

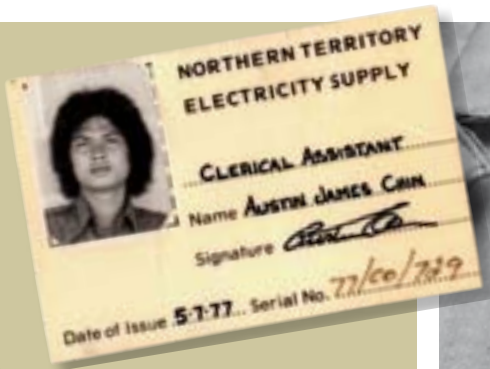
POWER AND WATER CORPORATION



ANNUAL REPORT 2006

PowerWater





1987

Power and Water Authority (PAWA) is created by merging the Northern Territory Electricity Commission with the Northern Territory Water Authority.

Stokes Hill Power Station is closed.

Gas turbine generators are commissioned in Alice Springs, Tennant Creek, Katherine and the new Channel Island Power Station.

The 132kV line to Katherine is built. It is the first privately owned power line in Australia. PAWA pays to use the line.

1989

Manton Dam is placed in reserve and the dam is opened for recreational use.

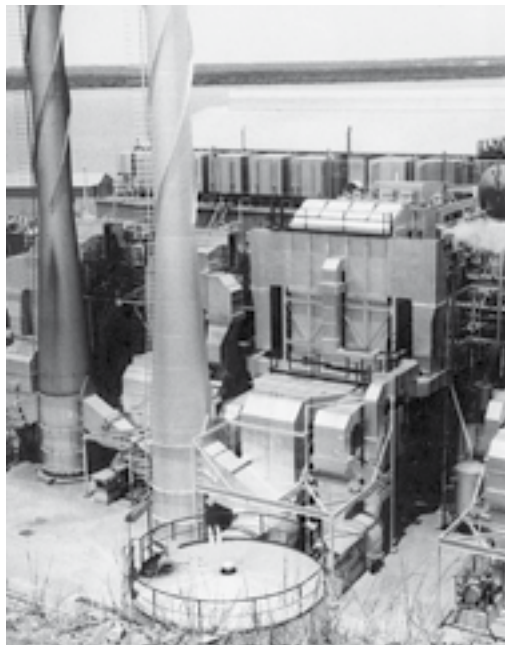
The 132kV power line to link Channel Island Power Station with Katherine and Pine Creek Power Stations is commissioned.

Yulara Power Station is converted to operate on liquefied natural gas (LNG).

1990

A second 1,300mm pipeline is constructed from Darwin River Dam to McMinn's Water Treatment Storage Facility.

RIGHT: Stokes Hill Power Station.



1992

Darwin's water supply is chlorinated at Darwin River Dam.

The first Customer Information System to integrate electricity, water and sewerage billing is implemented across the Northern Territory.

1995

The McArthur River Mine, near Borroloola, is supplied with power in March. A power station is established at the mine site and supplied with natural gas via a pipeline constructed from the existing north-south gas pipeline at Daly Waters.

A combined cycle power plant is commissioned in Pine Creek.



ABOVE: Cliff Mellett, 1950.

ABOVE: Darwin River Dam.

1996

PAWA releases the Darwin Sewerage Strategy to plan for future growth and environmental requirements.

1997

Design begins on the Channel Island Power Station ice plant which commences service in 1998. The ice plant is a first in the world. Ice is made overnight and used during the day to maximise efficient use of energy. Cold water circulated through the ice plant is used to cool the air going into the gas turbines.



RIGHT: Channel Island Power Station.

1998

Floods in Katherine cause extensive damage to the town. PAWA staff help restore essential services in and around Katherine, and help with major clean-up operations.

1999

PAWA staff help restore water supply, electricity generation and transmission works in East Timor, following the destruction of this infrastructure. PAWA staff prepare a report outlining the priorities for the United Nations to upgrade the water supply.

The PAWA Environment Report is produced for the first time.

Extensive Y2K preparations are finalised for the transition to the new millennium.

2001

PAWA receives national recognition for improved electricity network reliability from the Electrical Supply Association of Australia (ESAA). We move ahead of Western Australia, Tasmania and Queensland for network system reliability.

The Utilities Commission takes on regulatory responsibility for water and sewerage.

Government Owned Corporation Legislation passes in the Northern Territory Legislative Assembly in November.

PAWA starts purchasing Renewable Energy Certificates from solar hot water systems.

2003

Power and Water launches its Melaleuca Awards for Environmental Excellence.

A Digital radio communication system is completed between platforms and floating storage in the Bayu Undan gas field. The \$500,000 project is a joint venture between Integrated Technology Systems and Power and Water.

Two Power and Water staff are seriously injured while working at Mount Bundy.

The communities of Bulman in Arnhem Land and Kings Canyon in Central Australia test the viability

2000

Darwin to Katherine Transmission Line is purchased by PAWA.

The electricity market is opened to competition under federal legislation, and the Utilities Commission is formed to regulate the electricity industry. NT Power enters the market.

New generators are commissioned at Tennant Creek and Yulara Power Stations.

Set 7, a gas turbine, is commissioned at Channel Island Power Station in June.

Inaugural Safety Week held in October.

The PAWA Board is appointed in April.

2002

The Power and Water Corporation (Power and Water) is created on 1 July 2002, becoming the first government-owned corporation in the Northern Territory.

NT Power exits the market.

The Darwin and Katherine electricity system recorded a new peak demand level of 224.3mW on 23 October.

A public forum is held in Tennant Creek to discuss the future of adding chlorine to the water supply.



2005

Territorians living along Woolianna Road, near Daly River, connect to reticulated power for the first time.

Renewable energy is purchased from the Territory's first methane gas power plant at Shoal Bay Dump.

The Tennant Creek Power Station is upgraded with the addition of a 4.1mW Taurus 60 gas turbine generator.

A water tank with capacity of 1.8 million litres is built at Lajamanu. It is the largest water tank to be built in a remote community in the Northern Territory.

A one-off \$50 payment is offered to customers affected by billing errors arising from the introduction of the Corporation's new billing system in August 2004.

The first power poles are removed in March, as part of the Nightcliff Undergrounding Power Project.

A 10.1 mW Titan 130 gas turbine is installed at Ron Goodin Power Station.

The 160 kW solar power station, based on dish concentrators that follow the sun, commences commercial production at Hermannsburg.

Biodiesel is trialled as a fuel at Daly Waters Power Station.

All infrastructure across Power and Water sites is audited to ascertain levels of asbestos, and asbestos begins to be isolated and removed for the health and safety of staff.

Stage One refurbishment of the Ben Hammond Complex in Darwin is completed.



ABOVE: Power and Water's Essential Service Operators maintain services in remote communities.

RIGHT: Ben Hammond whom the Stuart Park complex was named after.

of flat-plate solar photovoltaic technology to reduce the need for diesel-powered generators.

Water Reuse in the Alice is launched. This \$6.2 million project will return Ilparpa Swamp to a more natural state with fewer weeds and mosquitoes, re-use water and reduce overflows in the area.

A 225kW flat plate photovoltaic solar power plant was commissioned at the Kings Canyon Resort Alice Springs.



2004

The Public Environment Report is conducted for the Water Reuse in the Alice project.

A new motorhome effluent dump point opens in Alice Springs.

Solar and wind powered streetlights are trialled at Imangara, a remote community near Tennant Creek.

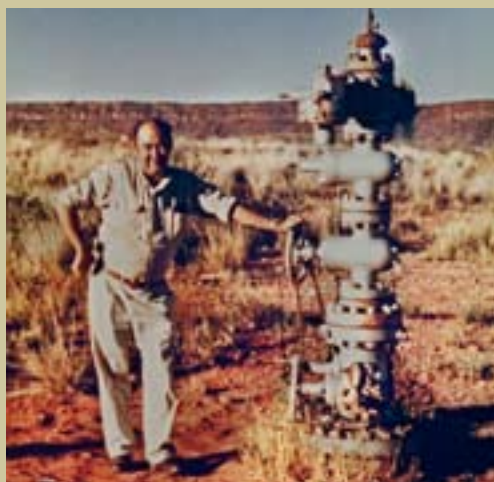
Tennant Creek residents hold a Referendum to vote on the issue of chlorinating water supply with the result not to chlorinate water.

Power and Water sponsors Engineering Chair at the Charles Darwin University.

Solar dishes are progressively installed at Hermannsburg, Lajamanu and Kalkarindji.

Two Solar Taurus 4.1mW gas turbines are installed at Ron Goodin Power Station in Alice Springs.

A new fully-integrated Retail Management System providing advanced billing capabilities was introduced.



ABOVE: Ron Goodin, whom the Alice Springs Power Station was named after.





2006

A category five cyclone causes damage to power, water and sewerage infrastructure in remote communities including Maningrida, Oenpelli and Jabiru in late April.

Power to 165 customers is disconnected after flooding isolates Katherine.

Power and Water achieves a Territory first by gaining simultaneous triple certification for internationally recognised standards in Occupational Health and Safety, Environmental Protection and Quality of Products and Services.

Power and Water signs a Gas Sales Agreement with ENI to purchase gas over the next 25 years.

Power and Water signs a Gas Transportation Agreement with the Australian Pipeline Trust to construct a gas pipeline to bring the gas from the Blacktip Field in the Bonaparte Gulf to the existing north-south gas pipeline.

Power and Water enters a six-year agreement with Charles Darwin University for training services.

Work starts on building the Frances Bay Zone Substation, which will help secure electricity supply for the Darwin CBD.

Dundee Beach residents can turn on town power for the first time.

Alice Springs records its highest peak power demand on record, at 52.6mW on 6 February.

Customer Service Centre, Call Centre and Corporate Headquarters moved to the Mitchell Centre, Darwin.



Quality Endorsed Company

ISO 9001 Lic22599
SAI Global



Occupational Health and Safety

AS/NZS 4801 Lic20234
SAI Global



Certified Environmental Management

ISO 14001 Lic20341
SAI Global

Power and Water achieves a Territory first by gaining simultaneous triple certification for internationally recognised standards.

For a history of power and water services in the Northern Territory prior to the creation of the Power and Water Authority in 1987, go to www.powerwater.com.au.

Letter to the Shareholder

The Hon Syd Stirling MLA
Treasurer
Legislative Assembly of the Northern Territory
DARWIN NT 0800

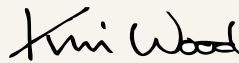
Dear Minister

On behalf of the Power and Water Corporation, it gives us great pleasure to present the fourth Power and Water Annual Report, for the year ended 30 June 2006, in accordance with the provisions of Section 44 of the *Government Owned Corporations Act*.

Yours sincerely



Neil Philip
Chairman



Kim Wood
Managing Director

11th October 2006

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Chairman's and Managing Director's Report

This is Power and Water's fourth Annual Report since becoming a Government Owned Corporation. Many milestones have been achieved over the past four years, and in the years prior to corporatisation. A historical timeline highlighting past achievements in providing electricity, water supply and sewerage services is included in this year's report. The timeline begins with the inception of Power and Water Authority in 1987 and concludes with Power and Water's recent achievement of becoming the first Territory company, and the first utility in Australia, to simultaneously gain certification in three recognised International and Australian standards for Occupational Health and Safety (ISO 4801), Environmental Management Systems (ISO 14001) and Quality Management Systems (ISO 9001). This milestone achievement required an enormous effort by the Corporation, and in conjunction with an earlier commitment to world's best practice, will assist the Corporation in improving its future performance.

This year was the most challenging since corporatisation due to a range of external factors that impacted on operations and performance. These factors included increases in operating expenditure, especially in energy costs; a second Category 5 cyclone in two years (Cyclone Monica); and flooding in the Katherine region.

It is pleasing to note that in addition to the challenges faced, the Corporation delivered a number of significant achievements over the 2005-2006 year. A reliable future gas supply was accomplished with the signing of a Gas Sales Agreement with Eni Australia B.V. for the purchase of some 750 petajoules of gas over the next 25 years, commencing early in 2009. In addition, a Gas Transport Agreement was signed with the Australian Pipeline Trust to transport the gas from the processing plant near Wadeye to the existing Amadeus Basin Darwin Pipeline. This will ensure that the Corporation has sufficient gas to meet the future power needs of the Territory and to continue providing a reliable power supply.

A number of major projects saw completion or significant progress over the past year including:

- a six year \$18.0 million contract signed with the Charles Darwin University to manage and deliver training to ensure that the Corporation is able to meet its diverse training requirements;

- a project to develop a new power station for the Darwin/Katherine region with four companies being invited to tender;
- a project to develop a more comprehensive and integrated asset management system to further improve the management of our extensive range of assets; and
- a project in Alice Springs to recharge aquifers with highly treated wastewater. This project was named as a finalist in the NT Research and Innovation Awards.

International Financial Reporting Standards

The Corporation and its subsidiaries changed accounting policies on 1 July 2005 to comply with the Australian equivalents to International Financial Reporting Standards (AIFRS). In complying with AIFRS, the financial statements for 2004-2005 were restated resulting in a reduction in profit before income tax of \$2.1 million for that year. The variations between AIFRS and the previous accounting standards are explained in the notes to the financial statements.

Financial Performance

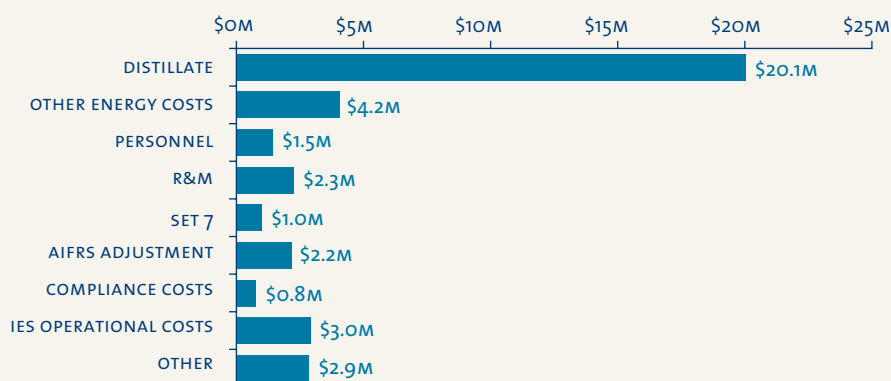
The annual profit before income tax result of \$29.1 million was \$14.1 million under the SCI target of \$43.2 million. This result was driven largely by increases in the usage and price of distillate and gas, which were beyond the Corporation's control.

Total revenue was \$23.9 million above the SCI target as a result of the following:

- Electricity sales exceeding target by \$7.7 million due to an unexpected increase in demand;
- An additional \$5.8 million being received from developers in the form of capital contributions, mostly relating to the Waterfront development and new suburb development; and
- An additional \$13.4 million being received from the Department of Planning and Infrastructure (DPI) through the not-for-profit subsidiary, Indigenous Essential Services Pty Ltd (IES), to cover higher than SCI target operational expenditure.

Offsetting the above additional revenue was a reduction in water sales of \$3.0 million. The prolonged and above average wet season over the 2005-2006 year reduced the demand for water, mainly during May and June 2006.

MAJOR VARIANCES TO BUDGET AS AT JUNE 2006



Operational expenditure was above the SCI target for the year by \$38.0 million, driven by a number of factors, the majority of which were beyond the Corporation's control.

The major contributors to the increased operational expenditure are outlined below:

- World oil prices, and therefore, distillate prices, again rose dramatically during the 2005-2006 year. The average cost of distillate held by the Corporation at years end was 25 cents per litre above budget, with the increase in prices resulting in an additional cost to the Corporation of \$1.7 million for the year. In addition, the impact of higher distillate prices affecting the cost of electricity purchased by the Corporation from third parties added a further \$2.7 million in costs for the year.

At Yulara, increased distillate usage resulted in cost overruns of \$4.8 million due to the Corporation having to substitute liquefied natural gas (LNG) with more expensive distillate. The LNG supplier suffered equipment failures and was unable to provide a regular supply of LNG during the year. This problem has since been resolved with Yulara being converted to compressed natural gas (CNG) from an alternative supplier.

At Alice Springs, increased distillate usage at the Ron Goodin Power Station (RGPS) resulted in additional costs of \$1.2 million. Central Northern Territory faced a hotter than average summer increasing the demand for airconditioning and therefore electricity. During the year the more efficient gas reliant Set 10 generation plant was put into operation, however, its operational hours were subsequently voluntarily restricted due to noise pollution. Complaints were received from residents living near the power station. This required the Corporation to utilise distillate reliant plant to continue to meet demand during Set 10's restricted hours. Noise abatement works are planned for Set 10 during October 2006 which should see a return to full operation of the set with a corresponding reduction in the consumption of distillate at Ron Goodin Power Station.

Minor above SCI distillate usage (\$1.2 million) was also experienced at several regional centres including Tenant Creek, Elliott, Timber Creek and Kings Canyon power stations.

Demand for electricity and the price of distillate drove energy costs up in the remote areas by \$8.5 million. As a result, additional funding was sought and received from DPI through the not-for-profit subsidiary IES, to cover the higher than expected distillate costs. The Corporation is investigating ways to reduce its reliance on distillate in a number of remote communities where alternatives may be made available, including grid connection or gas-fired generation.

- Other energy expenditure was above the SCI target by \$4.2 million principally due to the impact of higher price gas contracts.

The Corporation recognised the need for increased gas supplies and negotiated additional contracts to meet expected gas demand for the year. However, this gas was more expensive

than the existing contracts resulting in an increase in gas costs of \$3.7 million compared to the SCI target. It is expected that the new Blacktip gas field will be supplying the Corporation's full gas requirements at a lower cost than the recently contracted shortfall gas from early 2009.

Increased gas usage at Channel Island Power Station (CIPS) was offset by lower usage at Yulara, while increased kerosene usage at Berrimah unfavourably impacted costs by \$0.4 million.

- Additional personnel costs of \$1.5 million were incurred to provide the necessary resourcing to continue to focus on safety, achieve triple certification, improve the levels of aged debt, and to improve the levels of call centre performance and complaints handling. Further, the restoration efforts required as a result of both the Katherine floods and Cyclone Monica drove up overtime costs;
- Additional repairs and maintenance of \$2.3 million were incurred due to the unexpected plant failure at both CIPS and RGPS and higher than expected maintenance on overhead powerlines and vegetation incurred to reduce outages over the Wet Season;
- Set 7 generation plant failed unexpectedly at CIPS during the year and had to be sent overseas for repair costing \$1.0 million in freight and leasing costs for a replacement set, in addition to the cost of repairs;
- The profitability of the Corporation reduced by \$2.2 million compared to the SCI target as a result of adopting the Australian equivalents to International Accounting Standards from 1 July 2005. This change is detailed in the notes to the financial statements;
- Additional compliance costs of \$0.8 million were incurred due to the one-off costs associated with implementing AIFRS and extra internal audits undertaken during the year; and
- Additional operational costs of \$3.0 million were incurred in running remote operations for the not-for-profit subsidiary, IES. These costs were fully recovered from DPI.

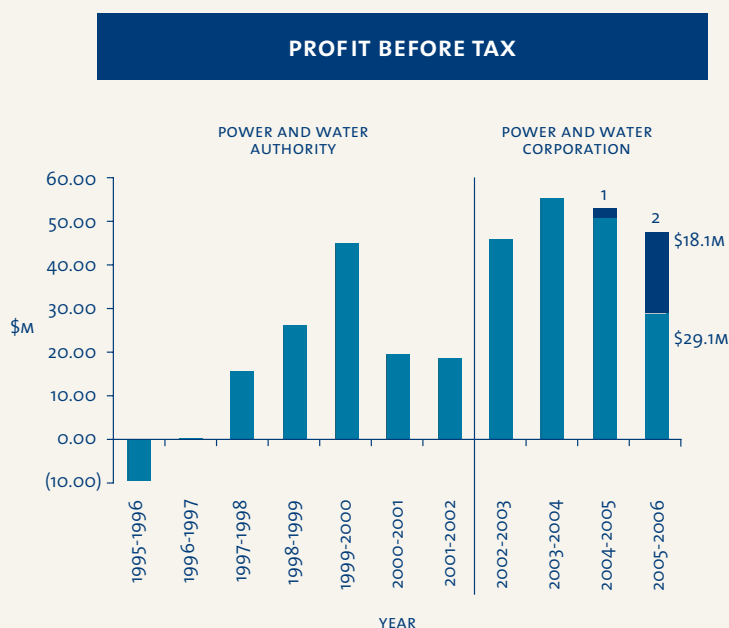
The Corporation's consolidated cash balance of \$54.5 million at the end of the year exceeded the SCI target mainly due to the receipt of \$25.9 million of capital grants from the Northern Territory Government received in advance for infrastructure projects commencing in 2006-2007. The grants are for the Daly Region road infrastructure upgrade, the continuing electrical networks undergrounding project, and the indigenous town camp normalisation project known as Connecting Neighbours.

While external factors, such as increases in the cost of energy drove the profit before tax result lower than the SCI target, the Corporation continued to maintain significant returns to the shareholder through tax and dividend payments. The following graph shows the improved profit before income tax position since corporatisation.

Many of the variances to SCI for 2005-2006 discussed above were beyond the Corporation's control. Uncontrollable 2005-2006 expenditure overruns totalling \$18.1 million noted in this report include:

- \$1.7 million – higher distillate prices;
- \$2.7 million – impact of higher distillate prices on electricity purchased from third parties;
- \$4.8 million – increased distillate usage at Yulara due to gas supply problems;
- \$1.2 million – increased distillate usage at RGPS due to noise control;
- \$3.7 million – higher priced gas contracts;
- \$1.0 million – CIPS Set 7 failure lease and freight costs;
- \$2.2 million – adoption of AIFRS; and
- \$0.8 million – once-off compliance costs due to AIFRS and extra internal audits.

As shown in the graph below, profit before income tax of \$47.2 million would have been achieved if these uncontrollable increases in expenditure of \$18.1 million had not occurred.



1. Impact on profit before income tax due to the AIFRS restatement of 2004-2005 accounts of \$2.1 million.
2. Impact on profit before income tax due to external factors beyond the Corporation's control of \$18.1 million.

Audit Qualification

The Auditor-General issued a qualified audit opinion in relation to the 30 June 2005 financial reports, and this has been carried over for the comparative information included in the current year's reports.

In relation to the financial reports for the year ended 30 June 2006, the Auditor-General feels that Power and Water has not complied fully with Accounting Standard AASB 136: Impairment of Assets in relation to the Corporation's water assets. In particular, he has expressed the view that the discount rate used by the Corporation in modelling the future cash flows from these assets is too low, and that as a result the Corporation should have recognised an impairment loss on these assets.

Power and Water's Board and management have considered this issue carefully and are satisfied that there is no material impairment of the Corporation's water and sewerage assets, other than the \$31 million asset write-down processed as at 1 July 2004 as a result of the first-time adoption of AIFRS.

The Corporation's interpretation of the Standard, which is supported by independent advice from Ernst & Young, is that the Standard requires the Corporation to determine the present value of the future cash flows expected to be derived from the water assets respectively (the "value in use").

In calculating the "value in use", the Standard requires consideration to be given to uncertainty and risk associated with the amount or timing of the cash flows, as well as uncertainty inherent in the assets themselves, and other market factors. These uncertainty and risk factors can either be reflected as adjustments to the future cash flows or as adjustments to the discount rate.

In forming his view regarding the appropriateness of the discount rate to be used in this model, Power and Water believe that the Auditor-General has not shown sufficient regard to the inherent conservatism built into Power and Water's cash flow model.

