contracts for the supply of water where eligible customers receive water rebates, revenue is currently recognised net of any rebates provided as the goods or services are transferred to the customer which will continue to be appropriate under AASB 15.

Revenue from the sale of electricity from pre-paid tokens is currently recognised at the point in time when the pre-paid tokens are sold to the contractor, who acts as agent on behalf of the company. This accounting practice will differ under AASB 15, as the revenue will be recognised over time as the electricity is transferred to the customer who simultaneously receives and consumes the benefits of the electricity as the company performs. Management is currently undertaking a review of the impact on retained earnings at 1 July 2019 however the impact is anticipated to be approximately \$2.0 million.

Other than electricity from pre-paid tokens, it is anticipated that the application of AASB 15 will not have a significant impact on the company's revenue recognition profile in relation to revenue from the sale of electricity and water.

Revenue from the rendering of services

Revenue from services rendered, i.e. waste disposal services are currently recognised as revenue as the company performs the services to the extent that it is probable that the economic benefits will flow to the company and it can be measured reliably.

Under AASB 15, revenue will be recognised over time as the company performs transferring control of the services to the customer who simultaneously receives the benefits of the services provided, which is consistent to how revenue is currently recognised.

It is anticipated that the application of AASB 15 will not have a significant impact on the company's revenue recognition profile in relation to revenue from the rendering of services.

Revenue from capital contributions

Where the company receives gifted assets or capital contributions that are primarily for the purpose of IES fulfilling its own objectives are accounted for under AASB 1058, otherwise they are accounted for under AASB 15.

Revenue from gifted assets is currently recognised at the point in time when control of the asset being gifted is transferred and accepted by the company together with the related risks and rewards of ownership transfer and the revenue can be reliably measured. Capital contributions are received upfront and accounted for as a liability upon receipt and only recognised as revenue using the stage-of-completion method, i.e. revenue is released to the profit or loss over time as the related costs are incurred.

Under AASB 15, the amount and timing of revenue recognition from gifted assets and capital contributions will be dependent on whether the company has any further promises for related goods or services to be provided under the contract with the customer.

For those contracts that include further promises of goods or services to be supplied under the contract such as an ongoing supply of electricity, water or stand control services that relate to the gifted asset or capital contribution, then the promises will be bundled together to form one single performance obligation that will be satisfied over time as the company transfers control of the bundled goods or services to the customer who simultaneously receives and consumes the benefits from those bundled goods or services.

Indigenous Essential Services Pty Limited**Notes to the Financial Statements
for the year ended 30 June 2018****3 Application of new and revised Accounting Standards (Cont'd)****(b) Standards and Interpretations in issue not yet adopted (Cont'd)**

It is anticipated that the application of AASB 15 on these contracts will not have a significant impact on the company's financial statements.

For those contracts for gifted assets that do not include any further promises of related goods or services, then revenue will be recognised consistent to current accounting practices, i.e. that is revenue will be recognised at a point in time, being the point in time when control of the gifted asset is transferred to the company, is connected to the power or water network system and is ready for use.

It is anticipated that the application of AASB 15 on these contracts will not have a significant impact on the company's financial statements.

For those contracts for capital contributions paid up-front, the application of AASB 15 will result in a change in the accounting for these contracts compared to how they are currently accounted for. Under the current standard revenue is recognised as the asset is being constructed measured using the stage of completion method i.e. revenue is released to the profit or loss as the company incurs the related costs of construction. Under AASB 15, revenue will only be recognised at a point in time, being the point in time in which construction of the asset has been completed and is connected to the power or water network system and is ready for use.

The anticipated impact on retained earnings at 1 July 2018 as a result of the changes in accounting for gifted assets is estimated to be less than \$100,000. The impact of these changes on other items in the financial statements is an increase/decrease in unearned revenue.

Transitioning to AASB 15

The company plans to adopt AASB 15 using the cumulative-effect approach with the effect of initially applying this standard recognised at the date of initial application. As a result the company will not apply the requirements of AASB 15 to the comparative period presented.

AASB 1058 – Income 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.

Consequently AASB 1004 Contributions is also amended, with its scope effectively limited to address issues specific to government entities and contributions by owners in a public sector entity context.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for not-for-profit entities who also early adopt AASB 15.