The Corporation has carried out a sensitivity analysis on the model used to calculate the "value in use" of these assets and is satisfied that there is no material impairment of the Corporation's water assets as at 30 June 2006.

Power and Water Customers

The Corporation maintained its commitment to improving services provided to its customers. Customer satisfaction continued to improve and the issues involved in relation to the implementation of the new retail management system in 2004-2005 were overcome with the average response time of the call centre improving by 28% over the previous year. Additional improvements were made in complaint resolution, contestable customer management and face to face service.

Electricity, Water and Sewerage System Reliability

Power and Water's mission of providing reliable and efficient electricity, water and sewerage services to the people of the Northern Territory continued to be the priority for the Corporation. The Corporation was faced with a number of unexpected challenges in achieving its targets, including Cyclone Monica, flooding in the Katherine region and an extended Wet Season.

The reliability of the electricity, water and sewerage systems continued to remain high throughout the year with the targets for water and sewerage being met. While the targets set for electricity were not met, the system reliability remained high. The latest report by the Electricity Supply Association of Australia (Electricity Gas Australia 2006) shows that for the general industry measure of system reliability (customer average outage duration), the Northern Territory has the lowest average duration time for outages of any State or Territory.

The Board

The year also saw the first change in the composition of the board since corporatisation with both Dr Michael Vertigan and Dr Michael Sargent tendering their resignations effective July 2005. Both made significant contributions to the Corporation and their input and participation will be missed. Mr Bob Neil and Mr Peter Vines were subsequently appointed by the Shareholding Minister as non-executive directors.

Corporate Governance

The Corporation is mindful of its reporting and governance obligations, as agreed between the Board and our shareholder, the Northern Territory Government. These obligations are outlined in the annual SCI and the *Government Owned Corporations Act 2001*.

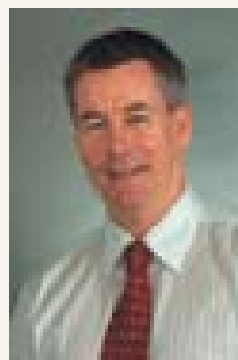
While not being required to comply with the principles published by the Australian Stock Exchange through its Corporate Governance Council, the Corporation is guided by these principles. A commitment to these principles helps to ensure that the highest standards of corporate governance and accountability are maintained within the Corporation and its subsidiaries.

Outlook

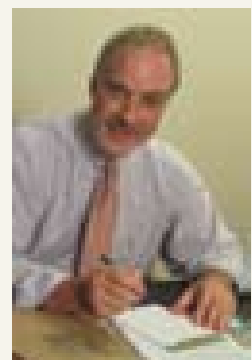
It is anticipated that 2006-2007 will see improvements in both financial and operational outcomes with the profit before income tax for the 2006-2007 financial year projected to be \$47.9 million. This increase over the 2005-2006 result is principally due to higher sales revenue from increased demand and the approved CPI tariff, lower distillate usage at Yulara and Ron Goodin Power Stations and rigorous management of operating costs.

The Corporation is also investigating operational and financial strategies to either reduce costs or lessen the impact of increases in uncontrollable expenditure items, such as distillate hedging strategies to mitigate the impact of price rises that have had a significant impact during 2005-2006.

Guided by the Corporation's Statement of Corporate Intent and good corporate governance principles, Power and Water has worked hard to meet regulatory obligations, maintain assets, extend relationships with customers, value and encourage staff, and improve levels of service. The Corporation is confident of achieving continual improvement in all these areas during 2006-2007.



Neil Philip
Chairman



Kim Wood
Managing Director

The Board

Mr Neil Philip
(Chairman)

Ms Judith King
(Deputy Chairman)

Mr Peter Vines

Mr Bob Neil

Mr Kim Wood
(Managing Director)

Auditor

Auditor-General
for the Northern Territory

Internal Auditor

Ernst & Young
Chartered Accountants

Financial Adviser

KPMG Chartered
Accountants

Banker

Westpac Banking
Corporation

Legal Advice

Clayton UTZ
Minter Ellison
Morgan Buckley

About Power and Water Corporation

The Power and Water Corporation provides electricity, water supply and sewerage services to more than 73,000 customers across the Northern Territory's 1.3 million square kilometres. Services are provided in varying environments, from the tropics of the north to the arid deserts of Central Australia. With total assets of more than \$1 billion, Power and Water is one of the largest businesses in the Northern Territory and employs over 750 Territorians.

Power and Water became the Northern Territory's first Government Owned Corporation under the *Government Owned Corporations Act* on 1 July 2002. Power and Water is mandated to operate at least as efficiently as any comparable business, and to maximise the sustainable return to the Territory on its investment in the Corporation.

Power and Water must follow government policy in the areas of:

- Fleet management;
- Information technology;
- Procurement;
- Information management systems; and
- Employment under the *Public Sector Employment and Management Act*.

Power and Water is also involved in whole of government counter-terrorism programs and is represented on the Energy Infrastructure Assurance Advisory Group and the Water Infrastructure Advisory Group.

Power and Water has an integral role in the Northern Territory's counter disaster structure and response.

Nature and Scope of Activities

Power and Water operates within a framework of:

- 100% Northern Territory Government ownership;
- Price and conduct regulation by the Utilities Commission;
- Licensed in the Northern Territory electricity market as a generator, network provider, system controller and retailer;
- Licensed to provide water supply and sewerage services;
- Subject to all laws affecting commercial businesses; and
- Subject to competition in the Northern Territory electricity market.

Power and Water purchases gas supplies for electricity generation at the four major centres of Darwin, Katherine, Tennant Creek and Alice Springs through its wholly owned subsidiary, Gasgo Pty Ltd.

Power and Water holds a 2.5% interest in NT Gas Pty Ltd, the lessee/operator of the Amadeus Basin to Darwin gas pipeline, and 2.5% of the units in the Amadeus Gas Trust, through its wholly owned subsidiary, Darnor Pty Ltd.

Power and Water delivers electricity, water supply, sewerage services and other services in remote Territory communities through its wholly owned subsidiary, Indigenous Essential Services Pty Ltd. These services are provided under a fee-for-service agreement with the Department of Planning and Infrastructure (DPI).

Corporate Values

The activities of Power and Water are guided by the following values:

Safety is Paramount

We will protect the safety of our people, customers and the community. 'Zero harm' is our safety goal.

Our People

We value our people and will encourage them to achieve their full potential. We recognise that we will need to embrace change as an organisation.

Growth

We will grow the Corporation's business by fostering an efficient, performance-driven culture.

Integrity

We will be honest, consistent and fair in all of our dealings with customers, suppliers and our people.

The Natural Environment

We will protect the natural environment by at least meeting mandated environmental obligations and seeking ways to minimise our environmental footprint.

Corporate Strategies

Power and Water has 14 key strategies for the 10-year period from 2005 to 2015:

Customers and Community

1. Customer Management

Goal: To ensure that our customers are satisfied with the products, pricing and service provided by the Corporation.

Power and Water serves customers by:

- Treating them fairly;
- Communicating regularly;
- Implementing a comprehensive service response program; and
- Providing appropriate levels of service at efficient prices.

2. Being Socially Responsible

Goal: To meet our social responsibilities to the community in which we operate.

Power and Water participates in the community by:

- Encouraging Indigenous employment within Power and Water;
- Supporting Territory-based businesses and community groups in line with Corporation policy and within the framework of NT Government policies;
- Developing close ties with Charles Darwin University for training and research; and
- Undertaking a broad-based annual sponsorship program across the Territory.

Our Staff

3. Safety Management

Goal: To consistently achieve 'zero harm' targets for safety.

Power and Water manages its safety responsibilities by:

- Committing to a zero harm workplace;
- Undertaking AS4801 Occupational Health and Safety (OH&S) Management systems accreditation;
- Ensuring adequate supervision of workers and contractors; and
- Undertaking a comprehensive safety training and culture change program.

4. Employee Management

Goal: To improve the satisfaction level, skills, motivation and performance of all employees.

Power and Water manages its employees by:

- Treating them fairly;
- Ensuring that every employee has a job description, performance appraisal and a training development plan;
- Managing performance;
- Implementing an "action needed" staff feedback program; and
- Managing employee crisis situations.

5. Leadership Development

Goal: To develop a high achieving management team.

Power and Water develops leaders by:

- Individually tailored development programs;
- Developing specific goals;
- Providing regular feedback;
- Managing performance;
- Encouraging all managers to gain a management qualification; and
- Providing opportunities for ongoing management "stretch" skill development.

6. Cultural Change

Goal: To move to a high performance culture.

Power and Water develops the organisation by:

- Developing and implementing a comprehensive cultural change program;
- Implementing a flat management structure;
- Providing a single senior management contact in each town and centre;
- Decentralising the Executive Management team; and
- Establishing formal relationships with several Australian utilities to access expertise.



We will be honest,
consistent and
fair in all of our
dealings with
customers, suppliers
and our people.

The Business

7. Capital Asset Management

Goal: To optimise the cash committed to capital and operational expenditure by gaining a risk/consequence based understanding of the underlying capital needs of the business and the subsequent impact on maintenance expenditure.

Power and Water manages its assets by:

- Developing rolling one, three and 10-year asset management plans;
- Regularly communicating those plans to suppliers and the community;
- Building and maintaining the most appropriate plant and equipment;
- Improving physical security of Power and Water facilities and assets; and
- Developing and maintaining a comprehensive facilities management plans.

8. Financial Management

Goal: To operate all financial aspects of the Corporation in an efficient and timely manner.

Power and Water manages its finances by:

- Achieving Statement of Corporate Intent financial targets;
- Ensuring that appropriate financial policies and procedures are in place;
- Developing strategies to improve financial performance;
- Developing more accurate, appropriate and flexible forecasting models and techniques; and
- Ensuring that it complies with all necessary accounting standards.

9. Business Development

Goal: To actively seek ways to minimise risk and to provide growth opportunities for the Corporation.

Power and Water develops its business by:

- Securing a reliable supply of gas post-2009 at the best possible price;
- Implementing new services that leverage off existing infrastructure and facilities;
- Using existing competencies in new markets; and
- Actively seeking partnerships to share risk in new business ventures.

10. Increase Efficiency

Goal: To improve returns to the shareholder, and outcomes for customers by continuously pursuing opportunities for efficiency.

Power and Water increases efficiency by:

- Seeking ways to minimise costs and improve operational outcomes;
- Improving debtor management;
- Ensuring timely implementation of audit recommendations; and
- Undertaking ISO9001 Quality Management Systems accreditation.

11. Environmental Management

Goal: To be seen as a leader in environmental management and compliance in the Territory.

Power and Water manages its impact on the environment by:

- Complying with and where possible exceeding, its legal and statutory obligations;
- Undertaking ISO14001 Environmental Management Systems accreditation; and
- Continuing the annual Environmental Excellence Awards.

Accountability

12. Stakeholder Management

Goal: To build a high level of trust with stakeholders.

Power and Water manages stakeholders by:

- Providing timely and appropriate information to the shareholding and portfolio Ministers;
- Developing a consultative relationship with unions representing Power and Water employees;
- Developing stronger ties with the Territory business community; and
- Developing closer relationships with electronic and print media in the Territory.

13. Crisis Management

Goal: To respond gracefully to any reasonably foreseeable crisis.

Power and Water manages crisis situations by:

- Implementing a risk management regime to meet the ISO9001 standard;
- Developing and implementing crisis response and business continuity plans; and
- Developing a crisis communications strategy.

14. Performance Measurement

Goal: To ensure timely compliance with all statutory reporting obligations, and to provide meaningful information to all stakeholders.

Power and Water measures performance by:

- Reporting achievements against Statement of Corporate Intent targets;
- Regularly reporting progress against the capital investment and repairs and maintenance programs; and
- Developing and regularly reporting on Key Performance Indicators.

CELEBRITY LIGHTEN UP CHALLENGERS HELPING TO LAUNCH THIS YEAR'S ENVIRONMENTAL EXCELLENCE AWARDS.



LEFT TO RIGHT: PAUL WYATT – TERRITORY FM, GERRY WOOD – MEMBER FOR NELSON, GERALDINE FLYNN – DARWIN AND PALMERSTON SUN, JAMES BURKE – MEMBER FOR BRENNAN AND POWER AND WATER'S DARRYL DAY – GENERAL MANAGER WATER SERVICES.

Power and Water's Business

Business Overview

Power and Water Corporation operates in a unique market, providing services to a sparse population in varying environments. To achieve and maintain a high level of service to our entire customer base, the Corporation operates the following business units:

BUSINESS UNIT	FUNCTION
Office of the Managing Director	Oversees the day-to-day running of the Corporation ensuring effective governance and operation.
Retail	Manages and takes responsibility for the Corporation's interface with customers throughout the Territory.
Power Networks	Constructs and maintains electricity network infrastructure that connects customers throughout the Territory to the electricity generators.
Generation	Operates and maintains power stations to generate electricity to meet the needs of customers in the major and minor centres in the Northern Territory.
System Control	Provides the operational control of the electricity system to ensure reliability and efficiency is optimised.
Water Services	Provides water supply and sewerage services to major and minor centres.
Gas	Develops and implements strategies to ensure the Corporation has access to reliable and competitively priced feedstock gas fuel for electricity generation.
Remote Operations	Provides power, water and sewerage services to Indigenous communities throughout the Territory.
Technology Services	Provides a diverse range of specialist services to all areas of the Corporation. Services include procurement, project management, controls and communications, engineering and testing services, metering and sustainable energy.
Company Secretary	Provides services including board and ministerial liaison, information technology, corporate communication, office services, records management, quality, Occupational Health and Safety, risk, environmental services and fleet management.
Financial Services	Provides corporate support and management regarding financial operations, budgetary planning, economic advice, regulatory compliance and strategic planning.
Human Resources	Provides corporate support and advice to the Managing Director and business units relating to human resources, industrial relations and training.
Office of General Counsel	Provides legal, insurance and property related advice and services, including management of legal matters undertaken by external legal service providers.

Indigenous Essential Services Pty Ltd

In 2003 the Power and Water Board established Indigenous Essential Services (IES) Pty Ltd to support the provision of power, water supply and sewerage services to residents in remote communities across the Northern Territory. In 2006 IES provided services to 72 communities, in the sometimes harsh and difficult conditions that are unique to many remote communities. More detailed information about IES is available through the Indigenous Essential Services Pty Ltd Annual Report.

Environmental Performance of Power and Water

Power and Water uses natural gas in all of its major power stations, limiting the greenhouse emissions that would come from using coal fired burners. In the minor centres Power and Water is continuing to focus on renewable energy such as solar panels and trialling alternatives to diesel such as bio-diesel.

Social Performance of Power and Water

Power and Water has a continued commitment to community development and invests in the long-term growth of the Territory and its people through our community support and sponsorship program. During the year we invested \$262,508 in the community through the program.

Triple Certification

Power and Water became the first Territory company, and the first utility in Australia, to simultaneously gain certification in the three recognised international and Australian standards for Occupational Health and Safety (AS4801), Environmental Management Systems (ISO14001) and Quality Management Systems (ISO9001). To gain this recognition, all Power and Water's business units implemented management systems in line with these standards.

Triple certification is an important milestone in Power and Water's evolution as a Corporation and will significantly enhance our ability to provide a safer workplace, minimise our impact on the environment and improve the quality of services and products.



Quality
Endorsed
Company

ISO 9001 Lic22599
SAI Global



Occupational
Health
and Safety

AS/NZS 4801 Lic20234
SAI Global



Certified
Environmental
Management

ISO 14001 Lic20341
SAI Global



Cyclone Monica

For the second year in succession the Top End was subjected to a category five cyclone. Cyclone Monica is the strongest ever recorded to cross the Territory coast.

Monica affected northern Australia from 17 to 26 April 2006 and passed between the remote communities of Oenpelli and Maningrida causing significant damage, before striking the township of Jabiru. It then moved towards Western Australia passing south of Darwin.

The communities experienced winds of up to 350km/h. Power and Water services were restored to all cyclone-affected communities within days.



DAMAGE CAUSED BY CYCLONE MONICA.

Katherine Floods

In April 2006 Katherine flooded for the second time in eight years, leaving hundreds of people evacuated from their homes and businesses, and the town completely cut off.

Power and Water staff worked in difficult and trying conditions to ensure the safety of the community and to protect infrastructure and equipment enabling operations to be established quickly and efficiently. The Corporation was commended by the Katherine Town Council for its investment in raising the infrastructure since the 1998 floods that greatly assisted the quick restoration of essential services.



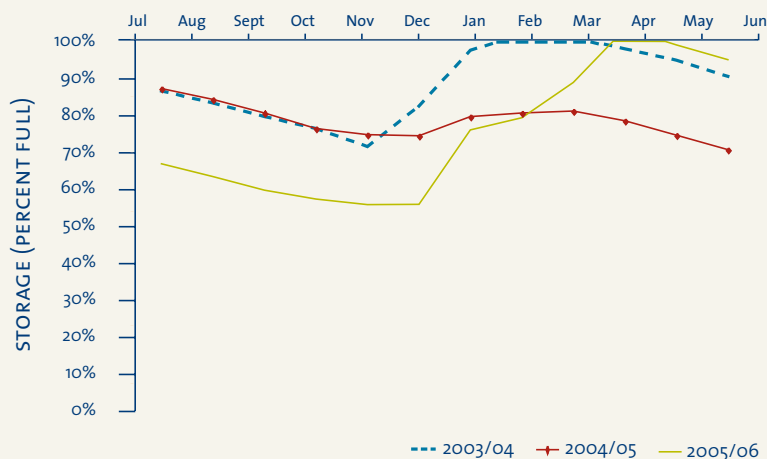
FLOODING IN KATHERINE.

Darwin River Dam Water Levels

Due to a low wet season rainfall in 2004-2005, for the first time the water level of Darwin River Dam came close to the 42 metre Australian Height Datum (AHD), which is an indicator for the first stage of the Water Restrictions Policy. However, with a heavy and sustained wet season in 2005-2006 the water level at the dam rose to its maximum and overflowed the spillway.

In response to the initial low water level in Darwin River Dam, which could reoccur, and in line with national calls for Australians to become more aware that our drinking water is a finite resource, the Corporation is implementing a Territory-wide strategy to make Territorians more water wise. The water efficiency campaign will focus on water use efficiency and planning for augmentation of our water supply.

DARWIN RIVER DAM STORAGE



Power and Water's People

Joint Consultative Committee

The Joint Consultative Committee was established as a forum to regularly consult on the implementation of significant organisational reforms under the 2004 Enterprise Bargaining Agreement (EBA). The committee members are made up of representatives from Power and Water business units and union delegates throughout the Northern Territory.

The committee meets regularly and has established specific projects including the Job Model Review, Performance Management Review and Fitness for Work. To date, Power and Water is on track to deliver all requirements under the 2004 EBA.

Cultural Change Program

During the year the Board approved a Cultural Change Program that will make further improvements to the culture and operations of the Corporation.

The program's elements are:

- Leadership Development;
- Induction;
- Apprentice and Graduate Management;
- Performance Management;
- Injury Management;
- Employee Development;
- Talent and Succession Management;
- Attraction and Retention Strategy; and
- Reward and Recognition Program.

Leadership Development

The Corporation has developed a range of initiatives to develop leadership in the organisation. Successful leadership forums with guest speakers were held during the year, while the management team in one of the business units is piloting a Leadership Development Program. It is anticipated that the pilot will enable the leadership development program to be fine-tuned and then extended to senior managers across the Corporation.

Training Agreement with Charles Darwin University

Power and Water Corporation and Charles Darwin University (CDU) have entered into a six-year agreement worth \$18 million. Under the agreement, CDU will manage the Corporation's training requirements and deliver training in association with Territory organisations Connell Wagner and Group Training NT.

Like many other NT employers the Corporation is experiencing difficulties obtaining skilled staff. As a provider in both the Vocational Education and Training and Higher Education sectors CDU is able to provide training across the board, from basic hands-on training of apprentices to post-graduate technical and management education.

The agreement also demonstrates the Corporation's commitment to ensuring both technical and professional career development of staff, while at the same time providing a comprehensive, streamlined approach to training. This strategy will also help alleviate the current skill shortages.



CDU'S VICE CHANCELLOR, PROFESSOR HELEN GARNETT AND POWER AND WATER'S MANAGING DIRECTOR KIM WOOD AND STAFF AFTER SECURING THE SIX-YEAR AGREEMENT.



The Corporation has good reason to be proud of its apprentices. In the past two years a number of our young achievers have won major awards.

Apprentice and Graduate Program

Power and Water continues to demonstrate its commitment to employing apprentices and developing our base of skilled staff. Under the 2004 EBA, a commitment was made to employ 12 new apprentices each year for the next three years. In 2006-2007 it is intended to increase this number to 16. During the year the Corporation had 46 apprentices employed through the Group Training Program.

Apprentices and Trainees' Achievements

The Corporation has good reason to be proud of its apprentices. In the past two years a number of our young achievers have won major awards.

While our apprentices work hard and deserve to win these accolades, thanks and recognition also goes to their managers and other members of their work teams for their leadership and management skills.

During 2005-2006 several of our apprentices and trainees were recognised for their accomplishments.

- **Sam Murray**, Electrotechnology (Systems Electrician), Power Networks, won a place in "Today's Skills: Tomorrow's Leaders" enabling him to meet the Prime Minister in Canberra and complete a five-day intensive leadership program. Sam was also a finalist in Stage three for Group Training NT Apprentice of the Year 2006.
- **Nathan Heinrich**, ESI Distribution (Powerline), Power Networks, also won a place in "Today's Skills: Tomorrow's Leaders" enabling him to meet the Prime Minister in Canberra and complete a five-day intensive leadership program. Nathan won the NT Apprentice of the Year 2005 Award, and went on to become a finalist in the national award. Nathan also won the Group Training Australia Apprentice of the Year.
- **Charles Gervasi**, Plumbing, Draining and Gasfitting Water Operations, was nominated for NT Apprentice of the Year 2006 and won Group Training NT Apprentice of the Year 2006.