Re-current operational grant revenue

Re-current operational grant funding is provided for the purpose of providing essential services such electricity, water and sewerage services to the nominated towns and communities specified in the funding agreement and is initially recognised as a liability upon receipt. Revenue is currently recognised as the Company provides electricity, water or sewerage services to the nominated towns and communities provided that the revenue can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the electricity, water or sewerage services supplied to the beneficiaries.

The application of AASB 1058 will not result in any significant changes to the amount or timing of revenue recognition, i.e. revenue will continue to be recognised over time as the Company satisfies its performance obligations and will continue to be measured based on the costs of providing those essential services to the beneficiaries.

Capital grant revenue

The company receives capital grant funding where the primary condition attached to the funding is for the company to purchase, construct or otherwise acquire non-current assets. The company currently recognises the capital grant initially as a liability upon receipt and recognises revenue at the point in time that the company either purchases or otherwise acquires a non-current asset or over time as the non-current asset is being constructed with the amount of revenue recognised being equal to the related costs incurred in constructing the non-current asset.

Indigenous Essential Services Pty Limited**Notes to the Financial Statements
for the year ended 30 June 2018****3 Application of new and revised Accounting Standards (Cont'd)****(b) Standards and Interpretations in issue not yet adopted (Cont'd)**

The current accounting practices applied by the company for the recognition of revenue from capital grants for the purpose of acquiring or the construction of a non-current asset will continue to be appropriate under AASB 1058, i.e. either at the point in time when control of the non-current asset is transferred to the company or over time as the asset is being constructed.

It is anticipated that the application of AASB 1058 will not result in any significant changes to the amount or timing of revenue recognition.

Capital contributions revenue

As discussed under AASB 15 above, the company receives capital contributions from both government and private entities for the purpose of either fulfilling their own objectives or for the purpose of enabling IES to fulfil its own objectives.

Capital contributions received for the purpose of enabling IES to fulfil its own objectives are currently accounted for as unearned revenue and only recognised as revenue as the asset is being constructed in line with the costs incurred. It is anticipated that this accounting treatment will continue to be appropriate under AASB 1058.

Therefore it is anticipated that the application of AASB 1058 will not result in any significant changes to the amount or timing of revenue recognition in relation to those capital contributions received for the primary purpose of enabling IES to fulfil its own objectives.

Transitioning to AASB 1058

The company plans to adopt AASB 1058 using the cumulative-effect approach with the effect of initially applying this standard recognised at the date of initial application. As a result the company will not apply the requirements of AASB 1058 to the comparative period presented.

AASB 16 - Leases

AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 Leases and the related interpretations when it becomes effective.

The standard is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply AASB 15 at or before the date of initial application of AASB 16.

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Company has completed a detailed assessment of the potential impact on its financial statements; however the actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Company's incremental borrowing rate at 1 July 2019, the composition of its lease portfolio at that date, the Company's latest assessment of whether it will exercise any lease renewal options and the extent to which it chooses to use practical expedients and recognition exemptions.

As at 30 June 2018, the Company has non-cancellable operating lease commitments of \$643,858, see Note 18. Current assessments indicate that these arrangements do not meet the definition of a lease under AASB 16, and hence will be accounted for under other applicable accounting standards.

Determining whether an arrangement not in the legal form of a lease contains a lease

The company undertook a detailed review of its arrangements that are not in the form a lease to identify those that may contain a lease under AASB 16, for which it concluded that there is 1 non-cancellable arrangement that meets the definition of a lease under AASB 16 and as such a right-of-use asset and a corresponding lease liability for an estimated \$17 million will be recognised on the date of initial application for this arrangement.

Currently no other arrangements have been identified as containing a lease under AASB 16.

No significant impact is expected for the company's existing finance leases as an asset and related finance lease liability is already recognised for these lease arrangements.

Indigenous Essential Services Pty Limited**Notes to the Financial Statements
for the year ended 30 June 2018****3 Application of new and revised Accounting Standards (Cont'd)****(b) Standards and Interpretations in issue not yet adopted (Cont'd)**Transitioning to AASB 16

The Company intends to adopt AASB 16 using the modified (cumulative-effect) approach. Therefore the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings, with no restatement of comparative information.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Refer below for a discussion of critical accounting judgments and key sources of estimation uncertainty.

(a) Critical judgements in applying accounting policies

There were no critical judgements that the directors of the Company have made in the process of applying the Company's accounting policies that have a significant effect on the amounts recognised in the financial statements.

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Useful lives of infrastructure, plant and equipment

As described in Note 2 (k), the Company reviews the estimated useful lives of infrastructure, plant and equipment at the end of each reporting period and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

During 2017-18, an extensive exercise to review the useful lives of infrastructure, plant and equipment commenced and was completed. The financial effect of any changes, if any, to the useful lives of infrastructure, plant and equipment has been reflected in the financial statements for the current year.

Fair value measurements and valuation processes

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); or
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Unbilled revenue

As per accounting standard AASB 118 'Revenue', revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Therefore the company estimates the amount of electricity, standard control services and water consumed at reporting date but that is yet to be billed.

Indigenous Essential Services Pty Limited

Notes to the financial statements
for the year ended 30 June 2018

	2018	2017
	\$	\$
5 Revenue and expenses		
(a) Other income		
Capital contributions and recoverable works	1,293,628	1,853,427
Alternative control service charges	186,125	92,773
Other income	265,119	11,148
Renewable Energy Certificates	57,918	-
	<u>1,802,790</u>	<u>1,957,348</u>
(b) Direct personnel costs	<u>18,484,672</u>	<u>18,528,389</u>
The direct personnel costs relate to staff who are employed by the Company's parent entity, Power and Water Corporation. These costs are recharged to the Company.		
(c) Corporate allocation costs	<u>6,153,996</u>	<u>5,969,511</u>
Corporate allocation costs represent costs incurred by the Company's parent entity on the Company's behalf which would have otherwise not been incurred by the Company's parent entity and which are oncharged to the Company as approved by the Boards of both the parent entity and the Company.		
(d) Other expenses		
External service level arrangements	1,779,632	2,088,419
Net loss on disposal of property, plant and equipment	2,736,817	13,882,723
Freight	1,144,103	872,211
Motor vehicle expenses	986,032	928,354
IT and communication	1,427,769	1,199,359
Travel and accommodation	715,376	698,509
Bad and doubtful debts expense	(703,692)	(9,603)
Other	206,075	773,233
	<u>8,292,112</u>	<u>20,433,205</u>
(e) Finance costs		
Interest on loans from parent entity	500,936	86,949
Interest on finance leases	271,536	202,731
	<u>772,472</u>	<u>289,680</u>
(f) Raw materials and consumables used		
Gas purchased from parent entity	2,374,787	2,355,646
Network charges from parent entity	1,473,949	1,942,801
Generation costs for Minor Centres	506,740	533,705
Other materials and consumables	2,001,764	1,888,366
	<u>6,357,240</u>	<u>6,720,518</u>

Indigenous Essential Services Pty Limited**Notes to the financial statements
for the year ended 30 June 2018**

	2018	2017
	\$	\$
6 Cash and cash equivalents		
(a) Reconciliation of cash		
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash assets	44,850,850	49,650,694
The weighted average interest rate on cash assets for 2018 is 1.50% (2017: 2.52%)		
(b) Reconciliation of the deficit for the year to net cash flows from operations		
Deficit for the year	(9,342,964)	(47,161,947)
<i>Adjustments for:</i>		
Depreciation and amortisation expenses	59,478,890	64,471,907
Net loss on disposal of property, plant and equipment	2,736,817	13,882,723
Government grant - capital	(49,520,628)	(24,778,862)
<i>Changes in assets and liabilities</i>		
Increase in inventories	(1,353,389)	(170,011)
Decrease in trade and other receivables	201,425	5,233,424
(Increase)/decrease in other assets	(11,440)	140,544
(Increase)/decrease in Intangible assets	(57,918)	-
Increase/(decrease) in trade and other payables	325,317	(1,658,295)
(Decrease)/increase in unearned revenue	7,495,474	8,001,974
Net cash (used in)/provided by operating activities	9,951,583	17,961,457
7 Trade and other receivables		
Current		
Receivables	146,231	1,123,049
Less: provision for doubtful debts	-	(705,234)
	146,231	417,815
Accrued revenue other	76,221	19,063
Interest receivable	47,350	34,349
	269,802	471,227

Receivables at 30 June 2018 are non-interest bearing. The Company has undertaken a review of the collectibility of receivables that are over 90 days outstanding and where applicable has recognised a provision for doubtful debts for receivables that are considered not recoverable.