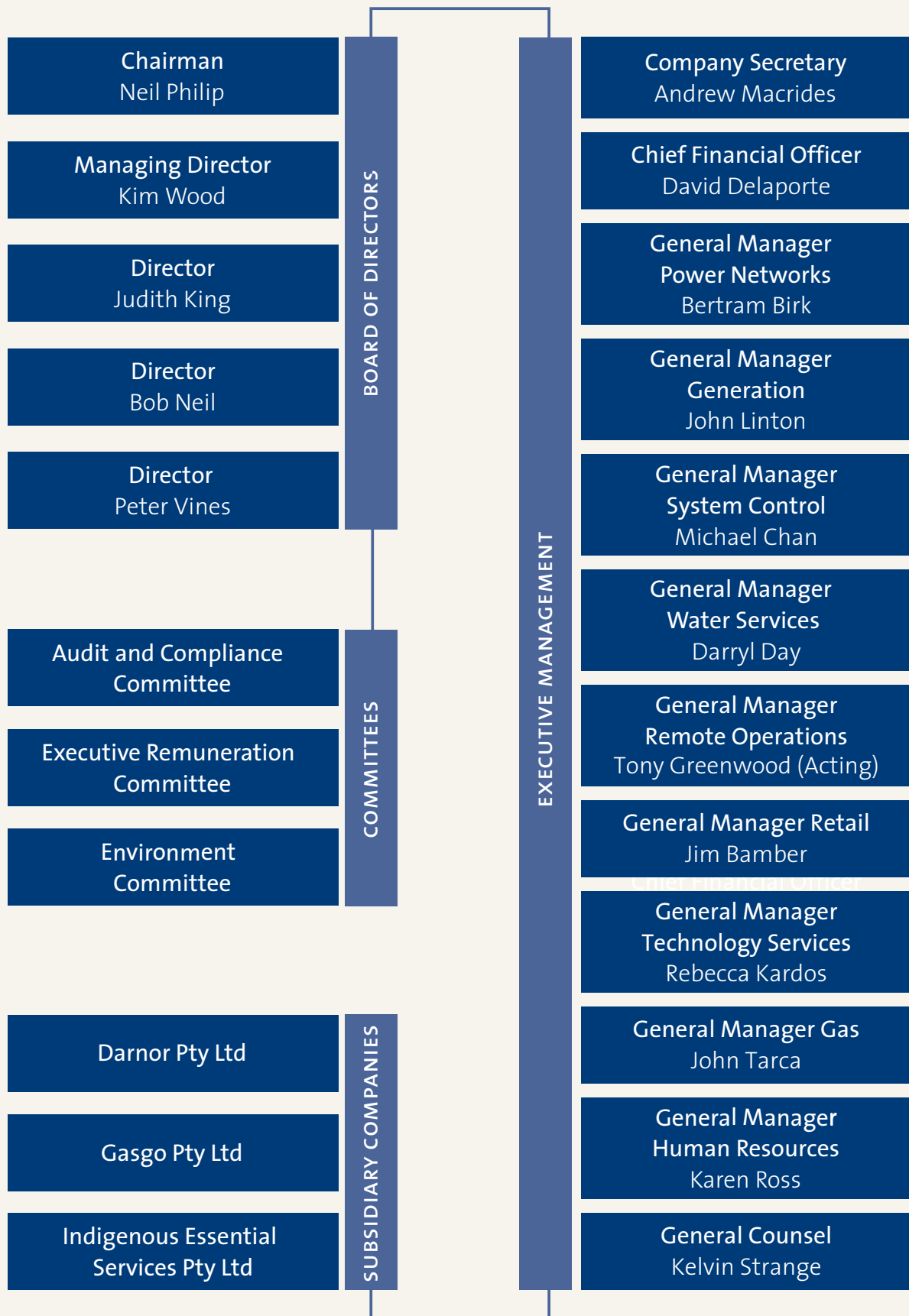


NATHAN HEINRICH



CHARLES GERVASI

Organisational Chart



Power and Water's Customers

Getting Set for the Wet Season

To help promote the strategies that were put in place to reduce power outages in the Wet Season, the Corporation launched its Wet Season program on 22 October 2005 in Casuarina Square. Fashion students from the Charles Darwin University were invited to create outfits with a wet season flair, which were then modelled in a fashion parade.

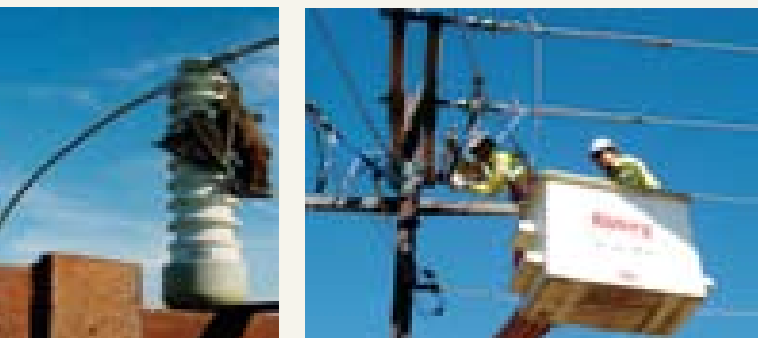
Key messages for customers during the Wet Season included unplugging unused appliances, trimming trees and ensuring cyclone kits contained working torches which could be utilised during a power outage.



POWER AND WATER'S GET SET FOR THE WET FASHION PARADE.

Corroboree Park Power Supply Reliability

Early in the 2005-2006 year Corroboree Park customers experienced power interruptions as a result of flying foxes. A public meeting was held to discuss the installation of post top insulators and guards to minimise future interruptions. An upgrade of the local distribution system was undertaken. Crossarms and associated insulators were replaced, and 20 fibreglass crossarms were installed as a trial.



POWER AND WATER STAFF INSTALLING FIBREGLASS CROSSARMS.

Foreshore Stabilisation Works at Kulaluk Community

Power and Water worked with Kulaluk Community in Darwin and the Department of Natural Resources, Environment and the Arts to stabilise the foreshore at the community that had been eroded as a result of actions by Corporation contractors.

A foredune was constructed using reshaped and compacted soil from the Nightcliff Undergrounding Project, with concrete erosion protection works on the face of the foredune. Topsoil was spread on the front and rear, with spray-on grass to hold the soil in place.

Completion of the Woolianna Line

Following the commissioning of the new Daly River Power Station in April 2005, power was extended a further 18km along the Woolianna road to enable additional residential and commercial customers to be connected to a reliable reticulated power supply for the first time.

Vegetation Management Under Powerlines – Memorandum of Understanding

The Managing Director and the Chief Executive of the Alice Springs Town Council have signed a Memorandum of Understanding on vegetation management under powerlines. The agreement was signed in November 2005 and will continue for three years. It is an example of how town councils and Power and Water can work together to reduce vegetation around powerlines, which is a major cause of interruption to power supply throughout the Territory.



POWER AND WATER UNDERTAKES TREE-TRIMMING REGULARLY TO REDUCE VEGETATION AROUND POWERLINES.

Water Attitudes Surveys

In August 2005, a survey was conducted on community attitudes towards water restrictions, water pricing, and water conservation in Alice Springs. The survey was undertaken in cooperation with the Department of Planning and Infrastructure, the Arid Lands Environment Centre and Power and Water.

In November 2005, Darwin was part of a national survey of capital cities that examined community views on water shortages and conservation. The survey was conducted through the Cooperative Research Centre for Water Quality and Treatment in cooperation with other major water utilities. The results have been presented to the participating water utilities, with a final report expected towards the end of 2006.



POWER AND WATER STAFF PROVIDING WATER EFFICIENCY TIPS AT THE YEARLY TROPICAL GARDEN SPECTACULAR.

Resident Complaints about Ron Goodin Power Station

A number of complaints from Alice Springs residents were received in relation to sooty deposits and excess noise coming from the power station. Investigations were undertaken in relation to sooty deposits, including the placement and examination of collection plates. The conclusion reached was that the deposits did not originate from the power station.

The complaints about noise have resulted from the recently installed Titan generator. The Titan's noise levels were evaluated and it was determined that, under certain weather conditions, noise levels were higher than acceptable.

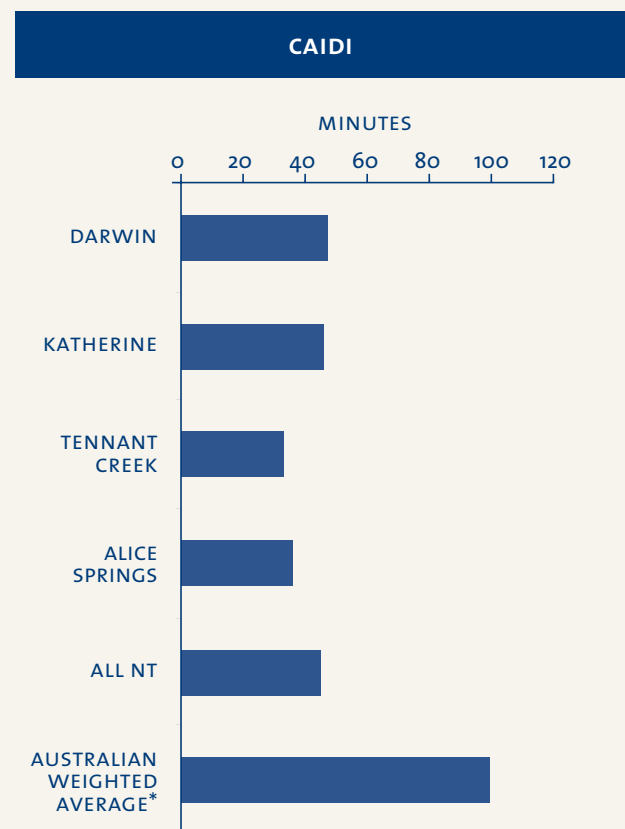
A number of solutions have been explored to reduce noise emissions. A noise mitigation strategy has been implemented and is due for completion in October 2006. The strategy includes replacing the existing gas turbine exhaust system

with a new exhaust stack with more extensive baffles that will address both the general noise level and specific noise characteristics of the Titan.

Electricity Supply Reliability

Improvements in electricity network performance Territory wide continue to be a priority for Power and Water. The harsh conditions of the Territory create an extremely challenging environment in which to provide a reliable electricity supply. The problems created by lightning, storms, bats and fast vegetation growth cause power outages at a higher frequency than that experienced by other states and territories. Despite this, the service and response provided by the Corporation has resulted in the duration of outages being significantly less than the national average.

The Customer Average Interruption Duration Index (CAIDI) is a measure of how many minutes on average each customer can expect to be off supply per outage and is a general indication of electricity supply reliability. The following graph indicates the Corporation's performance over the past 12 months compared with the national average.



* ESAA REPORT – ELECTRICITY GAS AUSTRALIA 2006



The problems created by lightning, storms, bats and fast vegetation growth cause power outages.

In 2005-2006 Power and Water exceeded its response time targets.

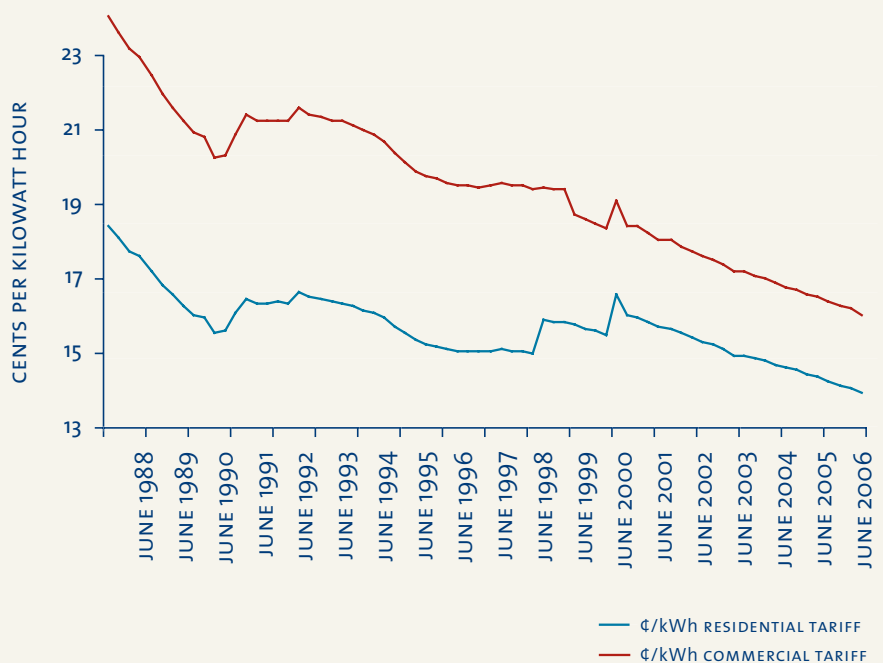
POWER RESTORATION RESPONSE TIMES AND TARGETS		
Network Response Times	2005-2006 Corporate Target	2005-2006 Achievement
Darwin	90% restored within 80 minutes	95.57%
Katherine	90% restored within 80 minutes	95.53%
Tennant Creek	90% restored within 80 minutes	95.00%
Alice Springs	90% restored within 80 minutes	93.14%

Electricity Tariffs

Since Power and Water became a Corporation on 1 July 2002 both residential and commercial tariffs have remained unchanged. This equates to a real decrease in tariffs of 9.4% over the period. At the same time the cost of supplying electricity has increased markedly. On 1 July 2006 the residential and commercial tariffs increased by 2.6%. This price increase is in line with the Consumer Price Index (CPI) in 2004-2005.

ELECTRICITY TARIFFS

(ADJUSTED FOR INFLATION – CONSTANT MARCH 2006 DOLLARS)
TARIFF FROM 1 JULY 2000 INCLUDES 10% GST

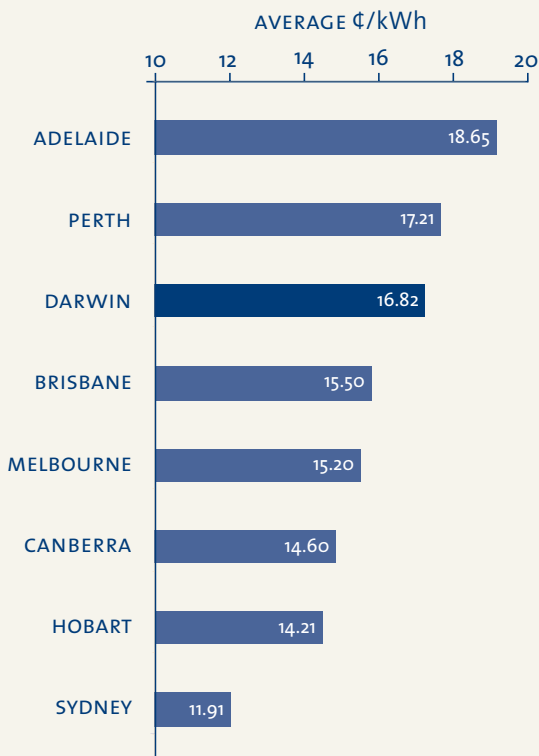


Price Comparisons

The following graphs compare prices for electricity and water in Darwin with other capitals. Direct comparisons of sewerage prices between the states and territories are no longer meaningful due to the variation in tariff structures.

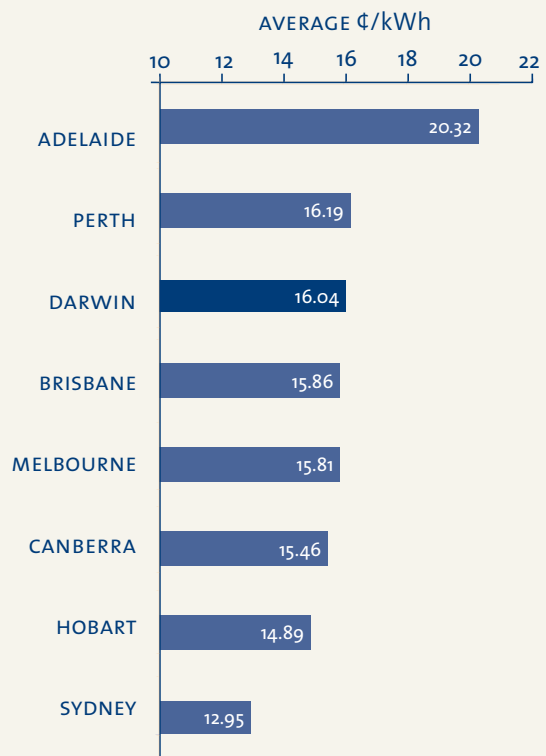
COMMERCIAL ELECTRICITY TARIFF COMPARISON AS AT 30 JUNE 2006

BASED ON 2500 kWh PER MONTH (ESAA AVERAGE)
 (AVERAGE NT NON-CONTESTABLE COMMERCIAL CONSUMPTION IS 4008 kWh PER MONTH)
 SOURCE: RETAILERS' PUBLISHED TARIFFS



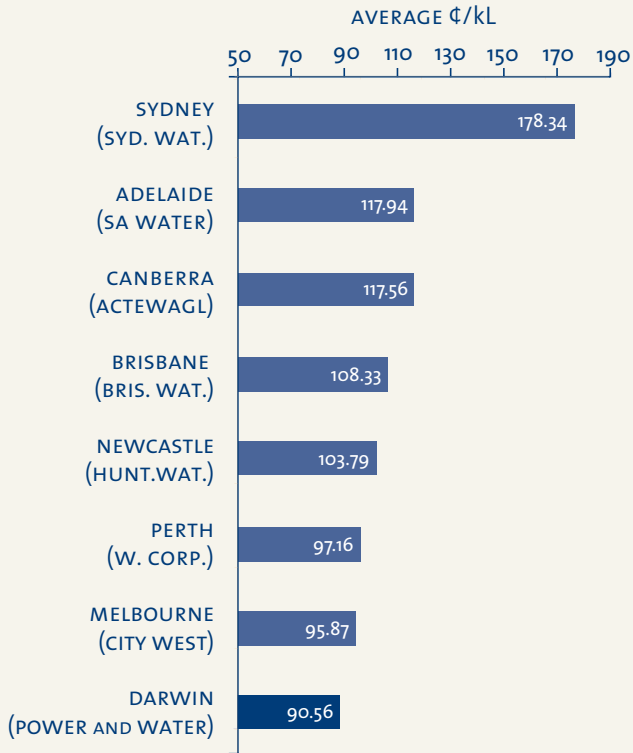
RESIDENTIAL ELECTRICITY TARIFF COMPARISON AS AT 30 JUNE 2006

BASED ON 1250 kWh PER QUARTER (ESAA AVERAGE)
 (AVERAGE NT RESIDENTIAL CONSUMPTION IS 2028 kWh PER QUARTER)
 SOURCE: RETAILERS' PUBLISHED TARIFFS



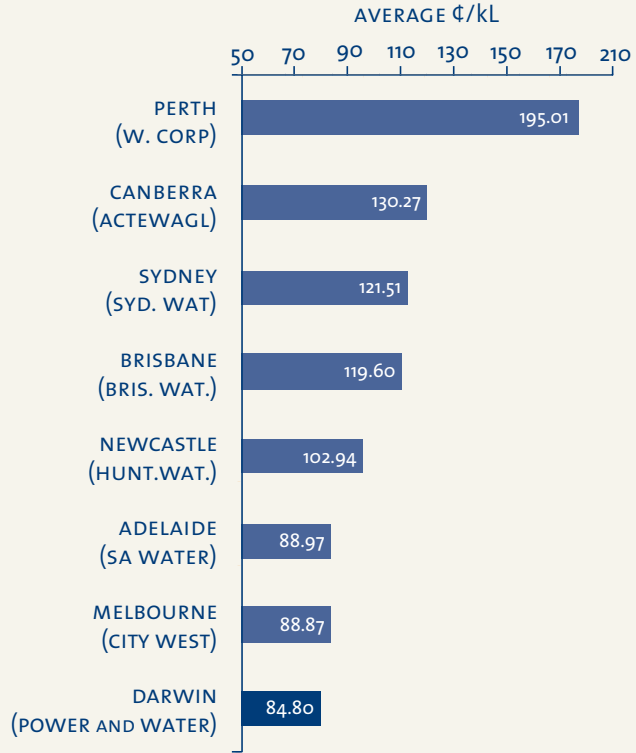
**DOMESTIC WATER TARIFF COMPARISON
AS AT 30 JUNE 2006**

BASED ON 450 kL PER ANNUM
(AVERAGE DARWIN DOMESTIC
CONSUMPTION IS 437 kL PER ANNUM)
SOURCE: RETAILERS' PUBLISHED TARIFFS



**COMMERCIAL WATER TARIFF COMPARISON
AS AT 30 JUNE 2006**

BASED ON 2400 kL PER ANNUM
(AVERAGE DARWIN COMMERCIAL CONSUMPTION
IS 2364 kL PER ANNUM)
SOURCE: RETAILERS' PUBLISHED TARIFFS



Community Support and Sponsorships

Through sponsorships and community support, Power and Water is making a lasting contribution to the community. During 2005-2006, \$262,508 in sponsorship was provided to a range of Territory-wide organisations and activities, such as those highlighted below.

AFL Central Australia Development Squad, Alice Springs



POWER AND WATER'S
ALAN WHYTE
CHALLENGES AFL SQUAD
MEMBER FOR A MARK.

The Power and Water Junior Development Squad is in its second year and helps aspiring Centralian footballers aged 15 to 18 to improve their skills and possibly gain NT, and potentially AFL selection.

Alice Springs has always been a breeding ground for some of Australia's most talented footballers. Power and Water's sponsorship of the squad provides an opportunity to improve the boys' skills with quality coaching. Last

year 10 members of the Power and Water Junior Development Squad were selected to play for the Territory – six at under-16 level and four in the under-18 side.

SunChase NT Model Solar Vehicle Challenge

Power and Water is a major sponsor of this event, which aims to help young people learn about a clean, renewable energy source.

Students aged between eight and 16 design, build and race model solar cars and boats in the annual SunChase NT Model Solar Vehicle Challenge.

The inaugural Mini Challenge involved students from eight Alice Springs schools racing their kit model solar cars. The kit cars give students experience in assembling and racing simple cars with the aim of increasing their skills and interest in building larger more complex cars.



ALICE SPRINGS SCHOOL STUDENTS PREPARING
TO RACE THEIR HAND MADE MODELS.

Tennis NT

The Northern Territory's tennis players have every opportunity to gain success with a little help from Power and Water, who sponsor the NT League. The Power and Water NT League provides the Territory's tennis community with elite league and reserve competitions.

The aim is to give local players, especially elite juniors, regular competition to assist their future development.



POWER AND WATER NT LEAGUE 2005
PLAYER OF THE YEAR, NICHOLAS MUNRO.

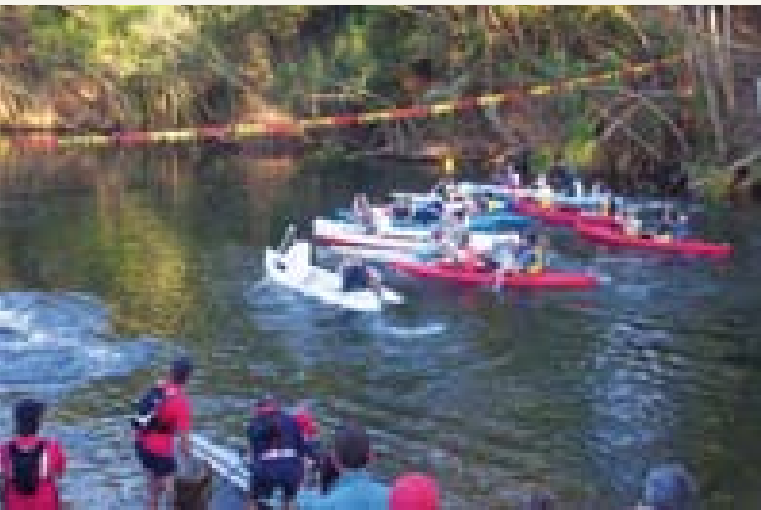
Council of the Ageing Race Day, Darwin

Seniors Month, organised by the Council of the Ageing National Seniors Partnership, aims to enhance the quality of life, and protect and promote the wellbeing of Australian senior citizens.

Power and Water were proud to help stage the day at the races, by celebrating and recognising the contribution of seniors to the community.



RACE DAY CELEBRATIONS AT THE DARWIN TURF CLUB.



READY, SET, GO – KEEN CANOE ENTHUSIASTS PREPARE TO RACE.

Power and Water Katherine Red Cross Canoe Marathon

Territorians from the Top End to the Red Centre with a taste for water sports converged on Katherine in June 2006 to participate in the annual Power and Water Katherine Red Cross Canoe Marathon.

A highlight of the Territory’s canoeing calendar, the event consists of paddling a canoe or kayak for 20km down the Katherine River from the High Level Bridge to Galloping Jacks. Contestants can also opt to take a longer course, which runs for 47km, and ends at Carbeen Park.

The marathon, in its 25th year, is open to individuals and teams, and there are also different classes for juniors and seniors. Power and Water has sponsored this event for the past six years and is proud to be associated with this Territory tradition.



[LEFT TO RIGHT] FINALISTS OF THE YOUNG ACHIEVER SCIENCE AND ENGINEERING AWARD – KATE MOUNSEY [WINNER], YASMIN ANTWERINGER, BERTRAM BIRK – POWER AND WATER AND RACHEL MELDRUM.

Young Achiever Awards, Science and Engineering Category

Power and Water is the proud sponsor of the Science and Engineering Award, which honours young scientists and engineers who are responsible for many innovative ideas that benefit our community.

The Corporation embraces the innovative ideas that young scientists and engineers develop and implement in our organisation.

This year’s winner, Kate Mounsey, is undertaking PhD research with the Charles Darwin University to investigate the issue of emerging drug resistance in scabies. Kate’s work contributes to an overall healthy skin program that aims to eradicate endemic scabies in northern Australian Aboriginal communities. She also works with the Royal Darwin Hospital to monitor treatment progress and increase public awareness.

Special Children’s Christmas Party

Each year Power and Water sponsors the Special Children’s Christmas Party. More than 1,000 children living with a life-threatening illness, a physical or intellectual disability or who are severely disadvantaged gather at the Darwin Showgrounds for several hours of festive fun.

The children enjoy a stage show as well as rides, jumping castle, face painters and of course a visit from a jolly fellow dressed in red.

As a major sponsor, Power and Water provides financial support to enable the party to be free of charge to the invited guests and our staff volunteer to distribute toys to the children.



POWER AND WATER STAFF HELPING DISTRIBUTE TOYS AT THE SPECIAL CHILDREN’S CHRISTMAS PARTY.

Business and Government Partnerships

Dundee Beach Power Supply

The main 22kV line was completed to the Dundee Lodge in November 2005. The backbone feeder through to Dundee was completed in December 2005 and was energised in early January 2006. Reticulation to about 1,000 lots will be completed by late 2006.

Underground Power Project

This project will see the undergrounding of overhead powerlines in 15 Darwin suburbs over 20 years. The project is funded jointly by the Northern Territory Government and the Corporation. In November 2005, 329 Nightcliff properties were changed over to the new underground system.

Undergrounding the remaining 369 properties in Nightcliff is planned to be completed by late 2006. Works to underground the first 343 of 690 properties in Rapid Creek started in mid-2006 and should be completed within two to three years.



UNDERGROUNDING OF POWERLINES IN NIGHTCLIFF.

Northern Territory Environment Protection Authority

On 19 October 2005 the Government established stage one of the Northern Territory's first Environment Protection Authority. This involves two key components: the appointment of an independent three-member Board and the reorganisation of the Office of Environment and Heritage to form the EPA program. Judith King, deputy chair of Power and Water has been appointed a member of this Board that will oversee development of the new Environment Protection Authority functions.

Darwin City Waterfront

Detailed water and sewer design plans for the major internal trunk services were received for approval. The design includes three sewer pump stations, rising sewer mains to connect to Frances Bay gravity system and new water loop mains between Kitchener and McMinn Streets. These works will link to other headworks currently under construction by the Northern Territory Government.

Construction along Bennett, Mitchell and Herbert Streets was successfully completed under challenging traffic and service congestion conditions.

Solar Dish Photo Voltaic Concentrator Systems

The solar power stations at Hermannsburg and Yuendumu use concentrated solar dish technology. The Hermannsburg site began operating in November 2005, and the Yuendumu site in April 2006. In May 2006 the stations generated 28MWh at Hermannsburg using eight dishes, and 34.4MWh at Yuendumu, which has 10 dishes. This has saved 15,000 litres of diesel fuel.

The next site to be commissioned is in Lajamanu, which will have 12 dishes. The project is scheduled for August 2006. All stations are registered with the Office of Renewable Energy Regulator and are producing Renewable Energy Certificates. These projects are jointly funded by Solar Systems Pty Ltd and the Australian Greenhouse Office. Power and Water has power purchase agreements in place to buy the generated electricity for surrounding communities to use.



SOLAR DISH PHOTO VOLTAIC CONCENTRATOR SYSTEMS AT HERMANSBURG.



ENVIRONMENT REPORT 2005

WASTEWATER TREATMENT, REUSE
AND DISCHARGE REPORT 2005

WATER QUALITY REPORT 2005

Environment

Environment Management and Accountability

Minimising our impact on the environment from the significant infrastructure we own, and the operations we undertake, is a priority for the Corporation. This is demonstrated by the strategies and policies explained on our website at <http://www.powerwater.com.au/powerwater/environment>.

In addition, the Corporation displays its commitment to being accountable for environment, quality and safety by publishing the following reports:

- Environment Report;
- Wastewater Treatment, Reuse and Discharge Report; and
- Water Quality Report.

The reports can be accessed at <http://www.powerwater.com.au/powerwater/news/publications>.

Environmental Excellence Awards

The annual Environmental Excellence Awards aim to acknowledge and encourage achievement in environmental excellence.

Each year well-known Territorians ranging from politicians to media personalities participate in a Celebrity Lighten Up Challenge. The annual Challenge and Awards were launched this year using our Environment Bus which may be seen on Darwin bus routes. The Bus was designed to raise awareness and encourage entries into the Awards.



Power and Water Corporation
**environmental
excellence awards**

The Environmental Excellence Awards were announced at a ceremony at Parliament House in June 2006. The winners were:

CATEGORY	WINNER
Community and Local Government	Djerk Women Rangers – recycling aluminium cans at Maningrida.
Commercial/Industry	Casuarina Square – reduced energy consumption following an audit. <i>Highly commended:</i> Frost Motor Group – a cleaner, greener service centre at their new showrooms. <i>Highly commended:</i> Darwin International Airport – Rapid Creek Environmental Reserve to protect a vital waterway.
Domestic	<i>Highly commended:</i> Sandra and Terry Fuller's home and garden at Bayview Haven.
Rural/Remote	Peanut Company of Australia – sustainable farming practices in Katherine.
Small business	DBH Contracting – a smarter, more environmentally friendly washdown bay.
Environment Grants	<ul style="list-style-type: none"> • COOLmob – software to facilitate Home Sustainability Audits. • Alawa Primary School – using innovative methods including pedal power to pump out their duck pond and use the water to irrigate the school's farm. • Darwin High School – Year 10 Performing Arts stage production Saving Our Savannas and Working with our Wetlands'. • Charles Darwin University – research project to analyse the regulation of rivers in the tropics.



LEFT TO RIGHT: SHANE BARR – CASUARINA SQUARE, GREG HILL – DBH CONTRACTING, ANDREW SIMON – PEANUT COMPANY OF AUSTRALIA, MAREE DOMELOW – DJELK WOMEN'S RANGER PROGRAM – BAWINANGA ABORIGINAL CORPORATION, KIM WOOD – MANAGING DIRECTOR POWER AND WATER CORPORATION.

Renewable Energy Certificates

To meet the Territory's proportion of the Australian Government Mandated Renewable Energy Target (MRET), Power and Water employs a range of measures including the purchase of Renewable Energy Certificates (RECs) from customers who installed solar hot water systems in their homes. Power and Water is proud to support and encourage customers to contribute to environmental protection through the installation of solar hot water systems.

Power and Water's target for RECs in 2005* was 21,557. The Corporation was able to exceed this target with a total of 27,034 RECs either purchased, or created by our investment in solar panels.

* The renewable energy certificate target is a calendar year target (as at 31 December 2005) rather than a financial year target (as at 30 June 2006).

Renewable Energy Roadmap

It is likely that the Corporation will be unable to meet its future MRET obligations from existing sources and will be required to develop additional sources of RECs. This can be achieved with a strategy that includes a combination of renewable energy projects that allows Power and Water to diversify risk, as well as allowing flexibility as the renewable energy industry, legislative environment and regulatory framework develop.

The Corporation has developed a Renewable Energy Roadmap that identifies its goals and details options available while assessing commensurate risks. A recommended action plan has been developed for achieving the renewable energy objectives in the most effective and cost-efficient way. The recommendations in the roadmap have been the subject of industry consultation and extensive research.

Larrakeyah Wastewater Outfall

Most of the sewage from the Darwin and Palmerston areas is collected and treated before discharge. However the current discharge at the Larrakeyah outfall receives only minimal processing. This situation was recently highlighted when video footage by a commercial dive operator received media attention and led to public debate.

While the Corporation complies with relevant licences for discharge, it is recognised that the current situation is not ideal. A strategy and engineering options have been developed to overcome the problem, which have been advanced over the last several years.

To alleviate the situation in the short term a number of measures have been implemented including exclusion zones, better signage and education. In addition, the Environment Protection Authority tested fish from around the outfall and found that they were safe to eat. Further advances on the existing strategy are planned for the coming years.

Outbreak of Cabomba Weed

In May 2006 the Department of Natural Resources, Environment and the Arts Weeds Branch advised that the Cabomba weed had broken out again in the Darwin River, downstream from the Darwin River Dam. It had been thought the weed had been eradicated, but the following dry season it was discovered about 60% of the area previously treated was again infested with the weed. An alternative water supply arrangement was put in place for some properties next to the Darwin River. The area has been treated again and is regularly inspected for weeds.



CABOMBA LEAVES.

Alice Springs Solar Cities Bid

A consortium led by Alice Springs Town Council lodged an Expression of Interest in July 2005 with the Australian Greenhouse Office to become one of four or five "solar cities" in the \$75 million Australian Government program. The program is comprehensive and includes energy efficiency, cost-reflective pricing, smart metering and retrofitted rooftop photovoltaic panels. As a member of the consortium, Power and Water provided sponsorship funding and in-kind support. If the bid is successful, Power and Water will continue to provide assistance such as 'Smart' metering trials, photo voltaic buy back, technical advice and support.

Outbreak of *Naegleria fowleri* in Darwin Water Supply

Naegleria fowleri, an amoeba commonly found in water and soil, was detected at various locations within the Darwin water reticulation system in January this year. While the water is safe to drink, infection can occur on rare occasions when *Naegleria fowleri* enters the body through the nasal cavity while a person is swimming underwater or diving. It can be eradicated through chlorination. In addition to chlorination, the Corporation also implemented an aggressive mains flushing program and an enhanced water sampling and monitoring regime.

Darwin Bio-diesel Plant

Power and Water is working with Natural Fuels on an agreement regarding the transfer and treatment of liquid waste streams from the proposed bio-diesel plant at East Arm due for completion in late 2006.

The agreement will see high-strength, low-volume waste from this proposed bio-diesel plant at East Arm trucked to the Palmerston Wastewater Stabilisation Ponds and lower strength waste pumped through the existing East Arm reticulation to the Berrimah Ponds. Trade waste charges will apply in accordance with those previously approved for large businesses.

Efficient Asset Management

Ben Hammond Complex

The Ben Hammond Complex is the major operational depot for the Darwin/Palmerston region. During 2005-2006 refurbishment continued and work progressed on the main workshop, high voltage test bay facility, transformer repair area and streetlight repair facilities.



POWER AND WATER'S BEN HAMMOND COMPLEX.

Relocation of Power and Water Headquarters

In May and June 2006 Power and Water relocated to new headquarters at the Mitchell Centre on the corner of Mitchell and Knuckey Streets. The Darwin Customer Service Centre is now on the ground floor in the Mitchell Centre, giving our customers up to three hours of free undercover parking as well as newly introduced Saturday trading from 9 am to 12 noon.



POWER AND WATER'S NEW CUSTOMER SERVICE CENTRE.

Infrastructure Protection

Unlike any other utility in Australia, Power and Water Corporation has assets that cover power generation, transmission and distribution; water and wastewater services; gas pipelines; and their associated retail and support services. Given the large size of the Northern Territory, the harsh environment and the significant scope of infrastructure, the Corporation faces unique challenges in protecting its assets.

The Corporation has been recognised nationally as being proactive in critical infrastructure protection. This includes an all hazards approach in line with the principles outlined in the Australian/New Zealand Standard for Risk Management (AS/NZ4360). During the year the Corporation undertook a range of actions to enhance the security of our assets, such as enhanced access control and CCTV monitoring at major power stations.

Protecting Alice Springs Water Resources

The Corporation has committed \$10.4 million to the innovative Water Reuse in the Alice project. The project will stop dry weather overflows from the Alice Springs waste stabilisation ponds into Ilparpa Swamp. Rather than letting precious water go to waste, the effluent will be recycled so it can be reused. Initially the project will recycle 600 megalitres of water a year which will be pumped to the Arid Zone Research Institute to be stored underground before being used to irrigate horticulture projects, helping create employment and economic opportunities for the region. Power and Water is working with the Department of Primary Industry, Fisheries and Mines to complete this project.





Power and Water has over \$1 billion in total assets and investing in the repair and maintenance of these assets is a priority.

Capital Investment

During 2005-2006 \$62.4 million was spent on the capital investment program. In 2006-2007 it is forecast the program will expend \$87.1 million continuing the Corporation's commitment to investing in its asset base.

	2002-2003	2003-2004	2004-2005	2005-2006
Capital Investment (\$'000)	51,700	60,800	63,518	62,360

Repairs and Maintenance

Power and Water has over \$1 billion in total assets and investing in the repair and maintenance of these assets is a priority. In the past four years the repairs and maintenance program has grown from \$36.7 million to \$41.2 million (excluding IES Pty Ltd).

	2002-2003	2003-2004	2004-2005	2005-2006
Repairs and Maintenance (\$'000)	36,680	44,430	40,969	41,219

Safety

Zero Harm

The Zero harm policy launched in 2003-2004 continued to be a priority. Power and Water is committed to continuously improving Occupational Health and Safety (OH&S) performance so workplace injury and illness can be eliminated.

Lost Time Injury Rate

In 2005-2006 Power and Water had 16 lost time injuries translating to a lost time injury frequency rate of 11. This was an improvement from 2004-2005, when there were 18 lost time injuries and a lost time injury frequency rate of 14.

The most serious injuries were a leg fracture to a line worker caused by a fallen tree during line clearing, and head and shoulder injuries resulting from a collision between a truck and a utility driven by a Power and Water employee. Manual handling and slips, trips and falls were the most common causes of injury.

Safe Act Observations

One of the foundations of the OH&S improvement program is encouraging interaction and discussion about safety in the workplace. To date, 184 employees have been trained in safe act observations. Internal indicators have been set to monitor the improvement of safe acts observed compared with unsafe acts.

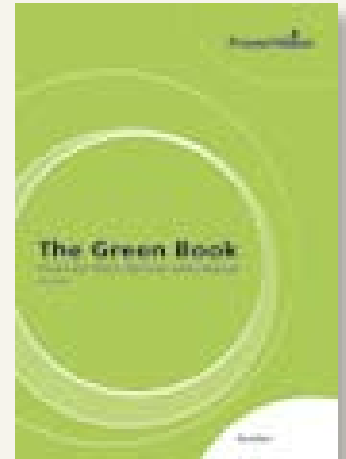
Asbestos

Because of the age and nature of the Corporation's facilities, an asbestos audit was completed and asbestos registers were installed in all Power and Water offices. Considerable efforts have been made to inform staff about any asbestos in buildings and the precautions for working in affected sites. Asbestos awareness training is being rolled out across the organisation.

Safety of employees is a priority of the Corporation. In relation to asbestos, Power and Water is committed to complying with the National Code of Practice for the Management and Control of Asbestos in Workplaces. A number of contractors have been engaged to undertake asbestos removal in compliance with the National Code of Practice for Removal of Asbestos.

Green Book

A series of presentations were delivered across the Territory to introduce changes to the Green Book, which is Power and Water's electrical safety manual and serves as the authority for all electrical works. The changes came into effect on 1 June 2006. A number of changes were incorporated into the revision that will serve to further enhance Power and Water's safety practices.



Electric Shocks

Eight instances of minor electric shocks to members of the public and seven instances to Power and Water personnel were recorded during the year, and this continues to be a concern for the Corporation. The inspection and repair program for streetlights and power poles is continuing and further investigations are being undertaken to review and improve standards of the power pillars in the network.



EDUCATIONAL POSTER
DEVELOPED TO HELP
EDUCATE NT STUDENTS.



The Corporation has previously proven itself to be effective in recovering and continuing its services in a persistent harsh environment and in crisis situations such as category five cyclones, major floods and a direct lightning strike on a major power station.

Preparedness for Crisis

Pandemics are epidemics of disease that occur on a worldwide scale and are traditionally caused by infectious diseases such as influenza. While pandemics have been highly variable and often unpredictable in their impact, planning nevertheless needs to occur to mitigate potential effects. Current concerns in relation to pandemics are centred on avian influenza (bird flu).

In relation to planning for a potential pandemic, the Corporation is part of a whole of government approach adopted by the Northern Territory Government. The Northern Territory Human Pandemic Influenza Planning Committee has been established as a sub-committee of the Counter Disaster Council. The Corporation currently has well-developed and practised processes and systems for crisis management and business continuity covering a range of risks and threats.

Alcohol and Drugs

In line with the initiatives being taken by the Northern Territory Government to address alcohol problems the Corporation released an updated procedure on drug and alcohol consumption. The purpose of the procedure is to:

- Ensure that employees, contractors, customers, invitees and any other persons on Corporation sites are not exposed to the risk of injury arising from the actions of employees or contractors being affected by drugs or alcohol;
- Ensure that no employee or person engaged on behalf of, or at the direction of the Corporation or its contractors, works while affected by drugs or alcohol; and
- Provide encouragement and support for employees in need of assistance or rehabilitation resulting from a dependence on drugs or alcohol.

Gas Supply

Over 85% of electricity in Australia is generated using coal. However, in the Northern Territory the major power stations in Darwin, Alice Springs, Katherine and Tennant Creek use natural gas. This is a much cleaner fuel, resulting in reduced greenhouse emissions.

Current Gas Supplies

The Corporation obtains its gas supply from the Amadeus Basin fields in Central Australia. The gas is transported to the power stations via the Amadeus Basin to Darwin Pipeline (ABDP), and to the McArthur River Mine via a spurline. The Amadeus fields are near their end of life and most of the current long-term contracts for gas supply are due to expire in 2009.



Future Gas Supplies

With the critical nature of gas and the inability of the current fields to provide for long-term requirements, the challenge for Power and Water has been to obtain reliable cost-effective and long-term gas supplies to enable the generation of reasonably priced electricity for the Territory.

The Corporation investigated and analysed a number of strategies and potential avenues of supply, entering into negotiations with a number of parties. This resulted in a Heads of Agreement between Power and Water and Eni Australia B.V. in December 2005. A Gas Sales Agreement between the two parties was signed in June 2006. The agreement is for the purchase of around 750 petajoules of gas over the next 25 years.

The gas will come from the Blacktip Field in the Joseph Bonaparte Gulf, about 100km west of Wadeye. The gas will come onshore near Wadeye to a processing plant and be transported via a gas pipeline from Wadeye to connect to the existing ABDP. A Gas Transport Agreement has been signed with the Australian Pipeline Trust to construct the new pipeline and transport the gas.

It is currently expected that the first supply of gas from the Blacktip Field will be available on 1 January 2009.

Corporate Governance

Power and Water is not required to comply with the Australian Stock Exchange's (ASX) Corporate Governance Statement, however guidelines have been adopted to introduce good governance into the Corporation. The following section reports on the 10 corporate governance principles outlined in the statement.

Principle 1

Lay solid foundations for management and oversight by the Board

Power and Water's Board has four independent non-executive members, including the Chair, and one executive member, Power and Water's Managing Director.

The Board is responsible to the Shareholding Minister for ensuring strategic direction, accountability of management, corporate performance and corporate governance of Power and Water and its subsidiary entities. The primary document setting out Power and Water's annual performance targets for agreement with the Shareholding Minister is the Statement of Corporate Intent.

The Board operates according to a Board of Directors' Charter, which clearly identifies the role of the directors and outlines the matters that are to be considered by the Board.

The Northern Territory *Government Owned Corporations Act* and the *Corporations Act* largely set the Board's duties.

The Board met eight times in 2005-2006. Board meetings included briefings from Corporation staff, stakeholders and expert advisers as required. Directors also attend Corporation activities.

The Board has established committee structures and corporate policies that address Power and Water's specific areas of focus along with governance principles developed to maintain the integrity of its stewardship. Board committees have been structured to address critical aspects of Power and Water's activities that require more detailed examination and involvement.

The committees advise the Board and operate primarily by:

- Determining priority issues in their areas;
- Examining selected topics to provide appropriate diligence on behalf of the Board; and
- Confirming the appropriateness of established policies and processes or determining with management how best to improve arrangements.

The **Audit and Compliance Committee** oversees Power and Water's and its subsidiaries' financial management, external reporting, audit, risk management and statutory and other compliance. Ernst & Young are Power and Water's internal auditors. The 2005-2006 internal audit plan included 1,188 hours of audits focused on high and medium risk areas across the organisation. The committee met four times during the year.

The **Executive Remuneration Committee** is responsible for:

- Evaluating the performance of the Managing Director and determining and recommending his or her remuneration package to the Board;
- Reviewing and approving the remuneration proposals from the Managing Director for the Corporation's senior executives employed under *Public Sector Employment and Management Act* contracts; and
- Informing the Board about executive remuneration matters in general.

The committee met five times in 2005-2006.

The **Environment Committee** oversees the Corporation's environmental performance and compliance with regulatory requirements. Power and Water strives to protect the environment through managing the impact of its operations. The committee met five times in 2005-2006.

Power and Water does not have a Nomination Committee as the Shareholding Minister recommends the appointment of new directors.

Gasgo Pty Ltd is a wholly owned subsidiary of the Corporation. Gasgo purchases gas on behalf of the Corporation. The Gasgo Board comprises three directors from Power and Water, plus two independent non-executive directors.

Darnor Pty Ltd is a wholly owned subsidiary of the Corporation. Darnor is the holder of Power and Water's 2.5% interest in NT Gas Pty Ltd, the lessee/operator of the Amadeus Basin to Darwin gas pipeline and 2.5% of the units in the Amadeus Gas Trust. The Board for Darnor comprises three directors from the Corporation, plus two independent non-executive directors.

Indigenous Essential Services Pty Ltd (IES) is a wholly owned subsidiary of Power and Water. IES provides electricity, water and sewerage services to remote communities in the Territory. The Board for IES comprises all the Corporation's directors.

Principle 2

Structure the Board to add value

Directors are appointed by the Administrator of the Northern Territory on the recommendation of the Shareholding Minister. A director may resign by written notice to the Shareholding Minister.

The Administrator may, on the recommendation of the Shareholding Minister, terminate the appointment of all or any directors at any time.

Directors' fees are determined by the Shareholding Minister. Refer to Note 28 to the Financial Statements. Directors are not eligible for retirement benefits.

Resignation of Directors

The Deputy Chairman, Dr Michael Vertigan, and Dr Michael Sargent tendered their resignations on 31 July 2005 and 23 July 2005 respectively. Dr Vertigan and Dr Sargent had served as independent non-executive Directors since 2000.

Appointment of New Directors

On 10 August 2005 the Shareholding Minister appointed Mr Peter Vines and Mr Bob Neil to the Board of Directors. In accordance with the *Government Owned Corporations Act*, both will serve a four-year term on the Board.

Non-Executive Directors

Mr Neil Philip – Chairman

Mr Philip has been chairman since the establishment of Power and Water Corporation on 1 July 2002. Mr Philip is a founding shareholder and chairman of Nexus Energy Ltd, a Melbourne based public listed company. Mr Philip is a consultant to national law firm Clayton Utz having established the Darwin office of the firm and is a former partner of the firm. Mr Philip is a founding shareholder and director of Philip & Mitaros Projects Pty Ltd, a property development business based in Darwin.

Mr Philip was born in Darwin, completed all of his primary and secondary schooling in Darwin and is a graduate in law from the University of Queensland.