Indigenous Essential Services Pty Limited

Notes to the financial statements for the year ended 30 June 2018

	2018 \$	2017 \$
7 Trade and other receivables (Cont'd)		
Receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Company has not recognised a provision for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.		
<u>Age of receivables that are not impaired:</u>		
Current	146,231	417,815
	<u>146,231</u>	<u>417,815</u>
<u>Movement in the provision for doubtful debts:</u>		
Balance at beginning of the year	(705,234)	(810,870)
Amounts written off as uncollectible	705,234	105,636
Balance at end of year	<u>-</u>	<u>(705,234)</u>
<u>Age of impaired receivables:</u>		
90 + days	-	(705,234)
	<u>-</u>	<u>(705,234)</u>
8 Inventories		
Distillate stocks	6,379,217	5,025,828
	<u>6,379,217</u>	<u>5,025,828</u>
The cost of distillate recognised as an expense during the current year in respect of continuing operations was \$18,665,372 (2017: \$18,056,309).		
9 Infrastructure, plant and equipment		
Carrying amounts of:		
Infrastructure at fair value	656,679,212	679,938,487
Plant and Equipment at fair value	1,795,089	2,034,770
	<u>658,474,301</u>	<u>681,973,257</u>
Finance Leased Land at cost	10,033,718	9,392,911
Intangible Assets at cost	1,616	1,929
Capital Work in Progress at cost	62,308,933	46,616,230
	<u>730,818,568</u>	<u>737,984,327</u>

Indigenous Essential Services Pty Limited

Notes to the financial statements
for the year ended 30 June 2018

9 Property, plant and equipment (Cont'd)

Movement	Infrastructure at fair value	Plant and Equipment at fair value	Finance Leased Land at cost	Intangible Assets at cost	Capital Work in Progress at cost	Total Property, Plant and Equipment
	\$	\$	\$	\$	\$	\$
June 2018						
Fair value	1,704,589,071	2,663,184	14,584,278	88,282	62,308,933	1,784,233,748
Accumulated depreciation	(1,047,909,859)	(868,095)	(4,550,560)	(86,666)	-	(1,053,415,180)
Written down value	656,679,212	1,795,089	10,033,718	1,616	62,308,933	730,818,568
June 2017						
Fair value	1,687,613,094	2,751,877	13,054,965	88,282	46,616,230	1,750,124,448
Accumulated depreciation	(1,007,674,607)	(717,107)	(3,662,054)	(86,353)	-	(1,012,140,121)
Written down value	679,938,487	2,034,770	9,392,911	1,929	46,616,230	737,984,327
Movement	Infrastructure at fair value	Plant and Equipment at fair value	Finance Leased Land at cost	Intangible Assets at cost	Work in Progress at cost	Total Property, Plant and Equipment
	\$	\$	\$	\$	\$	\$
June 2018						
Opening balance	679,938,487	2,034,770	9,392,911	1,929	46,616,230	737,984,327
Additions	-	-	1,529,313	-	53,606,952	55,136,265
Disposals	(2,823,017)	-	-	-	-	(2,823,017)
Depreciation	(58,349,070)	(241,001)	(888,506)	(313)	-	(59,478,890)
Transfer from WIP	37,708,263	205,986	-	-	(37,914,249)	-
Adjustments	204,549	(204,666)	-	-	-	(117)
Closing balance	656,679,212	1,795,089	10,033,718	1,616	62,308,933	730,818,568
June 2017						
Opening balance	735,928,956	2,228,170	8,088,317	2,242	30,192,882	776,440,567
Additions	-	-	2,226,048	-	37,974,639	40,200,687
Disposals	(14,185,021)	-	-	-	-	(14,185,021)
Depreciation	(63,335,734)	(214,405)	(921,454)	(313)	-	(64,471,906)
Transfer from WIP	21,530,286	21,005	-	-	(21,551,291)	-
Closing balance	679,938,487	2,034,770	9,392,911	1,929	46,616,230	737,984,327

Depreciation on infrastructure assets includes assets that are located on leased land, asset lives have therefore been adjusted to reflect the shorter life of the lease as per AASB 117 'Leases' with a consequential increased depreciation impact of \$16.4 million.