Ms Judith King – Deputy Chairman

Ms King has been a non-executive director of Power and Water since its establishment and has extensive experience on the boards of private, public and not for profit organisations. She is a director of Federation Square Management Ltd, Deputy Chair of the Victorian Commission for Gambling Regulation, and a member of the interim Northern Territory Environmental Protection Authority Board.

Ms King has previous experience in an extensive range of service businesses including water and electricity industries.

Mr Peter Vines

Mr Vines recently retired from Origin Energy as Executive General Manager – Retail. He has extensive experience as both a senior executive and board director across the energy utility sector in Australia and overseas. Mr Vines is also a director of Melbourne Water Corporation.

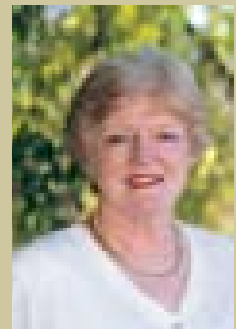
Mr Bob Neil

Mr Neil has a private and public sector background at senior executive level in the oil, gas and electricity industries in Australia and the USA through roles with Esso Australia, Western Mining Corporation and the NSW and Tasmanian Governments.

He was the Director-General of NSW Department of Energy from 1996 to 2001 and worked with the Tasmanian Government to complete Tasmania's entry into the National Electricity Market in 2005.



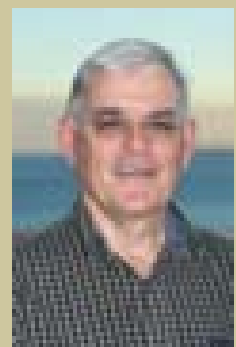
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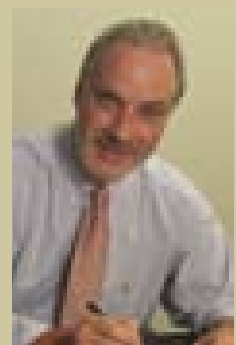
JUDITH KING



PETER VINES



BOB NEIL



KIM WOOD

Executive Director

Mr Kimley (Kim) Wood – Managing Director

Mr Wood took up the position of Managing Director with Power and Water on 1 August 2002. Mr Wood was the inaugural Managing Director of City West Water from 1995 to 1998 and Managing Director of Sydney-based GEC-Plessey in the early 1990s. He also led Victorian electricity transmission business GPU PowerNet in the late 1990s. Before taking up the Managing Director's position at Power and Water he was Chief Executive of a listed dotcom business. Mr Wood holds engineering qualifications, a Master of Business Administration, is a Chartered Professional Engineer, a Fellow of the Institution of Engineers, Australia, and is completing a doctorate at the Charles Darwin University.

Principle 3

Promote ethical and responsible decision-making

Directors, management and all employees are expected to act lawfully, in an honest and professional manner and with the utmost integrity, fairness and objectivity in their dealings with external parties and one another. Policies and procedures are in place in key areas to promote ethical conduct.

Power and Water has a set of values that cover safety, growth, our customers, integrity, the natural environment and our people. Communication strategies are in place to embed these values into everything Power and Water does.

Directors have identified areas of potential conflict of interest to the Board. In accordance with the *Corporations Act*, directors absent themselves from Board deliberations on matters where they have material personal interest.

Principle 4

Safeguard integrity in financial reporting

Power and Water's internal auditor, Ernst & Young, has direct access to the Chair of the Audit and Compliance Committee, the Managing Director and the Board Chairman.

Internal audit performs an important review role by providing assurance that:

- Financial and operational information is reliable;
- Laws, regulations, policies and procedures are complied with;
- Appropriate procedures are in place to safeguard assets and revenue; and
- Appropriate procedures are in place to ensure effective use of resources.

In accordance with the *Government Owned Corporations Act*, the external audit of Power and Water's financial statements is conducted by auditors appointed by the Auditor-General of the Northern Territory.

Power and Water has in place internal monthly business reporting and quarterly and annual reporting to the Shareholder on the targets (including financial) contained in the Statement of Corporate Intent.

The Chief Financial Officer attends Board meetings and reports on the financial performance of Power and Water.

Power and Water renews its internal audit contract every five years through an open tender process. Power and Water also maintains a panel contract for accounting and financial services giving access to specialist advice as required. This contract is renewed every three years through an open tender process.

Principle 5

Make timely and balanced disclosure

The *Government Owned Corporations Act* requires that the Shareholding Minister must be immediately notified of matters that may prevent Power and Water from achieving the targets contained in the Statement of Corporate Intent.

Power and Water provides quarterly reports to the Shareholding Minister, which includes a face-to-face briefing by the Chairman and Managing Director. Regular informal updates are provided to NT Treasury.

Power and Water's Chairman, Managing Director and Company Secretary appeared before the Government Owned Corporations Scrutiny Committee on 23 June 2006 to answer questions on the activities, performance, practices and financial management of the Power and Water Corporation.

Principle 6

Respect the rights of shareholders

The Northern Territory Government is the Corporation's only shareholder. As a Government Owned Corporation, Power and Water makes an annual dividend payment to the Northern Territory Government. The Board's recommendation on the dividend is made after due consideration of end of year financial results, the Corporation's existing and target capital structure, future capital investment commitments and the capacity to pay in accordance with prudent financial management. After consulting with the Shareholding Minister, the Board makes a determination on the dividend to be paid for the year. The primary benchmark is an ordinary dividend payment of 50 per cent of after tax profit.

The *Government Owned Corporations Act* provides the Shareholding Minister and the portfolio Minister with a right to direct Power and Water under certain circumstances. A copy of any such statutory directions must be tabled in the Legislative Assembly within six sitting days after the direction

is given. Power and Water has received only one direction. This relates to the chlorination of the Tennant Creek water supply and was received in October 2004.

Power and Water maintains strong relationships with all Northern Territory Government departments, collaborating on major projects and providing regular briefings as requested.

Copies of Power and Water's Statement of Corporate Intent and Annual Report are available to the public and are published on Power and Water's website <http://www.powerwater.com.au>.

Power and Water seeks to provide as many opportunities as possible to engage with Territorians. Information brochures on Power and Water's services are made available to customers, in addition to regular campaigns such as information on the wet season, trees and powerlines and dialling before you dig. Power and Water also takes part in the Northern Territory show circuit to give the public access to the organisation in all regions.

Principle 7

Recognise and manage risk

Power and Water established an enterprise-wide risk-management model in conjunction with Ernst & Young. Power and Water uses the Ernst & Young risk management-rating tool that separates risks according to business continuity, environment, financial and occupational health and safety.

Internal audits operates under an annual, risk-based internal audit plan approved by the Audit and Compliance Committee. The plan provides for an integrated approach to audits that combines, wherever possible, audits of safety, health, environment and compliance assurance.

A comprehensive corporate risk register has been compiled and the Audit and Compliance Committee conducts regular reviews of the key risks identified. Decisions within Power and Water are made with due consideration of the potential risk impact. Mitigation strategies are developed to reduce the likelihood and consequence of events that would have adverse implications for the business and its stakeholders.

Principle 8

Encourage enhanced performance

The Board receives monthly business reports from each of the General Managers of the business units in Power and Water, and specialised briefings when required. The directors have access to the Company Secretary to obtain additional information or to seek independent expert advice.

Directors and Corporation management are encouraged to broaden their knowledge of the Corporation's business and to keep abreast of developments in the business by attending industry seminars, conferences and courses. Power and Water meets the expense of these training activities.

All Corporation staff are bound by the Northern Territory Public Sector Principles and Code of Conduct, which require that employees "shall perform their official duties with skill, impartiality, professionalism and integrity". Power and Water operates a Performance Management System, which requires that each employee has an annual performance plan. Targets in performance plans are linked to salary progression each year.

The Board conducts a review of its performance on a biennial basis. This review is conducted by an external party.

Power and Water disclosure line

Power and Water's disclosure line started on 19 January 2004 to:

- Encourage all employees to report any concerns about fraud and misconduct in the organisation;
- Permit the confidential reporting and discussion of issues of concern to individual employees about potential fraud and misconduct;
- Provide a forum for staff to obtain relevant information on Power and Water policies and procedures; and
- Help employees with ethical dilemmas and concerns.

The line has been monitored on a continuous basis since its establishment.

The disclosure hotline complies with Australian Standard 8000. Power and Water is an early adopter of this initiative. A Senate Committee review of the Corporate Law Economic Reform Program – CLERP 9 Bill strongly supported private sector whistleblower protection and favourably referred to Australian Standard 8004 as a model to promote whistleblowing protection schemes as an important feature of good corporate governance. The disclosure line implemented by Power and Water is an important component of this model.

To 30 June 2006 Ernst & Young received one inquiry on the disclosure line.

Principle 9

Remunerate fairly and responsibly

Directors' remuneration is disclosed in the financial section of this report. The Executive Remuneration Committee makes recommendations to the Board concerning senior managers' remuneration. Conditions of service and remuneration arrangements for executive contract officers are in accordance with the *Public Sector Employment and Management Act*.

An Enterprise Bargaining Agreement is in place between Power and Water and its employees. The agreement was renegotiated in 2004-2005 for three years.

Principle 10

Recognise the legitimate interests of stakeholders

Power and Water conducted its third Annual General Meeting on 8 December 2005 with the Shareholding Minister's representative.

Power and Water also conducted its third stakeholders meeting on 8 December 2005 for major customers, business partners, industry and government representatives. A summary of Power and Water's annual performance was presented at the meeting.

Power and Water presents the following reports to interested stakeholders during the year:

- Water Quality Report;
- Wastewater Treatment, Reuse and Discharge Report;
- Environment Report;
- Annual Report (including a report on performance against the Statement of Corporate Intent); and
- IES Pty Ltd Annual Report.

POWER AND WATER'S ANNUAL GENERAL MEETING IS HELD YEARLY.



Regulatory, Compliance and Legal

Access Prices

In accordance with the Electricity Networks (Third Party Access) Code, the Utilities Commission has approved network tariffs and charges that relate to the use of the Corporation's prescribed electricity networks for the financial year starting 1 July 2006. The tariffs and charges approved are those that the Corporation can charge for standard network access services provided with respect to each electricity network.

Capital Contributions

The Utilities Commission has approved the financial contributions set out in the Corporation's Distribution System Extension Policy. This policy sets out the financial contribution customers are required to make where a new supply extension is undertaken that would otherwise be financially unviable. The policy can be found at <http://www.powerwater.com.au/powerwater/business/dsep.html>.

Pricing Orders

In April 2006, Cabinet approved a 2.6% CPI increase in domestic retail electricity prices and water and sewerage charges. The increase is effective from 1 July 2006.

Standards of Service

The Utilities Commission approved an Electricity Standards of Service Code, which came into effect on 1 January 2006. The code establishes minimum standards of reliability, quality and customer service. The code also requires the reporting

of actual standards of service against benchmarks, starting after the end of each financial year from 2005-2006. The code only applies to the Power and Water Corporation for the foreseeable future.

Privacy and Information Acts

In compliance with the *Privacy Act 1988* (Commonwealth) and *Information Act 2002* (NT) there were 890 inquiries regarding customers received in 2005-2006. There were no requests for changes to information. The Corporation's privacy and information handling policy can be found at <http://www.powerwater.com.au/powerwater/privacy.html>.

Community Service Obligations

A Community Service Obligation (CSO) arises when a government requires a public enterprise to provide services at a price or in a way it would not elect to do on a commercial basis.

Power and Water is paid a CSO by the Northern Territory Government to lessen the impact that government policy has on Power and Water's financial performance. Such policies include pensioner concessions, uniform tariffs (ensuring all customers pay the same rate no matter where they live in the Territory), and the Tranche Four electricity policy.

In 2005-2006 the Northern Territory Government paid Power and Water \$52 million in CSO payments.



2005-2006 Cost Recovery – Water and Sewerage Services

2005-2006 Cost Recovery

The following tables show the 2005-2006 costs and revenue for water supply and sewerage services. This table is in accordance with National Water Initiative (NWI) blueprint for national water reform. The NWI builds on the previous Council of Australian Governments (CoAG) Strategic Framework for Water Reform.

The minimum boundary for cost recovery through user charges, as defined in the national framework for reform of water policy, requires charges for water services to recover, as a minimum, the efficient operational and maintenance costs, the cost of debt servicing, and the cost of asset consumption.

The service centres as shown in the tables include major and minor urban service centres but exclude services delivered in Indigenous communities.

Community Service Obligations (CSOs) are received in all centres for provision of subsidised water supply and sewerage services to customers who receive the Territory Government's Pensioner Concession Scheme. In addition, Power and Water received a CSO of \$4.9 million for water and \$0.2 million for sewerage as compensation for maintaining Territory-wide uniform tariffs.

2005-2006 FINANCIAL DATA					
CoAG Minimum Cost Recovery Check	Darwin \$000	Katherine \$000	Tennant Creek \$000	Alice Springs \$000	Total \$000
Water					
Operations, Maintenance, Administration	13,921	2,748	1,276	8,124	26,068
Debt Servicing	2,792	277	230	1,400	4,699
Asset Consumption	6,428	678	499	2,843	10,448
Minimum Viability Costs	23,141	3,703	2,005	12,367	41,216
Total Revenue – from Trading (excl CSO)	30,851	2,667	1,027	8,405	42,951
Surplus/Deficit (excl CSO)	7,710	(1,035)	(977)	(3,962)	1,735
Surplus/Deficit (incl CSO)	8,888	(919)	1,413	(2,727)	6,656

2005-2006 FINANCIAL DATA					
CoAG Minimum Cost Recovery Check	Darwin \$000	Katherine \$000	Tennant Creek \$000	Alice Springs \$000	Total \$000
Sewerage					
Operations, Maintenance, Administration	11,325	1,140	554	4,502	17,522
Debt Servicing	1,620	277	148	925	2,970
Asset Consumption	2,907	315	118	813	4,153
Minimum Viability Costs	15,852	1,733	820	6,240	24,645
Total Revenue – from Trading (excl CSO)	19,453	825	598	4,801	25,677
Surplus/Deficit (excl CSO)	3,601	(908)	(222)	(1,438)	1,032
Surplus/Deficit (incl CSO)	3,839	(908)	(222)	(1,438)	1,271

Maps

NT Generation, Power Networks and Electricity Retail Locations

(RETAIL LICENCES FOR REMOTE ABORIGINAL COMMUNITIES ARE NOT SHOWN ON THIS MAP)



NT Water Supply and Sewerage Service Areas

(ONLY LICENCED AREAS AND NOT REMOTE ABORIGINAL COMMUNITIES ARE SHOWN ON THIS MAP)



NT Indigenous Communities Electrical Water Supply And Sewerage Services



Statistics to June 2006

POWER AND WATER CORPORATION		2002	2003	2004	2005	2006
Statistical Summary as at 30 June 2006						
ELECTRICITY						
Generation						
Power and Water Installed Capacity	MW	389	389	391	375	375
Contracted Capacity	MW	71	71	47	71	64
Generated	GWh	1,611	1,656	1,664	1,350	1,366
Sent Out (incl purchases from private suppliers)	GWh	1,576	1,681	1,627	1,712	1,725
Purchases from Private Suppliers	GWh	51	59	45	400	395
Networks						
Transmission (35kV & above)						
132kV Overhead	km	374	340	340	340	340
66kV Overhead	km	311	311	315	314	314
66kV Underground	km	21	21	17	17	17
33kV Overhead	km	115	55	56	56	56
Distribution (22/11kV & below)						
HV Overhead	km	2,989	2,879	2,906	2,965	2,972
HV Underground	km	607	614	598	601	604
LV Overhead	km	1,813	1,755	1,715	1,752	1,740
LV Underground	km	1,637	1,655	1,636	1,677	1,671
Sales	MWh	1,431,904	1,538,053	1,548,560	1,571,788	1,601,842
Customers (ie Services)		66,872	67,413	68,679	69,709	73,633
WATER						
System Capability	ML/day	306	327	336	336	336
Production	ML	55,039	55,764	54,447	58,436	54,797
Length of Mains	km	1,988	1,945	2,010	2,003	2,019
Sales	ML	45,835	51,242	50,468	51,225	49,379
Customers (ie Services)		38,602	38,631	39,192	39,780	42,970
WASTEWATER						
Volume of Sewage Treated	ML	16,087	18,461	20,579	15,626	19,329
Length of Sewer Mains	km	1,002	996	997	1,007	1,014
Volume of Effluent Reused	ML	1,444	1,715	1,559	2,096	1,983
Customers (ie Services)		44,377	44,731	45,612	46,296	48,123
STAFF						
Male		535	527	536	564	573
Female		179	192	203	213	213
Total Personnel		714	719	739	777	776

INDIGENOUS ESSENTIAL SERVICES PTY LTD						
Statistical Summary as at 30 June 2006		2002	2003	2004	2005	2006
ELECTRICITY						
Generation						
Power and Water Installed Capacity	MW	36	43	42	51	48
Contracted Capacity	MW	0	0	0	0	0
Generated	GWh	69	79	84	85	94
Sent Out (inc purchases from private suppliers)	GWh	68	83	78	79	86
Purchases from Private Suppliers	GWh	6	7	7	4	4
Networks						
Distribution (22/11kV & below)						
HV Overhead	km	255	470	506	526	529
HV Underground	km	0	0	0	1	1
LV Overhead	km	267	251	260	265	270
LV Underground	km	0	1	1	1	1
SWER All Voltages	km	0	81	81	81	81
Customers (ie Services)		6,905	6,710	6,717	6,818	7,213
WATER						
Production	ML	8,134	7,977	9,970	10,104	9,733
Length of Mains	km	719	719	667	675	677
Customers (ie Services)		783	522	522	530	524
WASTEWATER						
Volume of Sewage Treated	ML	U/A	U/A	U/A	U/A	3,508
Length of Sewer Mains	km	309	309	340	346	346
Volume of Effluent Reused	ML	0	0	0	0	0
Customers (ie Services)		396	396	401	407	420

Notes: U/A = Data Unavailable

Key Performance Indicators Against Statement of Corporate Intent Targets

KEY PERFORMANCE INDICATORS 2006 ACHIEVEMENTS AND ANALYSIS					
Consolidated	2004-2005 Achievement \$M	2005-2006 SCI Target \$M	2005-2006 Achievement \$M	Analysis	
FINANCIAL PERFORMANCE					
Total revenue	490	432	498	Commentary on this year's results can be found in the Directors' report on page 47.	
Operations and Maintenance	360	317	387		
Earnings before interest, tax, depreciation and amortisation (EBITDA)	130	114	111		
Earnings before interest and taxes (EBIT)	73	67	52		
Net profit before tax	51	43	29		
Net profit after tax (NPAT)	36	30	21		
Net Capital Expenditure	66	66	62		
Dividend provided for	19	15	10		
Ratios					
Return on Equity (%)	5.9	5.0	3.3		
Debt/equity (%)	47.9	50.3	52.8		
CUSTOMER SERVICE IMPROVEMENT					
Customer Satisfaction (%)	66	85	70	While overall satisfaction is improving, 'stretch' targets are being maintained to ensure continuous improvement.	
Connections to existing supply properties within 24 hours (%)	100	98	100		
Connections to new subdivisions in major urban area within five working days (%)	94.8	98	91	A shortage of field staff contributed to the target not being met.	
Connections to new subdivisions where minor extensions or augmentation is required (%)	68.6	95	69	Delays associated with minor projects as well as a shortage of field staff contributed to the target not being met.	
Average call response time (%)	48.5	80	76	Call response times have significantly improved due to issues associated with the new billing system being resolved.	
STAFF INDICES					
Lost time injuries	18	<6	16	Safety is continuously improving and 'stretch' targets are being maintained to ensure this trend continues.	
Lost time injury frequency rate (numbers/hours)	13	<6	11	Injury rates continue to improve.	
Staff satisfaction (%)	U/A	82	71.4	In general, staff enjoy their work and feel they provide a high level of service to customers.	

ENVIRONMENTAL PERFORMANCE

Greenhouse gas emissions Channel Island	580kg of CO ₂ per MWh at 60% of full load	672kg of CO ₂ per MWh at 60% of full load	570kg of CO ₂ per MWh at 60% of full load	
Ron Goodin	U/A	1,051kg of CO ₂ per MWh at 50% of full load	692kg of CO ₂ per MWh at 50% of full load	
Standards for: Environmental Management Systems (ISO14001) Occupational Health and Safety (AS4801) Quality Management Systems (ISO9001)	U/A	Triple Certification	Target Achieved	The Corporation has become the first Territory company, and first utility, to simultaneously gain certification in the three recognised International and Australian Standards.

ELECTRICITY SUPPLY RELIABILITY

Number of Interruptions					The ongoing flying fox problems, wet season storms and a cyclone caused the number of interruptions to be higher than the target. In Darwin the wet season storms have increased the interruptions from the lightning and tree branches blown into overhead mains.
Darwin	4.8	3.3	5.0		
Katherine	9.0	4.7	5.9		
Tennant Creek	1.2	3.4	0.1		
Alice Springs	3.2	2.0	3.0		
System minutes lost					
Darwin	215	157	231		
Katherine	303	177	271		
Tennant Creek	41	97	3		
Alice Springs	123	80	107		

WATER SUPPLY RELIABILITY

Water supply restored within five hours of unplanned interruption (%)	Darwin	99.60	100	100	Targets achieved
	Alice Springs	98.40	100	100	
Planned interruptions hours lost	Darwin	1.32	3.10	1.46	Targets achieved
	Alice Springs	2.18	3.10	3.03	
Unplanned interruptions hours lost	Darwin	0.90	2.00	0.79	Targets achieved
	Alice Springs	1.81	2.00	1.67	

SEWERAGE SERVICE RELIABILITY

Sewerage services restored within five hours of unplanned interruption (%)	Darwin	98.25	100	97.92	Target achieved
	Alice Springs	91.67	100	100	
Unplanned interruptions to sewerage services hours lost	Darwin	1.89	3.00	1.49	Targets achieved
	Alice Springs	1.53	3.00	1.79	

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Directors' Report

The directors present their report together with the financial report of the Power and Water Corporation (the Corporation) and of the consolidated entity, being the Corporation and its controlled entities, for the year ended 30 June 2006 and the Auditor's report thereon.

Directors

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

NAME	AGE	EXPERIENCE AND SPECIAL RESPONSIBILITIES
Mr Neil Philip LLB (Hons) Chairman Independent Non-Executive Director	53	Mr Philip has been chairman since the establishment of Power and Water Corporation on 1 July 2002. Mr Philip is a founding shareholder and chairman of Nexus Energy Ltd, a Melbourne based public listed company. Mr Philip is a consultant to national law firm Clayton Utz having established the Darwin office of the firm and is a former partner of the firm. Mr Philip is a founding shareholder and director of Philip & Mitaros Projects Pty Ltd, a property development business based in Darwin. Mr Philip was born in Darwin, completed all of his primary and secondary schooling in Darwin and is a graduate in law from the University of Queensland. Director and Chairman since 2000.
Ms Judith King BA Foundation Fellow AICD Deputy Chair Independent Non-Executive Director	63	Ms King has been a non-executive director of Power and Water since its establishment and has extensive experience on the boards of private, public and not for profit organizations. She is a director of Federation Square Management Ltd Deputy Chair of the Victorian Commission for Gambling Regulation, and a member of the interim Northern Territory Environmental Protection Authority Board. Ms King has previous experience in an extensive range of service businesses including water and electricity industries. Director since 2000. Ms King also chairs the Audit and Compliance Committee.
Mr Peter Vines DipEng, B.Com, MBA, FIEAust MAICD Independent Non-Executive Director	56	Mr Vines recently retired as the Executive General Manager Retail from Origin Energy. He has extensive experience as both a senior independent non-executive director, executive and board director across the energy utility sector in Australia and overseas. Mr Vines is also a director of Melbourne Water Corporation. Director since 10 October 2005.
Mr Bob Neil B.Eng (Hons), BSci, DipBA, FIEAust, FAICD Independent Non-Executive Director	61	Mr Neil has a private and public sector background at senior executive level in the oil, gas and electricity industries in Australia and the USA through roles with Esso Australia, Western Mining Corporation and the NSW and Tasmanian Governments. He was the Director-General of NSW Department of Energy from 1996 to 2001 and worked with the Tasmanian Government to complete Tasmania's entry into the National Electricity Market in 2005. Director since 10 October 2005.
Mr Kimley (Kim) Wood B.Eng, DipEng, MBA, FIEAust Executive Director	52	Mr Wood took up the position of Managing Director with Power and Water on 1 August 2002. Mr Wood was the inaugural Managing Director of City West Water from 1995 to 1998 and Managing Director of Sydney-based GEC-Plessey in the early 1990s. He also led Victorian electricity transmission business GPU PowerNet in the late 1990s. Before taking up the Managing Director's position at Power and Water he was Chief Executive of a listed dotcom business. Mr Wood holds engineering qualifications, a Master of Business Administration, is a Chartered Professional Engineer, a Fellow of the Institution of Engineers, Australia, and is completing a doctorate at the Charles Darwin University. Managing Director since 2002.
Dr Michael Vertigan AC B.Ec (Hons), Ph.D, FAICD Deputy Chairman Independent Non-Executive Director	63	Dr Vertigan is currently Chancellor of the University of Tasmania, and holds appointments in a number of organisations involved in energy, finance and investment. Dr Vertigan is a former Secretary of the Department of Treasury and Finance in Victoria, and Secretary of the Department of Treasury and Finance in Tasmania. Director and Deputy Chairman since 2000. Resigned on 31 July 2005.
Dr Michael Sargent AM B.Eng, Ph.D, FAICD Independent Non-Executive Director	62	Dr Sargent was formerly Chief Executive Officer of ACTEW Corporation, previously the ACT Electricity and Water Corporation, and Chief Executive Officer of Transfield Energy. Currently Dr Sargent is the co-chair of the Australian Electric Energy Industry Export Council, and has held numerous appointments in national industry and government organisations. Dr Sargent has 36 years of engineering experience in the utilities industry. Director since 2000. Resigned on 23 July 2005.

Principal activities

The principal activities of the consolidated entity during the course of the financial year were to supply electricity, gas, water and sewerage services, and to undertake other business activities in a commercial manner.

Review of operations

Summarised financial information

	Consolidated	
	2006 \$ Million	2005 \$ Million
Total revenue	497.5	489.9
EBITDA	111.4	129.9
Net profit before income tax	29.1	50.6
Income tax	(8.5)	(15.0)
Net profit after income tax	20.5	35.7
Total assets	1,261.1	1,191.9
Total liabilities	637.6	578.9
Total equity	623.5	613.0

Changes in the state of affairs

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

The following key items impacted the results and operations during the year:

The consolidated profit after tax of \$20.5 million is a reduction of \$15.2 million on the prior year's results. An increase in raw materials and consumables used (primarily gas and distillate purchases) of \$25.0 million was only partially offset by additional revenue from sale of goods of \$10.0 million. The increase in revenue from sale of goods is primarily due to a 2.6% increase in demand for electricity.

During the year more distillate, which has a higher unit cost than gas, has been used to run the Yulara plant due to LNG supply problems. These issues have been resolved with the existing supply being replaced with a new CNG plant in October 2006. In addition, distillate dependent machines have operated during restricted hours at Ron Goodin Power Station to reduce noise pollution. Again this year, distillate prices have been impacted by escalating world oil prices and as a result the consolidated entity is considering the use of hedging strategies to manage this risk going forward. The increased demand for electricity also required the consolidated entity to utilise its second tranche of gas supply contracts that have a marginally higher per unit cost. Repairs and maintenance of \$24.9 million was consistent with the previous year's spend of \$25.2 million.

The consolidated cash at bank was \$54.5 million as at year end, compared to \$2.4 million the previous year. This year's net cash received from operating activities increased by \$69.8 million. The cash balance was improved significantly as a result of grant funding of \$25.9 million being received in advance for infrastructure projects commencing in 2006-2007. Operational cashflows were also improved by increased revenue and improved debtor collections of \$29.6 million and a \$9.1 million reduction in tax paid due to the reduced profit for the year to June 2006, compared to the previous year. The new Retail Management System (RMS) commissioned in 2004-2005 has enabled better management of billings, which has helped reduce outstanding debtors over the course of the year. The positive cash balance has enabled the consolidated entity to reduce the overdraft facility from \$5.0 million to \$2.0 million.

The capital expenditure of \$75.4 million for the year included three major projects, \$5.1 million for the Frances Bay substation upgrade, \$4.3 million for undergrounding of power lines and \$4.0 million on the Dundee Beach 22kv feeder. In addition, \$13.0 million was spent on remote communities' plant and equipment.

In accordance with the gas purchase agreement held by the Corporation's wholly owned subsidiary, Gasgo Pty Limited, \$4.8 million of development expenditure was reimbursed to the Palm Valley Gas Producers. In December 2003, Gasgo committed to the Stage 4 compression project at the Palm Valley field. Installation and commissioning of the compression unit was completed between January to June 2006.

The consolidated entity borrowed a further net \$37.2 million from the Northern Territory Government during the year to June 2006. These additional funds were sourced prior to receiving the additional \$25.9 million of grant funding late in June 2006.

As a consequence of the consolidated entity's positive financial performance, an income tax expense of \$8.5 million has been raised under the National Tax Equivalent Regime. The income tax payable by the consolidated entity will be paid direct to the Northern Territory Government.

Dividends

Subsequent to reporting date the directors have confirmed the declared dividend of \$10.3 million, equivalent to 50% of the Corporation's net profit after tax. A dividend of \$18.9 million was declared in the prior year with \$18.7 million actually paid during the year.

Future Developments

The Corporation will continue to pursue its policy of providing safe and reliable electricity, water and sewerage services to the people of the Northern Territory.

At the date of this report, there are no developments in the operations of the consolidated entity that, in the opinion of the directors are likely to significantly impact the Corporation during the 2007 financial year.

Environmental Regulation

The consolidated entity's operations are subject to significant statutory responsibilities under both Commonwealth and Northern Territory legislation. The Corporation discharged its responsibilities in this area.

Subsequent Events

For dividends declared after 30 June 2006 refer to the Dividends section above.

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

Indemnification and insurance of directors and officers

Indemnification

The Northern Territory Government has indemnified the directors of the Corporation from and against all liabilities incurred or arising out of conduct of a director of the Corporation, acting in good faith in compliance with any direction or request made by the shareholding Minister or the portfolio Minister to the Corporation or the Board of the Corporation pursuant to the *Government Owned Corporations Act*.

The Northern Territory Government has also indemnified the directors of its controlled entities 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 to cover the directors and officers of the Company:

Group Personal Accident Insurance

The insurer will indemnify the insured in relation to any injury, permanent disability or death which occurs whilst the injured persons are actually engaged on the insured's business.

Professional indemnity insurance

The insurer will indemnify the insured against any claim that may be made against the insured for actual or alleged breach of professional duty by reason of act, error or omission committed or allegedly committed by or on behalf of the insured.

In addition, the insurer will pay the costs and expenses incurred in the defence, settlement or investigation of any such claim.

Directors' and officers' liability

The insurer will indemnify the insured's directors and officers against personal liabilities from wrongful acts committed by these directors or officers in connection with their duties and responsibilities. Wrongful acts include breaches of trust, neglect, error or misstatement. The policy will reimburse all expenses incurred in defending these actions.

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Corporation during the financial year are:

Director	Board Meetings		Audit and Compliance Committee Meetings		Executive Remuneration Committee Meetings		Environment Committee Meetings	
	A	B	A	B	A	B	A	B
Mr Neil Philip	9	9	4	4	5	5	-	-
Ms Judith King	9	9	4	4	5	5	5	5
Mr Peter Vines	7	7	3	3	4	4	2	3
Mr Bob Neil	5	7	2	3	3	4	-	-
Dr Michael Vertigan	1	1	-	-	1	1	-	-
Dr Michael Sargent	1	1	-	-	1	1	-	-
Mr Kim Wood	9	9	4	4	5	5	2	5

A - Number of meetings attended

B - Number of meetings held during the time the director held office during the year

Rounding Off

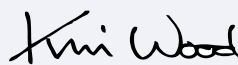
Amounts in the financial report have been rounded to the nearest thousand dollars, unless otherwise stated

Dated at Darwin this 29th day of September 2006.

Signed in accordance with a resolution of the directors:



Neil Philip
Director and Chairman



Kim Wood
Managing Director

Directors' Declaration

In the opinion of the directors of Power and Water Corporation (the Corporation):

- (a) the financial statements and notes of the Corporation and the consolidated entity are in accordance with the Government Owned Corporations Act, including:
 - (i) giving a true and fair view of the financial position of the Corporation and consolidated entity as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia; and
- (b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

Dated at Darwin this 29th day of September 2006.

Signed in accordance with a resolution of the directors:



Neil Philip
Director and Chairman



Kim Wood
Managing Director

Independent Audit Opinion



AUDITOR-GENERAL

**Auditor-General's report to the Board of Directors
Power and Water Corporation
Year ended 30 June 2006**

Page 1 of 3

Scope

The financial report and the Directors' responsibility

The financial report of the Power and Water Corporation (the 'Corporation') and the Power and Water Corporation and its controlled entities (the 'consolidated entity') comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, a summary of significant accounting policies and other explanatory notes and the directors' declaration for the financial year ended 30 June 2006.

The consolidated entity comprises both the Corporation and the entities it controlled during the year.

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

Audit approach

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

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

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

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

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

I have read the other information in the annual report to determine whether it contained any material inconsistencies with the financial report.



AUDITOR-GENERAL

Page 2 of 3

Independence

I am independent of the Corporation and the consolidated entity and, in conducting my audit, I followed applicable independence requirements of the *Audit Act* and of Australian professional ethical pronouncements.

Qualification

1. Application of AASB 136 *Impairment of Assets* to the comparative results reported for the year ended 30 June 2005

Accounting Standard AASB 136 *Impairment of Assets* requires an asset to be written down to its recoverable amount when its carrying value is greater than its recoverable amount. As at 30 June 2005 I was unable to obtain sufficient appropriate audit evidence of the recoverable amount of property, plant and equipment reported as \$1,062 million for the Corporation (consolidated entity \$898.6 million) in Note 11 to the financial statements and, accordingly, I am unable to determine whether the recoverable amounts of property, plant and equipment were at least equal to their carrying values at that date.

In the event that the carrying values of property, plant and equipment exceeded their recoverable amounts, it would have been necessary for the carrying values of property, plant and equipment to be written down to their recoverable amounts.

For the reasons set out above:

- I am unable to determine whether the recoverable amount of property, plant and equipment for the Corporation and the consolidated entity is at least equal to the carrying amount as at 30 June 2005; and
- I am unable to determine whether the profit reported in the income statement and the statement of changes in equity for the Corporation and the consolidated entity is fairly stated for the year ended 30 June 2005.

2. Application of AASB 136 *Impairment of Assets* to the results reported for the year ended 30 June 2006

Note 11 to the financial statements reports the value of the Corporation's and consolidated entity's water system assets as \$334.042 million. Accounting Standard AASB 136 *Impairment of Assets* requires an asset to be written down to its recoverable amount when its carrying value is greater than its recoverable amount. The discount rate applied by the Corporation in determining the recoverable amount of water system assets was a nominal, pre-tax rate of 6.65%. Using this discount rate, the Corporation determined that the water system assets were not impaired. AASB 136 *Impairment of Assets* requires the discount rate used to determine the recoverable amount to reflect current market assessments of the risks specific to the asset for which future cash flow estimates have not been adjusted. In my opinion, use of a discount rate of 6.65% is not in accordance with AASB 136 *Impairment of Assets* and I consider that a discount rate of 10.0% should be used in determining the recoverable amount. Application of this discount rate would result in the assets being written down by \$38.045 million to \$295.997 million as at 30 June 2006.

Due to the limitations outlined in paragraph 1 above associated with the determination of the recoverable amount as at 30 June 2005, I am unable to determine the extent to which an impairment write-down of \$38.045 million would be recognised in the income statement and the statement of changes in equity for the years ended 30 June 2005 and 30 June 2006.

**AUDITOR-GENERAL****Page 3 of 3****Qualification (continued)**

In the event that an impairment loss was recognised for the year ended 30 June 2005, it would have been necessary to assess at 30 June 2006 whether there is any indication that the impairment loss recognised in the prior year may no longer exist.

For the reasons set out above:

- I am of the opinion that the value of the Corporation's water system assets are overstated by \$38.045 million at 30 June 2006; and
- I am unable to determine whether the profit reported in the income statement and the statement of changes in equity for the Corporation and the consolidated entity is fairly stated for the year ended 30 June 2006.

Qualified Audit Opinion

In my opinion, except for the effects on the financial report of the matter referred to in the qualification paragraph, the financial report of Power and Water Corporation:

- presents fairly the financial position of the Corporation and the consolidated entity at 30 June 2006, and their financial performance for the year ended on that date; and
- is presented in accordance with the *Government Owned Corporations Act*, Accounting Standards and other mandatory financial reporting requirements in Australia.

A handwritten signature in black ink, appearing to read 'F. McGuinness'.

Frank McGuinness
Auditor-General for the Northern Territory
10 October 2006

Income Statement

Power and Water Corporation and its Controlled Entities For the year ended 30 June 2006

	Note	Consolidated		Corporation	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue from sale of goods	4(a)	339,115	329,068	276,844	272,208
Revenue from rendering of services	4(a)	77,958	75,757	26,226	26,779
Finance revenue	4(a)	999	1,762	986	1,852
Other income	4(b)	79,441	83,326	151,379	150,529
Revenue		497,513	489,913	455,435	451,368
Change in inventories of finished goods and work in progress		(8,122)	(8,036)	(20,285)	(20,014)
Raw materials and consumables used		(235,718)	(210,714)	(194,616)	(177,964)
Repairs and maintenance expense		(24,867)	(25,289)	(24,867)	(25,289)
Employee benefits expense		(62,623)	(58,996)	(63,503)	(59,970)
Property costs		(4,582)	(3,324)	(4,582)	(3,324)
Information technology and communications expense		(8,247)	(8,814)	(8,247)	(8,814)
Insurance costs		(3,416)	(3,458)	(3,416)	(3,458)
Community Contract fees		(5,699)	(5,431)	(5,699)	(5,431)
Depreciation and amortisation expenses	4(d)	(58,906)	(56,594)	(46,047)	(41,287)
Impairment of non-current assets		(11)	-	(11)	-
Other expenses		(31,798)	(34,197)	(30,919)	(31,561)
Finance costs	4(c)	(24,465)	(24,458)	(24,214)	(24,131)
Profit before income tax		29,059	50,602	29,029	50,125
Income tax expense	5(a)	(8,541)	(14,950)	(8,532)	(14,804)
Net profit for the period		20,518	35,652	20,497	35,321
Total changes in equity from non-owner related transactions attributable to the members of the parent entity		20,518	35,652	20,497	35,321

The income statement is to be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity

Power and Water Corporation and its Controlled Entities For the year ended 30 June 2006

	Note	Consolidated		Corporation	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Equity at the beginning of the year	29	613,014	596,262	612,572	596,151
Net profit for the year		20,518	35,652	20,497	35,321
Dividend over/(under) provided in the prior year		204	-	204	-
Dividend recognised during the year		(10,249)	(18,900)	(10,249)	(18,900)
Equity at the end of the year		623,487	613,014	623,024	612,572

The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

Balance Sheet

Power and Water Corporation and its Controlled Entities For the year ended 30 June 2006

	Note	Consolidated		Corporation	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
CURRENT ASSETS					
Cash and cash equivalents	7(a)	54,467	2,388	39,443	-
Trade and other receivables	8	61,524	69,185	66,469	67,074
Inventories	9	17,099	15,545	11,831	9,841
Prepayments		2,118	3,340	2,088	3,341
Other		-	50	-	-
Total current assets		135,208	90,508	119,831	80,256
NON-CURRENT ASSETS					
Receivables	8	161	52	4,151	9,300
Investments	10	3	3	-	-
Investment in subsidiaries	10	-	-	2,253	1,625
Property, plant and equipment	11	1,095,770	1,062,154	927,269	898,609
Deferred tax assets	5(b)	7,929	15,542	7,906	15,530
Intangible assets	11	7,621	9,199	7,621	9,199
Other	12	14,409	14,440	-	-
Total non-current assets		1,125,893	1,101,390	949,200	934,263
Total assets		1,261,101	1,191,898	1,069,031	1,014,519
CURRENT LIABILITIES					
Trade and other payables	13	87,101	43,257	72,853	38,911
Interest-bearing loans and borrowings	14	21,462	24,207	20,304	25,037
Income tax payable	5(c)	786	14,467	786	14,467
Provisions	15	24,046	34,283	24,046	34,283
Government grants	16	8,054	8,085	-	-
Other	17	789	789	789	789
Total current liabilities		142,238	125,088	118,778	113,487
NON-CURRENT LIABILITIES					
Interest-bearing loans and borrowings	14	307,952	269,496	305,549	265,929
Deferred tax liabilities	5(b)	15,733	19,064	15,733	18,456
Provisions	15	5,947	3,286	5,947	3,286
Government grants	16	165,744	161,161	-	-
Other	17	-	789	-	789
Total non-current liabilities		495,376	453,796	327,229	288,460
Total liabilities		637,614	578,884	446,007	401,947
Net assets		623,487	613,014	623,024	612,572
EQUITY					
Contributed equity	18	-	-	-	-
Reserves	19	-	-	-	-
Retained profits	20	623,487	613,014	623,024	612,572
Total equity		623,487	613,014	623,024	612,572

The balance sheet is to be read in conjunction with the notes to the financial statements.

Cash Flow Statement

Power and Water Corporation and its Controlled Entities For the year ended 30 June 2006

	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>				
Receipts from customers	393,213	360,853	393,451	374,783
Payments to suppliers and employees	(372,361)	(372,660)	(347,776)	(332,444)
Income tax paid 5(c)	(17,940)	(27,018)	(17,940)	(27,018)
Community Service Obligations received	52,012	50,464	52,012	50,464
Receipt of Government grants	83,817	55,825	25,881	-
Interest Received	863	2,017	400	1,418
Interest paid	(24,817)	(24,510)	(24,435)	(24,183)
Net cash provided by operating activities 7 (b)	114,786	44,971	81,593	43,020
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>				
Proceeds from sale of property, plant and equipment	131	484	97	414
Interest received from controlled entities	-	-	556	644
Purchase of property, plant and equipment	(75,371)	(76,470)	(62,360)	(63,518)
Payments for development expenditure	(4,772)	(1,287)	-	-
Repayment of loans by controlled entities	-	-	3,368	3,404
New loans issued to controlled entities	-	-	-	(4,200)
Trust distribution received	288	596	-	-
Net cash used in investing activities	(79,723)	(76,676)	(58,339)	(63,257)
<i>CASHFLOWS FROM FINANCING ACTIVITIES</i>				
Repayment of borrowings	(24,288)	(22,957)	(22,734)	(21,000)
Proceeds from borrowings	60,000	20,000	60,000	20,000
Dividends paid 6	(18,697)	(20,046)	(18,697)	(20,046)
Net cash used in financing activities	17,015	(23,003)	18,569	(21,046)
Net increase/(decrease) in cash and cash equivalents	52,078	(54,708)	41,823	(41,283)
Cash and cash equivalents at the beginning period	2,389	57,097	(2,380)	38,903
Cash and cash equivalents at end of period 7(a) & 14	54,467	2,389	39,443	(2,380)

The cash flow statement is to be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

Power and Water Corporation and its Controlled Entities For the year ended 30 June 2006

1. Corporate information

The financial report of Power and Water Corporation (the Corporation) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of directors on 30 August 2006.

The Corporation is a company limited by shares incorporated in Australia.

The nature of the operations and principal activities of the Corporation are described in note 3.

2. Statement of significant accounting policies

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

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the *Government Owned Corporations Act*. The *Government Owned Corporations Act* requires the financial statements of the Corporation and the consolidated entity to comply with the requirements of the *Corporations Act 2001*.

The financial report has been prepared on the basis of historical cost except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year.

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

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and the notes thereto, complies with the International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliations of AIFRS equity and

profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 29.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries as at 30 June each year (the consolidated entity). A list of subsidiaries appears in Note 23 to the financial statements.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies with the exception of the treatment of Government grant revenue received by Indigenous Essential Services Pty Ltd. Indigenous Essential Services Pty Ltd, as a not-for-profit entity applies accounting standard AASB 1004 Contributions for recognition and measurement of Government Grants. This accounting treatment is adjusted on consolidation to align to accounting policy (d) Revenue recognition, shown below.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

The Corporation earns income, classified as 'other income' in the Income Statement, from its subsidiary Indigenous Essential Services Pty Ltd. This is eliminated on consolidation together with the associated expenses included in the expense line 'change in inventories of finished goods and work in progress' shown in the Income Statement.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity and cease to be consolidated from the date on which control is transferred out of the consolidated entity.

(d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. 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 returns, 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.

Rendering of services

Revenue from the rendering of services is recognised when the service is provided, having regard to the stage of completion of the contract.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract.

When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

In respect of the Corporation's wholly owned subsidiary, Indigenous Essential Services Pty Limited, revenue from rendering of services is recognised when the service is provided, having regard for the costs incurred in providing those services.

Community service obligation revenue

Revenue in the form of Community Service Obligations (CSOs) is generally received from the Northern Territory Government where the Corporation is required to carry out activities on a non-commercial basis. CSO revenue is recognised when there is reasonable assurance that the revenue will be received and all attaching conditions will be complied with.

Government grants

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, the fair value is recognised as deferred income and released to revenue over the life of the asset.

Investment revenue

Revenue from distributions from investments are recognised when control of the right to receive consideration has been attained.

Interest revenue

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

Deferred gain on sale and lease back of non-current assets

Net gains realised on the sale and leaseback of non-current assets are amortised over the lease term of the respective assets.

Contribution of assets

Contributions of assets and contributions to assist in the acquisition of assets from developers or customers in respect of extensions or modifications to the service delivery network, are accounted for as follows:

- Developer or customer contributions of non-current assets are recognised as revenue and an asset, based on valuations, when the Corporation gains control of the contribution.
- Developer or customer contributions of cash are recognised as revenue to the extent that the extensions or modifications are complete; the balance is recognised as deferred income.

Sale of non-current assets

The net profit of non-current asset sales are recognised as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

(e) Cost of sales

Cost of sales are those costs attributable to the integrated process involved in the generation and transformation of electricity, and the transformation of water, into saleable goods.

(f) 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 is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement 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 are classified as operating cash flows.

(g) Finance costs

Finance costs include interest. Finance costs are recognised as an expense in the period in which they are incurred regardless of how the borrowings are applied.

(h) Income tax

The Corporation and its controlled entities are subject to the National Tax Equivalent Regime, which requires income tax to be subject to the Australian Taxation Office administration.

The consolidated entity adopts the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases of those items.

Current tax is calculated by reference to the amount of the income taxes payable or recoverable in respect of the taxable profit or taxable loss for the period.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities are recognised for all temporary differences except:

- When the deferred tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and is probable that the temporary difference will not reverse in the foreseeable future.