Indigenous Essential Services Pty Limited**Notes to the Financial Statements
for the year ended 30 June 2018****9 Property, plant and equipment (Cont'd)*****Fair value measurement of the Company's property, plant and equipment (excluding capital works in progress and financed leased assets)***

The following valuation techniques are used:

	Asset class	Valuation policy
Infrastructure systems	Water and sewerage	Depreciated replacement cost approach
	Electricity generation	Depreciated replacement cost approach
	Electricity distribution and transmission	Depreciated replacement cost approach
Plant and equipment*	Non-specialised plant and equipment	Historical cost

*Note: Non-specialised assets such as minor items of office equipment are held at historic cost.

The fair value of the infrastructure assets was determined using the depreciated replacement cost approach. This reflects the cost to a market participant that would be required to replace the current service capacity of an asset. It represents the current cost of the asset less depreciation and any adjustments that allow a lower cost solution for achieving the current service standard.

The fair value of non-specialised plant and equipment was determined using historical cost as these are minor asset items such as office equipment with short lives (3-5 years.)

There has been no change to the valuation technique during the year.

As at 30 June 2018

The Company's assets are stated at the revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value revaluation is due to be reassessed in the 2019 financial year. As in prior years independent valuers GHD were engaged to undertake a desktop review of the factors that formed a material part of the asset valuation calculations for the financial year ending 30 June 2018. Following this review, GHD's opinion was that none of these factors have materially changed and therefore there is no impact to the value of the asset base as at 30 June 2018. The significant factors include the transportation factor, foreign exchange rates, CPI Index, Reserve Bank cash rates and the construction cost factor.

As at 30 June 2017

The Company's assets are stated at the revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Independent valuers, GHD, were engaged to undertake a desktop review of the factors that formed a material part of the asset valuation calculations for the financial year ending 30 June 2017. Following this review, GHD's opinion was that none of these factors have materially changed and therefore there is no impact to the value of the asset base as at 30 June 2017. The significant factors include the transportation factor, foreign exchange rates, CPI Index, Reserve Bank cash rates and the construction cost factor.

There have been no changes to the valuation techniques during the year.

Details of the Company's infrastructure and plant and equipment and information about their fair value hierarchy as at the end of the reporting are as follows:

	Level 3	Fair value as at 30 June 2018
	\$	\$
Plant and equipment (including infrastructure assets)	658,474,301	658,474,301
Financed leased assets	10,033,718	10,033,718
	<u>668,508,019</u>	<u>668,508,019</u>

	Level 3	Fair value as at 30 June 2017
	\$	\$
Plant and equipment (including infrastructure assets)	681,973,258	681,973,258
Financed leased assets	9,392,911	9,392,911
	<u>691,366,169</u>	<u>691,366,169</u>

There were no transfers of assets between levels during the year.

Impairment losses recognised in the year

There were no impairment losses recognised in respect of the Company's assets as at 30 June 2018 or 30 June 2017.

Indigenous Essential Services Pty Limited**Notes to the financial statements
for the year ended 30 June 2018**

	2018	2017
	\$	\$
10 Trade and other payables		
Payable to controlling entity	7,230,357	13,164,732
Trade payables	11,678,647	5,976,754
Other payables and accruals	4,382,995	3,825,195
	<u>23,291,999</u>	<u>22,966,681</u>

Trade and other payables are non-interest-bearing. The policy of the Company is to settle trade payables within 30 days. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

11 Unearned revenue

Arising from government grants - operational	(1)	8,029,602	10,132,969
Arising from government grants - capital	(1)	33,698,096	32,354,100
Arising from contributions for recoverable works	(2)	831,881	1,366,009
		<u>42,559,579</u>	<u>43,853,078</u>

(1) The portion of unearned revenue arises as a result of grant funding received from the Northern Territory and Commonwealth Governments to assist the Company in meeting its operational and capital requirements. Revenue is released to the Statement of profit or loss and other comprehensive income as the related operational or capital expenditure is incurred.

(2) This unearned revenue arises as a result of funding received from government and non-government entities for specific recoverable works projects undertaken on their behalf with the entities maintaining ownership and control of the asset constructed. Revenue is released to the Statement of profit or loss and other comprehensive income as the related expenditure is incurred.

12 Finance lease liabilities***Leasing arrangements***

The Company leases land for its existing infrastructure assets on Aboriginal land in 62 Communities throughout the Northern Territory. The Company holds 111 leases for land, with lease terms that vary between 12 and 40 years with most lease agreements providing the Company with lease extension options between 15 and 40 years.

The present value discount factor used for the minimum lease payments are between 2.5% and 5.07%. Leases added in 2018 have been calculated using a present value factor of 3.2% (2017: 3.0%) being the Northern Territory Government's weighted average 10 year fixed borrowing rate for 2017-18.

Finance lease liabilities

	2018	2017	2018	2017
	\$	\$	\$	\$
	Minimum lease payments		Present value of the minimum lease payments	
Not later than one year	1,258,655	1,105,439	1,045,152	929,950
1 to 5 years	4,776,614	4,451,675	3,558,388	3,398,724
Later than 5 years	9,482,058	8,813,059	4,426,526	4,167,877
	<u>15,517,327</u>	<u>14,370,173</u>	<u>9,030,066</u>	<u>8,496,551</u>
Less: future finance charges	(6,487,261)	(5,873,622)	-	-
	<u>9,030,066</u>	<u>8,496,551</u>	<u>9,030,066</u>	<u>8,496,551</u>

Indigenous Essential Services Pty Limited**Notes to the financial statements
for the year ended 30 June 2018**

	2018	2017
	\$	\$
12 Finance lease liabilities (Cont'd)		
Represented by:		
Current	1,045,152	929,950
Non-current	7,984,914	7,566,601
	9,030,066	8,496,551

Fair value

The fair value of the finance lease liabilities is approximately equal to their carrying amount.

13 Borrowings**Current**

Loan from parent entity - unsecured	-	966,651
	-	966,651

Non-current

Loan from parent entity - unsecured	11,000,000	11,000,000
	11,000,000	11,000,000

The Company received a loan in the amount of \$7.5 million from its parent entity on 30 March 2017 for a period of five years to 29 March 2022. A second loan was received in the amount of \$3.5 million from its parent entity on 30 June 2017 for a period of five years to 29 June 2022. Interest of 4.55% per annum is charged on the outstanding balance. The purpose of the loans was for the provision of capital assistance on the solar set-up project, where the Company is building a solar farm to reduce the cost of electricity production in the communities it services. Phase one of the project was completed early 2017-18 with phase two being commenced late in 2017-18 and it is anticipated to be completed during 2018-19.

In addition to the loan of \$11 million, the Company also received a further \$0.97 million as an advance in 2016-17 which was repaid in full in 2017-18.

The loan in current liabilities represents the portion of the Company's borrowings that is due and payable within one year. The non-current liabilities represent the portion of the Company's borrowings not due and payable within the next 12 months.

(a) Reconciliation of liabilities arising from financing activities

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as cash flows from financing activities.

Movement	Finance lease liabilities*	Borrowings	Total financing activities
Opening balance - 1 July 2017	8,496,551	11,966,651	20,463,202
Financing cash flows	3,500,000	-	3,500,000
<i>Non-cash changes</i>			
New finance leases	1,461,318	-	1,461,318
Other changes	67,993	-	67,993
Closing balance - 30 June 2018	13,525,863	11,966,651	25,492,514

*Finance lease liabilities are included in Note 12

Financing cash flows make up the net amount of proceeds from borrowings and repayments of borrowings and finance leases in the statement of cash flows.

Other changes relate to adjustments CPI in prior years after a review was undertaken

Indigenous Essential Services Pty Limited**Notes to the financial statements
for the year ended 30 June 2018**