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

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

Tax consolidation

The Corporation is the head entity in a tax-consolidated group comprising of all its wholly-owned subsidiaries apart from Indigenous Essential Services Pty Limited. Indigenous Essential Services Pty Limited was exempted from the National Tax Equivalent Regime effective 1 July 2003 which was the date of incorporation of the company. The implementation date for the tax-consolidated group was 1 July 2002.

The head entity and each subsidiary entity has adopted the 'stand alone taxpayer' basis resulting in each entity accounting for its tax consequences as if it continued to be a taxable entity in its own right.

The Corporation does not have a Tax Funding Arrangement or a Tax Sharing Agreement. The wholly owned subsidiaries do not make any contributions to the head entity.

(i) Use and revision of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 estimate is 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.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash in banks, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(k) Receivables

Service debtors are on 21 day terms and other debtors are on 30 day terms and are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts.

Unbilled consumption represents the estimated consumption of electricity and water services provided to customers but unbilled as at the reporting date.

(l) 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 is determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

(m) Investments

Investments in controlled entities and unlisted entities are carried in the financial statements at the lower of cost and recoverable amount.

(n) Leased assets

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

The lease is capitalised as 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. 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 the income statement.

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 consolidated entity will obtain ownership by the end of the lease term.

Operating leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(o) Property, plant and equipment

Acquisition of assets

Freehold land and buildings and electricity, water and sewerage system assets are originally stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in its carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

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

Freehold land and buildings and electricity, water and sewerage system assets are measured at deemed cost, being the fair value of assets at the transition date to AIFRS on 1 July 2004, less accumulated depreciation and less any impairment losses recognised at that date.

Depreciation and amortisation

Complex Assets

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

Useful Lives

All assets, excluding freehold land, have limited useful lives and are depreciated/amortised using the straight-line method over their estimated useful lives, with the exception of leased plant and equipment and deferred development expenditure which are amortised over the term of the relevant lease/agreement.

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.

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 expended.

The depreciation/amortisation useful lives used for each class of asset are as follows:

Building, plant and equipment	2006	2005
Electricity system	3-99 years	3-99 years
Leased electricity system	20 years	20 years
Water system	3-99 years	3-99 years
Sewerage system	3-99 years	3-99 years
Non-System related		
Building and improvements	10-50 years	10-50 years
Plant and equipment	3-99 years	3-99 years
Other non-current assets		
Deferred development expenditure	4 years	4 years

Impairment of assets

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects market assessments of the time value of money and the risks specific to the asset.

For Indigenous Essential Services Pty Limited, as a not-for-profit entity, the value in use is the depreciated replacement cost of the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Any impairment loss is recognised immediately in the income statement.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the asset is derecognised.

(p) Intangible assets

Intangible assets consist of purchased software and in-house installation thereof. Intangible assets are originally stated at cost less accumulated amortisation and any accumulated impairment losses.

All intangible assets have limited useful lives and are amortised using the straight-line method over their estimated useful lives. Assets are amortised from the date of acquisition or from the time the asset is held ready for use. Amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

(q) Deferred development expenditure

Under a Gas Purchase Agreement entered into by a controlled entity, gas producers are reimbursed for reasonably incurred costs relating to the development of gas fields. Such costs are capitalised when due and payable, and amortised over the expected life of the gas field.

The unamortised balance of field development costs deferred in previous periods is reviewed regularly and at each reporting date, to ensure the criterion for deferral continues to be met. Where such costs are no longer considered recoverable, they are written off in the financial period the decision is made.

(r) Payables

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obligated to make future payments in respect of the purchase of these goods and services. Trade accounts payable are normally settled within 30 days.

(s) Interest bearing liabilities

All government loans and other borrowings including commercial bills are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised.

(t) Employee benefits***Wages, salaries, sick leave and airfares***

Provisions for wages and salaries, including non-monetary benefits and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Annual leave

The provision for annual leave is recognised in the provision for employee benefits and is measured at the amount expected to be paid when the liabilities are settled.

Any amount expected to be settled beyond 12 months is recognised as a non-current provision.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on National Government Bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Superannuation plans

For employees who commenced employment with the Corporation prior to 10 August 1999, the Corporation contributes to the Northern Territory Government Public Authorities Superannuation Scheme (NTGPASS), the Northern Territory Supplementary Superannuation Scheme (NTSSS) and the Commonwealth Superannuation Scheme (CSS). Employee Contributions to the NTGPASS and CSS Funds are based on various percentages of the respective gross salaries. After serving a qualifying period, all employees are entitled to benefits on retirement, disability or death.

The funds provide defined benefits based on years of service, employee contributions and final average salary. The Corporation is under no legal obligation to make up any shortfall in the funds' assets to meet payments due to employees.

Employees who commenced employment with the Corporation on or after 10 August 1999 are provided with an option to either nominate a complying superannuation fund or to use the default superannuation fund, being the Australian Government Employees Superannuation Trust.

(u) Provisions

A provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the consolidated entity expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(v) Dividends

A provision for dividends payable is recognised in the reporting period to which it relates. The Northern Territory Government's dividend policy requires the Corporation to provide for a dividend payable, generally at a rate of 50% of net profit after income tax.

(w) Renewable Energy Credits Scheme

The Renewable Energy Credits (REC) Scheme is a Commonwealth Government initiative to promote alternative means of energy generation. Under the Scheme, utility production entities are required to hold an appropriate number of RECs for the production year to meet the annual production figures for the year. RECs are currently obtained through the provision of a rebate paid by the Corporation to householders installing solar hot water systems. RECs are expended once purchased, unless surplus to the current year's requirements, in which case the surplus is recorded as an asset at the estimated market value at reporting date.

3. Segment information

The segment reporting format is business segments differentiated by the risks and rates of return for products and services produced.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise

income-earning assets, revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The consolidated entity comprises the following main business segments, primarily based on the consolidated entity's management reporting system:

Power	Generation, transmission and distribution of electricity
Water	Extraction, storage, treatment and transportation of water
Sewerage	Treatment and disposing of sewerage waste collected by the reticulation network
Commercial	Investment in telecommunication infrastructure
Gas	Purchase and sale of natural gas by a controlled entity
Investment	Equity holdings in a gas related entity
Non Commercial	Indigenous Essential Services Pty Ltd (IES) general operations

Geographical segments

The consolidated entity operates predominantly in Australia.

Year ended 30 June 2006	Power \$'000	Water \$'000	Sewerage \$'000	Commercial \$'000	Gas \$'000	Investment \$'000	Non- Commercial \$'000	Elimination \$'000	Consolidated \$'000
Revenue									
External sales segment revenue	363,847	59,049	30,251	2,289	62,392	470	72,065	(92,850)	497,513
Inter-segment sales	6,760	975	28	-	-	-	-	(7,763)	-
Total revenue	370,607	60,024	30,279	2,289	62,392	470	72,065	(100,613)	497,513
Result									
Segment results before income tax	28,199	1,404	(421)	(153)	-	30	4,551	(4,551)	29,059
Income tax expense									(8,541)
Net Profit	28,199	1,404	(421)	(153)	-	30	4,551	(4,551)	20,518
Depreciation and amortisation	30,932	11,114	3,887	543	4,803	2	8,054	-	59,335
Assets and Liabilities									
Segment assets	448,804	455,309	141,873	15,516	21,970	2,275	188,535	(20,708)	1,253,574
Unallocated assets									7,526
Total Assets	448,804	455,309	141,873	15,516	21,970	2,275	188,535	(20,708)	1,261,101
Segment Liabilities	298,080	71,612	55,058	5,192	21,453	75	14,737	155,343	621,551
Unallocated liabilities									16,063
Total Liabilities	298,080	71,612	55,058	5,192	21,453	75	14,737	155,343	637,614
Other Information									
Acquisition of non-current assets	30,558	12,609	7,067	-	-	-	13,119	-	63,352
Unallocated acquisition of non-current assets	-	-	-	-	-	-	21,800	-	-
Total acquisition of non-current assets	30,558	12,609	7,067	-	-	-	13,119	-	85,152

Year ended 30 June 2006	Power \$'000	Water \$'000	Sewerage \$'000	Commercial \$'000	Gas \$'000	Investment \$'000	Non- Commercial \$'000	Elimination \$'000	Consolidated \$'000
Revenue									
External sales segment revenue	347,279	68,082	33,489	2,515	56,960	1,265	68,087	(87,765)	489,913
Inter-segment sales	5,211	954	36	-	-	-	-	(6,201)	-
Total revenue	352,490	69,036	33,525	2,515	56,960	1,265	68,087	(93,966)	489,913
Result									
Segment results before income tax	36,050	12,121	1,563	389	-	478	5,821	(5,821)	50,601
Income tax expense									(14,950)
Net Profit	36,050	12,121	1,563	389	-	478	5,821	(5,821)	35,652
Depreciation and amortisation	27,361	9,971	3,479	476	7,220	2	8,085	-	56,594
Assets and Liabilities									
Segment assets	481,362	399,143	103,379	11,447	21,075	2,246	173,137	(16,710)	1,175,080
Unallocated assets									16,818
Total Assets	481,362	399,143	103,379	11,447	21,075	2,246	173,137	(16,710)	1,191,898
Segment Liabilities	229,978	66,036	46,451	5,328	20,578	79	3,890	154,162	526,502
Unallocated liabilities									52,381
Total Liabilities	229,978	66,036	46,451	5,328	20,578	79	3,890	154,162	578,884
Other Information									
Acquisition of non-current assets	38,418	13,549	7,810	-	-	-	11,230	-	71,008
Unallocated acquisition of non-current assets	-	-	-	-	-	-	-	-	32,641
Total acquisition of non-current assets	38,418	13,549	7,810	-	-	-	11,230	-	103,649

4. Revenue and expenses

Revenue and expenses from continuing operations

	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Revenue				
Sale of goods	339,115	329,068	276,844	272,208
Rendering of services	77,958	75,757	26,226	26,779
Finance revenue	999	1,762	986	1,852
	418,072	406,587	304,056	300,839
Breakdown of rendering services:				
IES capital grant	8,075	7,839	-	-
IES recurrent grant	43,657	41,139	-	-
Services rendered	26,226	26,779	26,226	26,779
	77,958	75,757	26,226	26,779
Breakdown of finance revenue:				
Bank interest receivable	983	1,762	508	1,172
Interest - controlled parties	-	-	478	680
Income from investments	16	-	-	-
Total finance revenue	999	1,762	986	1,852
(b) Other income				
Community Service Obligations:				
Uniform tariffs	50,437	48,939	50,437	48,939
Other	3,281	3,100	3,281	3,100
	53,718	52,039	53,718	52,039
Developer and customer contributions:				
Gifted network assets	10,781	14,019	10,781	14,019
Other	6,463	8,008	6,047	7,762
	17,244	22,027	16,828	21,781
Deferred gain on sale and lease back of generation plant and equipment	789	789	789	789
Net gain on disposal of property, plant and equipment	131	329	97	259
Recoverable works	1,055	964	24,344	24,391
Other revenue	6,504	7,178	55,603	51,270
	79,441	83,326	151,379	150,529

	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Various government grants have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attaching to these grants.				
(c) Finance costs				
Bank loans	251	327	-	-
NT Treasury loans	24,214	24,131	24,214	24,131
Total finance costs (on historical cost basis)	24,465	24,458	24,214	24,131
(d) Depreciation, amortisation, foreign exchange differences and costs of inventories included in the income statement				
Depreciation of buildings	3,784	3,528	3,310	3,054
Depreciation of plant and equipment	44,285	40,009	36,703	32,396
	48,069	43,537	40,013	35,450
Amortisation of intangible assets	2,568	1,502	2,568	1,502
Amortisation of development costs	4,803	7,220	-	-
Amortisation of leased plant and equipment	3,466	4,335	3,466	4,335
	10,837	13,057	6,034	5,837
Total depreciation and amortisation	58,906	56,594	46,047	41,287
Write down in value of inventories	178	252	178	252
(e) Net bad and doubtful debts (write back)/expense including movements in provision for:				
Doubtful service debts	(900)	(2,415)	(900)	(2,415)

5. Income tax

The major components of income tax expense are:

	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Income Statement				
<i>Current income tax</i>				
Current income tax charge	10,176	14,557	9,548	12,931
<i>Deferred income tax</i>				
Adjustments in respect of permanent differences				
Rounding	1	2		
Relating to origination and reversal of temporary differences	(1,636)	391	(1,016)	1,873
Income tax expense reported in the income statement	8,541	14,950	8,532	14,804
Numerical reconciliation between tax expense and pre-tax net profit				
Accounting profit before income tax	29,059	50,602	29,029	50,125
At the consolidated entities' statutory income tax rate of 30% (2005: 30%)	8,718	15,181	8,709	15,038
Rounding	-	2	(1)	(1)
Expenditure not allowable for income tax purposes	(177)	(233)	(177)	(233)
Other				
Income tax expense on pre-tax profit	8,541	14,950	8,532	14,804
(b) Deferred income tax				
Deferred income tax at 30 June relates to the following:				
<i>Deferred tax liabilities</i>				
Accelerated depreciation for tax purposes	8,203	11,017	8,203	11,016
Movement in prepayments	78	70	78	70
Movements in unbilled consumption	7,412	7,362	7,412	7,362
Movement in research & development expenditure	-	607	-	-
Movement in accrued interest	40	8	40	8
Gross deferred income tax liabilities	15,733	19,064	15,733	18,456
<i>Movements:</i>				
Opening balance at 1 July	19,064	19,612	18,456	17,525

	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Rounding		(3)		(2)
Under provision from prior years	(1,855)	(491)	(1,855)	(491)
Credited/(charged) to the income statement	(1,476)	(54)	(868)	1,424
Closing balance at 30 June	15,733	19,064	15,733	18,456
<i>Deferred tax assets</i>				
Movement in employee provisions	5,788	5,464	5,788	5,464
Movement in doubtful debts provision	667	938	667	938
Movement in obsolete stock provision	654	601	654	601
Movement in other provisions	808	28	797	28
Movement in accrued expenses	-	740	-	727
Accelerated depreciation for accounting purposes	12	7,771	-	7,772
Gross deferred income tax assets	7,929	15,542	7,906	15,530
<i>Movements:</i>				
Opening balance at 1 July	15,542	8,215	15,530	8,207
Rounding	(1)	-		-
Credited/(charged) to Income tax payable	(7,772)	7,772	(7,772)	7,772
Credited/(charged) to the income statement	160	(445)	148	(449)
Closing balance at 30 June	7,929	15,542	7,906	15,530
Deferred tax income/(expense)	(1,636)	391	(1,016)	1,873
(c) Income tax payable				
Balance at beginning of the year	14,467	18,665	14,467	18,665
Income tax paid	(17,940)	(27,018)	(17,940)	(27,018)
Current year income tax expense	9,548	12,931	9,548	12,931
Subsidiary income tax expense	628	1,626	628	1,626
Under provision from prior years	(5,917)	8,263	(5,917)	8,263
Closing balance at end of year	786	14,467	786	14,467
(d) Equity contributions to subsidiaries in relation to income tax payable				
Darnor Pty Limited	-	-	25	129
Gasgo Pty Limited	-	-	603	1,496
	-	-	628	1,625

The potential deferred tax asset arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not probable and recovery of timing differences is not assured beyond any reasonable doubt. The future tax asset relating to capital losses carried forward is \$1,720,000 (2005: \$1,720,000)

Tax consolidation

Power and Water Corporation and its 100% owned Australian resident subsidiaries excluding Indigenous Essential Services Pty Ltd have formed a tax consolidated group with effect from 1 July 2002. Power and Water Corporation is the head entity of the tax consolidated group. Members of the group allocate income tax expense to the wholly owned subsidiaries on a Stand Alone Taxpayer Approach.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have not entered into a tax funding agreement. The head entity and each subsidiary entity has adopted the 'stand alone taxpayer' basis resulting in each entity accounting for its tax consequences as if it continued to be a taxable entity in its own right. The Corporation provided additional equity to its subsidiaries each year to fund their annual tax payable. The tax consolidated group's total income tax payable liability balance is recognised in the Corporation's accounts.

6. Dividends

	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Income Statement				
<i>Current income tax</i>				
Declared and paid during the year:				
Dividends on ordinary shares:	10,249	18,900	10,249	18,900
Final dividend paid for 2006: \$18,697,000 (2005: \$20,046,000)	10,249	18,900	10,249	18,900

7. Cash and cash equivalents

	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Reconciliation of cash				
Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the balance sheets as follows:				
Cash assets	54,467	2,388	39,443	-
	54,467	2,388	39,443	-
(b) Reconciliation of net profit after tax to net cash flows from operations				
Net Profit	20,518	35,652	20,497	35,320
<i>Adjustments for:</i>				
Depreciation and amortisation	59,335	56,594	46,476	41,287
Distribution from trust	(288)	(596)	-	-
Recoverable amount write-down	11	-	11	-
Contributed assets provided free of charge	(10,781)	(14,019)	(10,781)	(14,019)
Interest on loans to subsidiary companies	-	-	(478)	(680)
Net (profit)/loss on disposal of property, plant and equipment	(131)	(329)	(97)	(259)
<i>Changes in assets and liabilities</i>				
(Increase)/decrease in inventories	(1,982)	64	(2,419)	64
(Increase)/decrease in trade and other receivables	7,118	(9,338)	653	(9,745)
(Increase)/decrease in prepayments	1,269	(280)	1,254	(304)
(Decrease)/increase in net deferred tax payable	4,282	(8,656)	4,273	(8,656)
(Decrease)/increase in current tax liabilities	(13,681)	(3,413)	(13,681)	(3,558)
(Decrease)/increase in trade and other payables	47,928	(12,909)	34,696	1,368
(Decrease)/increase in provisions	1,189	2,201	1,189	2,201
Net cash flows from operating activities	114,786	44,971	81,593	43,020

(c) Disclosure of non-cash financing and investing activities

During the financial year the consolidated entity acquired property, plant and equipment with an aggregate fair value of \$10.8 million (2005 \$14.0 million) by means of a gift. These acquisitions are not reflected in the cash flow statement of cash flows.

8. Trade and other receivables

	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current				
Service receivables	31,642	45,658	31,541	41,703
Allowance for doubtful debts	(2,225)	(3,125)	(2,225)	(3,125)
Unbilled consumption	24,707	24,540	24,707	24,540
	54,124	67,073	54,023	63,118
Other receivables	7,400	2,112	9,296	2,618
Loans and advances to controlled entities	-	-	3,150	1,338
Total current receivables	61,524	69,185	66,469	67,074
Non-current				
Loans and advances to controlled entities	-	-	3,990	9,248
Development loans	161	52	161	52
Total non-current receivables	161	52	4,151	9,300

(a) Service receivables

Trade service debtors are non-interest bearing and are generally 21 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. An allowance of \$2.2 million has been recognised as a provision in the current year for specific debtors for which such evidence exists. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

(b) Other receivables

Other receivables amounts generally arise from transactions outside the usual operating activities of the consolidated entity. Collateral is generally not obtained.

(c) Development loans

Interest-free development loans generally arise where customers are required to make cash contributions for the use of new network services. Collateral is generally not obtained.

9. Inventories

	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Materials and stores - at cost	7,994	7,143	7,994	7,143
Less: Provision for diminution in value	(2,180)	(2,002)	(2,180)	(2,002)
	5,814	5,141	5,814	5,141
Fuel stocks - at cost	11,228	10,368	5,960	4,664
Gas stocks - at cost	57	36	57	36
Total inventories	17,099	15,545	11,831	9,841

10. Investments

	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Non current				
2,500 \$1 unlisted units, at cost, in Amadeus Gas Trust beneficially held by Darnor Pty Limited	3	3	-	-

Unlisted shares, at cost, also held as follows:

- 10 (2005:10) ordinary shares of \$1 each held by the Corporation in Darnor Pty Limited;
- 10 (2005:10) ordinary shares of \$1 each held by the Corporation in Gasgo Pty Limited;
- 10 (2005:10) ordinary shares of \$1 each held by the Corporation in Indigenous Essential Services Pty Limited; and
- 5 (2005:5) ordinary shares of \$1 each held by Darnor Pty Limited in NT Gas Pty Limited.

The Corporation owns 100% of Darnor Pty Limited, Gasgo Pty Limited and Indigenous Essential Services Pty Limited companies incorporated in Australia.

Investment in subsidiaries				
Darnor Pty Limited	-	-	154	129
Gasgo Pty Limited	-	-	2,099	1,496
Total investment in subsidiaries	-	-	2,253	1,625

Movement in investments relates to contributions for income tax payable balances. See note 5.