	2018	2017
	\$	\$
14 Contributed equity		
<i>Issued and paid-up share capital</i>		
10 ordinary shares of \$1 fully paid (2017: 10)	10	10
	<u>10</u>	<u>10</u>
<p>Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.</p>		
15 Retained earnings		
Retained earnings at beginning of year	221,460,140	254,115,681
Assets retired transferred from asset revaluation reserve	3,117,892	14,506,406
Net deficit for the year	(9,342,964)	(47,161,947)
Retained earnings at end of the year	<u>215,235,068</u>	<u>221,460,140</u>
16 Asset revaluation reserve		
Balance at beginning of year	484,627,454	499,133,860
Assets retired transferred to retained earnings	(3,117,892)	(14,506,406)
Balance at end of year	<u>481,509,562</u>	<u>484,627,454</u>
<p>The asset revaluation reserve arises on the revaluation of property, plant and equipment (assets). When revalued assets are sold, the portion of the asset revaluation reserve that relates to those assets is transferred directly to retained earnings.</p>		
17 Commitments		
<i>Capital expenditure commitments</i>		
Contracted but not provided for and payable: within one year	21,665,244	9,429,181
	<u>21,665,244</u>	<u>9,429,181</u>
<p>Phase one of the solar set up project has been finalised with phase two being commenced late in the current year. The work for phase two has been committed to be continued over the next 12 months with \$21.6 million anticipated to be due and payable within the next 12 months.</p>		
<i>Operational expenditure commitments</i>		
Contracted but not provided for and payable: within one year	3,094,021	4,221,872
	<u>3,094,021</u>	<u>4,221,872</u>
18 Operating Lease Arrangements		
<i>The Company as lessee</i>		
<u>Payments recognised as an expense</u>		
Minimum lease payments:		
- Motor vehicles	643,858	623,727
- Land	3,115	42,547
- Office equipment	127	-
	<u>647,100</u>	<u>666,274</u>

Indigenous Essential Services Pty Limited**Notes to the financial statements
for the year ended 30 June 2018****19 Financial instruments****(a) Financial risk management objectives and policies**

The Company has various financial instruments such as trade receivables and trade payables. It is, and has been, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are liquidity risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

The Company's overall strategy remains unchanged from 2017.

The main risks arising from the Company's financial instruments are:

Market risk	The risk that changes in the market will adversely impact the operations and returns of the Company.
Credit risk	The risk of financial loss if a counterparty to a transaction does not fulfil its financial obligations.
Liquidity risk	The risk of insufficient funds to fulfil the cash flow obligations on a timely basis.
Commodity price risk	The risk that contract prices will move as a result of adverse movements in the market.
Interest rate risk	The risk that financing costs will increase and impact prices to customers and returns to the shareholder.
Capital risk management	The risk of the group structuring its balance sheet inefficiently resulting in suboptimal returns to shareholders.

(b) Market risk

The Company provides electricity, water and sewerage services to remote Aboriginal communities in the Northern Territory.

The Company receives grant funding from the Northern Territory Government to construct and maintain assets required to provide electricity, water and sewerage services to remote Aboriginal communities in the Northern Territory.

A purchaser / provider agreement between the Company and the Northern Territory Government for the provision of water supply, sewerage and electrical services to remote Aboriginal communities in the Northern Territory has been established for a period of three years from 1 July 2013 to 30 June 2016 with an extension to this agreement granted to 17 December 2018. The Company and its parent entity are currently in negotiations with the Northern Territory Government in relation to funding for the period beyond 17 December 2018.

The following table sets out the source of the Company's income:

Source of Income	2018		2017	
	\$	%	\$	%
Grant funding	98,867,893	70%	78,067,270	65%
Electricity	32,150,340	23%	31,151,090	26%
Water	5,302,203	4%	5,314,705	4%
Services rendered	3,079,432	2%	3,095,783	3%
Gifted assets	-	0%	-	0%
Capital contributions and recoverable works	1,293,628	1%	1,853,427	2%
Interest	558,536	0%	332,682	0%
Other	509,162	0%	103,921	0%
Total revenue	141,761,194	100%	119,918,878	100%

Indigenous Essential Services Pty Limited

Notes to the financial statements for the year ended 30 June 2018

19 Financial instruments (Cont'd)

(c) Credit risk management

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk on receivables of the Company that has been recognised in the Statement of financial position is the carrying amount net of any provision for doubtful debts.

The Company performs works on behalf of Northern Territory Government agencies and private companies on a recoverable works basis. Funding for general recoverable works is obtained upfront thereby reducing credit risk associated with these transactions.

(d) Liquidity risk management

The Company's objective is to provide continued and reliable services to remote Aboriginal communities in the Northern Territory within the grant funding and sales revenue it receives. Each year the Company limits expenditure to the level of grant funding and sales revenue it receives for that year.

(e) Commodity price risk

The Company is exposed to changes in the price of distillate which is used to power electricity generators. Each year grant funding received from the Northern Territory Government is based on an operational budget that includes an estimated cost of distillate consumption. In the event the distillate price varies upwards and the Company does not have sufficient grant funds to continue operating, the Company can apply to the Northern Territory Government for additional grant funds.

(f) Interest rate risk

Interest revenue is incurred solely on the cash balance held by the Company throughout the year. Interest expenses are incurred by the Company in relation to a loan for a related party and finance lease liabilities.

(g) Fair values

Except for the loan from the Company's parent entity, the net fair values of financial assets and liabilities approximate carrying values.

(h) Capital risk management

The Company's objectives when managing capital are to safeguard the principal business activities as a not-for-profit entity to provide electricity, water and sewerage services to remote Aboriginal communities in the Northern Territory.

The capital structure of the Company consists of primarily revalued non-current assets and equity attributable to the equity holder of the Company, comprising contributed capital and retained earnings as disclosed in Notes 14 and 15 respectively.

Operating cash flows are used to maintain and expand the Company's assets.

The Company is not subject to any externally imposed capital requirements.

The Company's overall strategy remains unchanged from prior years.

Indigenous Essential Services Pty Limited

Notes to the financial statements for the year ended 30 June 2018

20 Related party transactions

The immediate parent and controlling entity of the Company is Power and Water Corporation, a government owned corporation pursuant to the *Government Owned Corporations Act*. Power and Water Corporation is wholly owned by the Northern Territory Government.

Trading transactions

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year end refer to Note 7 and Note 10):

		Revenue from related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
		\$	\$	\$	\$
Related party					
Power and Water Corporation	2018	-	30,834,979	-	17,920,226
	2017	-	30,397,893	-	25,131,383
Northern Territory Government*	2018	100,997,530	5,433,604	44,898,200	43,412,443
	2017	77,738,866	6,649,215	50,808,092	43,216,192

* Excludes Power and Water Corporation

The Company purchases gas, electricity, water and sewerage services from Power and Water Corporation's infrastructure for remote Aboriginal communities that are able to be connected to this infrastructure rather than requiring stand alone infrastructure.

The Company receives operational and capital grants from the Northern Territory Government enabling it to provide electricity, water and sewerage services to remote Aboriginal communities. Capital grants are recognised as revenue when the project is completed and the asset capitalised; in the current year Phase One of the Solar Set-up project was capitalised with the associated capital grant recognised as revenue. The Company also receives recoverable works funds for specific projects undertaken on behalf of the Northern Territory Government and unrelated third parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Loans from related parties

The Company's parent entity, Power and Water Corporation has provided an interest only fixed loan of \$11.0 million to the Company at an annual interest rate of 4.55%. In addition to this, the Company received in 2016-17 \$0.97 million as an advance from its parent entity which was repaid in full in 2017-18. Refer to Note 13 for further details.

Compensation of Directors

The names of each person holding the position of Director within the Company during the financial year are listed in the Directors' report.

Indigenous Essential Services Pty Limited**Notes to the financial statements
for the year ended 30 June 2018****20 Related party transactions (Cont'd)**

Directors do not receive any compensation for their directorship. 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' interest subsisting at year-end.

Compensation of key management personnel

The Company did not have any employees as at or during the years ended 30 June 2018 or 2017.

Other related party transactions

In addition, the Company purchased labour in the amount of \$18.4 million (2017: \$18.5 million) and accounting, computing, human resources, secretarial services and utility services for its operations from Power and Water Corporation for which a management fee of \$6.2 million (2017: \$5.9 million) was charged and paid.

21 Economic dependency

During the year the Company received grants from the Northern Territory and Commonwealth Government. The future operation of the Company is dependent upon continued government funding. The Company's revenue is derived from the following two main sources:

	2018	2017
	%	%
Revenue derived from government funding	71%	67%
Revenue from provision of utility services	29%	33%
	<u>100%</u>	<u>100%</u>

22 Auditor's Remuneration

	2018	2017
	\$	\$
Audit of the financial statements	58,200	55,495
	<u>58,200</u>	<u>55,495</u>

The auditor of the Company is the Auditor-General for the Northern Territory.

23 Events after the reporting period

In the interval between the end of the financial year and the date of this report, there have been no transactions or events 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.

POWER AND WATER CORPORATION

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