11. Property, plant and equipment

Type	As at 30 June 2005				Movements During Year				As at 30 June 2006			
	At Cost \$'000	Accum Deprn \$'000	Written Down Value \$'000	Written Down Value \$'000	Additions \$'000	Transfer from Capital WIP \$'000	Net Value Written back \$'000	Disposals \$'000	Deprec- iation \$'000	At Cost \$'000	Accum Deprn \$'000	Written Down Value \$'000
Consolidated												
Electricity system assets	884,612	(483,200)	401,412	3,612	27,423	-	-	(22,949)	915,647	(506,149)	409,498	
Leased electricity system assets	133,747	(126,816)	6,931	-	-	-	-	(3,177)	133,747	(129,993)	3,754	
Water system assets	546,683	(216,094)	330,589	4,459	8,254	-	-	(9,261)	559,397	(225,355)	334,042	
Sewerage system assets	114,691	(46,725)	67,966	2,719	4,364	-	-	(3,032)	121,773	(49,757)	72,017	
Indigenous Essential Services	262,430	(125,980)	136,450	-	13,119	-	-	(8,054)	275,549	(134,034)	141,515	
Non-system related:												
Freehold land	2,759	-	2,759	-	-	-	-	-	2,759	-	2,759	
Building and improvements	8,882	(644)	8,238	-	4,855	-	-	(1,276)	13,737	(1,920)	11,817	
Plant and equipment	27,096	(4,410)	22,686	-	4,030	-	-	(3,786)	31,126	(8,196)	22,929	
Capital work in progress	85,123	-	85,123	75,351	(63,034)	-	-	-	97,440	-	97,440	
Total Property, plant and equipment	2,066,023	(1,003,869)	1,062,154	86,141	(990)	-	-	(51,535)	2,151,174	(1,055,404)	1,095,770	
Intangible assets	12,037	(2,838)	9,199	-	990	-	-	(2,568)	13,027	(5,406)	7,621	
Corporation												
Electricity system assets	884,612	(483,200)	401,412	3,612	27,423	-	-	(22,949)	915,647	(506,149)	409,498	
Leased electricity system assets	133,747	(126,816)	6,931	-	-	-	-	(3,177)	133,747	(129,993)	3,754	
Water system assets	546,683	(216,094)	330,589	4,459	8,254	-	-	(9,261)	559,397	(225,355)	334,042	
Sewerage system assets	114,691	(46,725)	67,966	2,719	4,364	-	-	(3,032)	121,773	(49,757)	72,017	
Non-system related:												
Freehold land	2,759	-	2,759	-	-	-	-	-	2,759	-	2,759	
Building and improvements	8,882	(644)	8,238	-	4,855	-	-	(1,276)	13,737	(1,920)	11,817	
Plant and equipment	27,094	(4,408)	22,686	-	4,030	-	-	(3,784)	31,124	(8,192)	22,931	
Capital work in progress	58,028	-	58,028	62,340	(49,916)	-	-	-	70,452	-	70,452	
Total	1,776,496	(877,887)	898,609	73,130	(990)	-	-	(43,479)	1,848,636	(921,366)	927,269	
Intangible assets	12,037	(2,838)	9,199	-	990	-	-	(2,568)	13,027	(5,406)	7,621	

Type	As at 30 June 2004			Movements During Year					As at 30 June 2005		
	At Cost \$'000	Accum Depn \$'000	Written Down Value \$'000	Additions \$'000	Transfer from Capital WIP \$'000	Net Value Written back \$'000	Disposals \$'000	Depreciation \$'000	At Cost \$'000	Accum Depn \$'000	Written Down Value \$'000
Consolidated											
Electricity system assets	847,975	(462,159)	385,816	1,963	35,294	320	(940)	(21,041)	884,612	(483,200)	401,412
Leased electricity system assets	133,747	(122,481)	11,266	-	-	-	-	(4,335)	133,747	(126,816)	6,931
Water system assets	536,191	(206,780)	329,411	5,549	4,943	-	-	(9,314)	546,683	(216,094)	330,589
Sewerage system assets	108,072	(43,751)	64,321	2,085	4,534	-	-	(2,974)	114,691	(46,725)	67,966
Indigenous Essential Services	251,200	(117,895)	133,305	-	11,230	-	-	(8,085)	262,430	(125,980)	136,450
Non-system related:											
Freehold land	2,759	-	2,759	-	-	-	-	-	2,759	-	2,759
Building and improvements	2,229	(236)	1,993	-	6,653	-	-	(408)	8,882	(644)	8,238
Plant and equipment	15,643	(2,695)	12,948	-	11,453	-	-	(1,715)	27,096	(4,410)	22,686
Capital work in progress	76,399	-	76,399	88,240	(79,516)	-	-	-	85,123	-	85,123
Total Property, plant and equipment	1,974,215	(955,997)	1,018,218	97,837	(5,409)	320	(940)	(47,872)	2,066,023	(1,003,869)	1,062,154
Intangible assets	6,628	(1,336)	5,292	-	5,409	-	-	(1,502)	12,037	(2,838)	9,199
Corporation											
Electricity system assets	847,975	(462,159)	385,816	1,963	35,294	320	(940)	(21,041)	884,612	(483,200)	401,412
Leased electricity system assets	133,747	(122,481)	11,266	-	-	-	-	(4,335)	133,747	(126,816)	6,931
Water system assets	536,191	(206,780)	329,411	5,549	4,943	-	-	(9,314)	546,683	(216,094)	330,589
Sewerage system assets	108,072	(43,751)	64,321	2,085	4,534	-	-	(2,974)	114,691	(46,725)	67,966
Non-system related:											
Freehold land	2,759	-	2,759	-	-	-	-	-	2,759	-	2,759
Building and improvements	2,229	(236)	1,993	-	6,653	-	-	(408)	8,882	(644)	8,238
Plant and equipment	15,643	(2,695)	12,948	-	11,451	-	-	(1,713)	27,094	(4,408)	22,686
Capital work in progress	51,023	-	51,023	75,289	(68,284)	-	-	-	58,028	-	58,028
Total	1,697,639	(838,102)	859,537	84,886	(5,409)	320	(940)	(39,785)	1,776,496	(877,887)	898,609
Intangible assets	6,628	(1,336)	5,292	-	5,409	-	-	(1,502)	12,037	(2,838)	9,199

12. Other non-current assets

Note	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Deferred development expenditure	58,710	53,938	-	-
Less: Accumulated amortisation	(44,301)	(39,498)	-	-
Total other non-current assets	14,409	14,440	-	-

13. Trade and other payables

Note	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Service creditors	37,922	32,297	30,229	31,500
Other creditors and accruals	49,179	10,960	42,624	7,411
Total payables	87,101	43,257	72,853	38,911

14. Interest bearing loans and borrowings

Note	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current				
Maturity				
Bank overdraft - unsecured	-	-	-	2,380
Government loans - unsecured	20,304	22,657	20,304	22,657
Commercial bill facility - secured	1,158	1,550	-	-
Total current borrowings	21,462	24,207	20,304	25,037
Non-current				
Maturity				
Government loans - unsecured	305,548	265,929	305,549	265,929
Commercial bill facility - secured	2,404	3,566	-	-
Total non-current borrowings	307,952	269,496	305,549	265,929

The bank overdraft, government loans and commercial bill facility in current liabilities comprise the portion of the consolidated entity's borrowings payable within one year, being \$21.5 million (2005: \$24.3 million).

The non-current balance of interest-bearing liabilities represents the portion of the consolidated entity's borrowings not due within one year.

The total bank overdraft facility available at the reporting date is \$2.0 million. The unused bank overdraft facility available at the reporting date is \$2.0 million. Interest on bank overdraft is charged at prevailing market rates. The bank overdraft is payable on demand.

Government loans at the reporting date have been fully utilised.

Security for the Commercial bill facility:

The Northern Territory Treasurer has provided a Letter of Undertaking to the Bank of South Australia, whereby the Territory guarantees the loan, interest costs and any indemnities owed to the Bank pursuant to the Facility Agreement it has with Gasgo Pty Limited.

The total commercial bill facility available at the reporting date is \$3.6 million (2005: \$5.1 million). The unused commercial bill facility available at the reporting date is nil.

15. Provisions

	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current				
Employee benefits	13,242	14,928	13,242	14,928
Employee related provisions	496	455	496	455
Self insurance provision	59	-	59	-
Dividend	10,249	18,900	10,249	18,900
Total current provisions	24,046	34,283	24,046	34,283
Non-current				
Employee benefits	5,947	3,286	5,947	3,286

Reconciliations

Reconciliations of the carrying amounts for each class of provision, except for employee benefits are set out below.

Employee related provisions				
Carrying amount at beginning of year	455	437	455	437
Provisions made during the year	4,290	4,162	4,290	4,162
Payments made during the year	(4,249)	(4,144)	(4,249)	(4,144)
Carrying amount at end of year	496	455	496	455
Dividends				
Carrying amount at beginning of year	18,900	20,046	18,900	20,046
Provisions made during the year	10,249	18,900	10,249	18,900
Payments made during the year	(18,697)	(20,046)	(18,697)	(20,046)
Under/(over) provision for the prior year	(204)	-	(204)	-
Carrying amount at end of year	10,248	18,900	10,248	18,900

16. Government grants

	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Deferred income for remote assets held by not for profit entity:				
Operational grants	5,297	5,704	-	-
Capital grants	168,501	163,542	-	-
Total government grants	173,798	169,246	-	-
Provided for in the financial statements as:				
Current	8,054	8,085	-	-
Non-current	165,744	161,161	-	-
	173,798	169,246	-	-

17. Other liabilities

	Note	Consolidated		Corporation	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Deferred gain on sale and lease back of generation plant and equipment:					
Net gain		15,793	15,793	15,793	15,793
Less: Accumulated amortisation		(15,004)	(14,215)	(15,004)	(14,215)
Total other liabilities		789	1,578	789	1,578
Provided for in the financial statements as:					
Current		789	789	789	789
Non-current		-	789	-	789
Carrying amount at end of year		789	1,578	789	1,578

18. Contributed equity

	Note	Consolidated		Corporation	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Share capital					
1 Share (2005: 1 share)		-	-	-	-

The *Government Owned Corporations Act 2001* requires the Corporation to have share capital to be held by one shareholder only, being the Shareholding Minister, who holds the share on behalf of the Northern Territory. The Corporation's constitution specifies the share capital to be one share. No value is assigned to this share.

19. Reserves

	Note	Consolidated		Corporation	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
On transition to AIFRS on 1 July 2004, the balance of the asset revaluation reserve was transferred to retained earnings. See note 29 for further explanation.	29				

20. Retained earnings

	Note	Consolidated		Corporation	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Retained earnings at beginning of year	29	613,014	596,262	612,572	596,151
Net profit for the year		20,518	35,652	20,497	35,321
Dividend over/(under) provided in the prior year		204	-	204	-
Dividend recognised during the year		(10,249)	(18,900)	(10,249)	(18,900)
Retained earnings at end of the year		623,487	613,014	623,024	612,572

21. Financial risk management objectives and policies

The consolidated entity's principal financial instruments comprise of bank loans and overdrafts, government loans, finance leases and cash.

The main purpose of these financial instruments is to raise finance for the consolidated entity's operations. The consolidated entity has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations. The purpose is to manage the interest rate risks arising from the consolidated entity's operations and its sources of finance. It is, and has been throughout the period under review, the consolidated entity's policy that no trading in financial instruments shall be undertaken. The main risks arising from the consolidated entity's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Cash flow interest rate risk

The consolidated entity's exposure to the risk of changes in market interest rates relates primarily to the consolidated entity's long term debt obligations to the Northern Territory Government. The loans are based on fixed interest rates, with one or more interest rate reset over the life of the loans.

The consolidated entity's policy is to manage its interest cost using a mix of fixed and variable rate debt.

Foreign currency risk

The consolidated entity also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

Commodity price risk

The consolidated entity's exposure to risk is minimal.

Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk on receivables of the consolidated entity that has been recognised on the balance sheet is the carrying amount net of any provision for doubtful debts. The consolidated entity has a minimal concentration of credit risk as it undertakes transactions with a large number of customers and counterparties. The consolidated entity is not materially exposed to any individual customer. There are no major concentrations of credit risk on service debtors due from customers within particular industries.

Liquidity risk

The consolidated entity's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, government loans, bank loans and finance leases.

At 30 June 2006, \$21.5 million of the consolidated entity's debt will mature in less than one year (2005: \$24.3 million).

22. Financial instruments

Fair values

Net fair values of financial assets and liabilities approximate carrying values except for government loans, which have a fair value of \$331.9 million (2005: \$300.8 million).

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk for the consolidated entity:

	Fixed and floating interest maturing in:							Total \$'000
	Weighted average interest rate % \$'000	Floating interest rate \$'000	Fixed interest rate \$'000	1 year or less \$'000	1 to 5 years \$'000	More than 5 years \$'000	Non- interest bearing \$'000	
<i>2006</i>								
Financial Assets								
Cash assets (including bank overdraft)	5.5%	54,467	-	-	-	-	-	54,467
Receivables	-	-	-	-	-	-	61,685	61,685
Investments	-	-	-	-	-	-	3	3
		54,467	-	-	-	-	61,688	116,155
Financial liabilities								
Payables	-	-	-	-	-	-	87,101	87,101
Government loans	7.81%	-	325,852	20,304	93,582	211,966	-	325,852
Commercial bill facilities	5.96%	3,562	-	1,158	2,404	-	-	3,562
Dividends payable	-	-	-	-	-	-	10,249	10,249
Employee benefits	-	-	-	-	-	-	19,744	19,744
		3,562	325,852	21,462	95,986	211,966	117,094	446,508
<i>2005</i>								
Financial Assets								
Cash assets (including bank overdraft)	5.08%	2,388	-	-	-	-	-	2,388
Receivables	-	-	-	-	-	-	69,237	69,237
Investments	-	-	-	-	-	-	3	3
		2,388	-	-	-	-	69,240	71,628
Financial liabilities								
Payables	-	-	-	-	-	-	43,257	43,257
Government loans	8.21%	-	288,587	22,657	97,462	168,467	-	288,587
Commercial bill facilities	5.63%	5,116	-	1,550	3,566	-	-	5,116
Dividends payable	-	-	-	-	-	-	18,900	18,900
Employee benefits	-	-	-	-	-	-	18,669	18,669
		5,116	288,587	24,207	101,028	168,467	80,826	374,529

23. Commitments

	Consolidated		Corporation	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Capital expenditure commitments				
Contracted but not provided for and payable: within one year	25,208	15,144	25,208	15,144
Purchase, lease and hire expenditure commitments (non-cancellable)				
Contracted but not provided for:				
Plant and equipment	74,826	70,662	74,826	70,662
Electricity purchase	81,537	73,999	81,537	73,999
Gas purchase	4,677,125	242,320	4,488,029	242,320
Gas transportation	175,083	183,127	175,083	183,127
	5,008,570	570,108	4,819,474	570,108
Payable:				
Within one year	124,560	160,050	70,531	160,050
One year or later and no later than five years	596,899	245,908	468,209	245,908
Later than five years	4,312,320	164,150	4,305,943	164,150
	5,033,778	570,108	4,844,682	570,108

The consolidated entity has non-cancellable purchase, lease and hire expenditure contracts expiring from 1 to 25 years. These contracts generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Payments usually comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

Gas purchase commitments include take-or-pay obligations under a recently concluded 25-year gas sale agreement with Eni Australia B.V., the first supply of which commences on the 1 January 2009.

Remuneration commitments:				
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:				
Within one year	6,511,422	6,926,990	6,511,422	6,926,990
After one year but not more than five years	9,462,665	14,665,363	9,462,665	14,665,363
	15,974,087	21,592,353	15,974,087	21,592,353

24. Contingent liabilities

Litigation

The consolidated entity has no contingent liabilities as at the date of signing these Financial Statements.

25. Related party information

The consolidated financial statements include the financial statements of the Power and Water Corporation and the subsidiaries listed in the following table.

Name	Country of Incorporation	% Equity Interest		Investment	
		2006	2005	2006 \$	2005 \$
Darnor Pty Limited	Australia	100%	100%	10	10
Gasgo Pty Limited	Australia	100%	100%	10	10
Indigenous Essential Services Pty Limited	Australia	100%	100%	10	10
				30	30

Power and Water Corporation is the ultimate Australian parent company and the ultimate parent of the consolidated entity is the Shareholding Minister, who holds the share on behalf of the Northern Territory.

Transactions

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

The Corporation is the only provider of electricity, water and sewerage services in populated areas in the Northern Territory, and therefore provides these services to all Northern Territory Government departments and related entities. It is not practical to list separately related party transactions that occurred between the Corporation and these entities, and therefore, these transactions have been aggregated as shown below.

Related Party		Sales to related parties \$'000	Purchases from related parties (1) \$'000	Amounts owed by related parties \$'000	Amounts owed to related parties (2) \$'000
The parent entity including all entities that are associated with the parent entity being the Northern Territory Government – see explanation above.	2006	92,191	41,283	14,890	354,825
	2005	90,361	38,873	24,223	344,229
Darnor Pty Limited (subsidiary)	2006	18	-	-	-
	2005	622	-	-	-
Gasgo Pty Limited (subsidiary)	2006	756	-	7,197	-
	2005	39	-	10,515	-
Indigenous Essential Services Pty Limited (subsidiary)	2006	72,474	14,906	8,638	1,074
	2005	68,035	12,509	508	2,878

(1) For the year ended 30 June 2006, purchases from the NT Government includes interest paid on borrowings of \$24,214,000 (2005: \$24,131,000) refer to note 4(c).

(2) For the year ended 30 June 2006, the amount owed to the NT Government includes borrowings of \$325,852,389 (2005: \$288,587,000) refer to note 14.

All transactions with non-director related parties are on normal terms and conditions. Loans to non-director related parties are payable over 4 years. Interest is charged monthly at 6.01% p.a. (2005: 5.68% p.a.) on the outstanding balance.

The Corporation provides electricity, water and sewerage services to Indigenous Essential Services Pty Limited and recharges the controlling entity's operating expenses and administration fees for providing capital resources and other services in the normal course of business and on normal terms and conditions.

From time to time, directors of related parties or their director-related entities may purchase goods from the consolidated entity. These purchases are on the same terms

and conditions as those entered into by consolidated entity employees or customers and are trivial or domestic in nature.

For the year ended 30 June 2006, the consolidated entity has not made any allowance for doubtful debts relating to amounts owed by related parties based on history (2005: \$nil). An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the consolidated entity recognises an allowance for the impairment loss.

26. Events after the balance sheet date

	\$'000
Subsequent to the reporting date, the Directors have confirmed the declared dividend of:	10,249

27. Auditors' remuneration

	Consolidated		Corporation	
	2006 \$	2005 \$	2006 \$	2005 \$
Audit services:				
Auditors of the Corporation - NT Auditor-General	472,203	354,184	422,634	281,302
	472,203	354,184	422,634	281,302

28. Director and executive disclosures

Remuneration of specified directors and specified executives by the consolidated entity

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration

packages, given trends in comparative entities both locally and nationally. Remuneration packages are usually a fixed remuneration.

The following table provides the details of all directors of the Corporation ("specified directors") and the nature and amount of the elements of their remuneration for the year ended 30 June 2006.

		Primary	Post employment	Total \$
		Salary & Fees \$	Superannuation benefits \$	
<i>Specified directors</i>				
Non-executive				
Mr Neil Philip (Chairperson)	2006	83,495	6,614	90,109
	2005	76,732	6,005	82,737
Ms Judith King	2006	42,441	3,820	46,261
	2005	37,288	3,355	40,643
Dr Michael Vertigan	2006	2,548	229	2,777
	2005	30,000	2,700	32,700
Dr Michael Sargent	2006	2,575	231	2,806
	2005	37,500	2,475	39,975
Mr Peter Vines	2006	31,123	2,801	33,924
Mr Bob Neil	2006	36,957	2,801	39,758
Total, all non-executive directors	2006	199,139	16,496	215,635
	2005	181,520	14,535	196,055

No termination benefits were paid during the year.

Directors' remuneration excludes insurance premiums of \$50,416 (2005: \$57,475) paid by the Corporation in respect of directors' and officers' liabilities and personal accident insurance, in accordance with common commercial practice. The insurance premiums have not been allocated due to impracticality.

Executives' remuneration

The table below shows the benefits paid to executive officers of the Corporation and of controlled entities, whose benefits from the Corporation and from entities in the consolidated entity, fall within the following types:

	Consolidated		Corporation	
	2006 \$	2005 \$	2006 \$	2005 \$
Short-term employee benefits	2,370,948	1,731,450	2,370,948	1,731,450
Post-employment benefits	-	-	-	-
Other long-term benefits	344,253	313,502	344,253	313,502
Termination benefits	-	-	-	-
Share-based payment	-	-	-	-
Total compensation of key management personnel	2,715,201	2,044,952	2,715,201	2,044,952

Executive officers are those officers who are involved in the strategic direction, general management or control of business at corporation or business division level, including the Chief Financial Officer.

Other transactions with specified directors and specified executives

Apart from the details disclosed in this note, no specified director (being a person who was, at any time during the period, a director of the entity required to prepare the financial report) or specified executive (being one of the five or more executives who have the greatest authority for managing the consolidated entity, who are employed at any time during the reporting period by the consolidated entity and who are not specified directors) has entered into a material contract with the Corporation or the consolidated entity since the end of the previous financial year and there were no material contracts involving their interests subsisting at year end.

From time to time specified directors and specified executives of the Corporation or its controlled entities, or their related parties, may purchase goods and services from the consolidated entity. These purchases are on the same terms and conditions as those entered into by other consolidated entity's employees or customers and are trivial or domestic in nature.

29. Explanation of transition to Australian Equivalents to IFRS (AIFRS)

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards (AIFRS). The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 'First-Time Adoption of Australian Equivalents to International Financial Reporting Standards' with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to AIFRS has affected the Corporation's and consolidated entity's financial positions, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(a) At the date of transition to AIFRS:

1 July 2004	Note	Consolidated			Corporation		
		AGAAP \$'000	AIFRS Impact \$'000	AIFRS \$'000	AGAAP \$'000	AIFRS Impact \$'000	AIFRS \$'000
ASSETS							
Current assets							
Cash and cash equivalents		57,097	-	57,097	38,903	-	38,903
Trade and other receivables		49,203	-	49,203	59,974	-	59,974
Inventories	4(b)	7,634	7,020	14,654	7,634	2,270	9,904
Prepayments		9,211		9,211	9,139		9,139
Total current assets		123,145	7,020	130,165	115,650	2,270	117,920
Non-current assets							
Receivables		12	-	12	5,060	-	5,060
Investments		3	-	3		-	-
Investments in subsidiaries		-	-	-	-	-	-
Property, plant and equipment	4(a)	899,515	118,703	1,018,218	899,510	(39,973)	859,537
Deferred tax assets	4(e)	8,213	2	8,215	8,213	(6)	8,207
Intangible assets	4(a)		5,292	5,292	-	5,293	5,293
Other		20,372	-	20,372	-	-	-
Total non-current assets		928,115	123,997	1,052,112	912,783	(34,686)	878,097
TOTAL ASSETS		1,051,260	131,017	1,182,277	1,028,433	(32,416)	996,017
LIABILITIES							
Current liabilities							
Trade and other payables		48,646	-	48,646	35,077	-	35,077
Interest-bearing loans and borrowings		22,550	-	22,550	21,000	-	21,000
Income tax payable		18,665	-	18,665	18,665	-	18,665
Provisions	4(c)	35,290	(1,600)	33,690	35,290	(1,600)	33,690
Government grants		-	8,000	8,000	-	-	-
Other		789	-	789	789	-	789
Total current liabilities		125,940	6,400	132,340	110,821	(1,600)	109,221

1 July 2004	Note	Consolidated			Corporation		
		AGAAP \$'000	AIFRS Impact \$'000	AIFRS \$'000	AGAAP \$'000	AIFRS Impact \$'000	AIFRS \$'000
Non-current liabilities							
Interest-bearing loans and borrowings		274,109	-	274,109	268,587	-	268,587
Deferred tax liabilities	4(e)	18,038	1,574	19,612	18,038	(513)	17,525
Provisions	4(c)	1,356	1,600	2,956	1,356	1,600	2,956
Government grants	4(d)	-	155,421	155,421	-	-	-
Other		1,577	-	1,577	1,577	-	1,577
Total non-current liabilities		295,080	158,595	453,675	289,558	1,087	290,645
TOTAL LIABILITIES		421,020	164,995	586,015	400,379	(513)	399,866
NET ASSETS		630,240	(33,978)	596,262	628,054	(31,903)	596,151
EQUITY							
Equity attributable to equity holders of the Corporation		-	-	-	-	-	-
Contributed equity		-	-	-	-	-	-
Reserves		381,770	(381,770)	-	381,770	(381,770)	-
Retained earnings		248,470	347,792	596,262	246,284	349,867	596,151
TOTAL EQUITY		630,240	(33,978)	596,262	628,054	(31,903)	596,151
Breakdown of impact on retained earnings							
Movement from asset revaluation reserve	4(a)	-	-	381,770	-	-	381,770
Devaluation of Plant and Equipment	4(a)	-	-	(31,461)	-	-	(31,461)
Remove general overheads from Plant and Equipment	4(a)	-	-	(950)	-	-	(950)
Recognise tax on AIFRS changes	4(e)	-	-	(1,567)	-	-	(1,570)
Transferring tax values to subsidiaries	4(e)	-	-	-	-	-	2,078
		-	-	596,262	-	-	596,151
Breakdown of impact on other reserves							
Asset revaluation reserve		-	-	381,770	-	-	381,770
Adjustment due to transition exemption under AASB 1	4(a)	-	-	(381,770)	-	-	(381,770)
		-	-	-	-	-	-

29. Explanation of Transition to Australian Equivalents to IFRS (AIFRS) continued

(b) At the end of the last financial year

30 June 2005	Note	Consolidated			Corporation		
		AGAAP \$'000	AIFRS Impact \$'000	AIFRS \$'000	AGAAP \$'000	AIFRS Impact \$'000	AIFRS \$'000
ASSETS							
Current assets							
Cash and cash equivalents		2,388	-	2,388	-	-	-
Trade and other receivables		69,753	(568)	69,185	67,521	(447)	67,074
Inventories	4(b)	7,578	7,967	15,545	7,578	2,263	9,841
Prepayments		2,943	397	3,340	2,894	447	3,341
Other		-	50	50	-	-	-
Total current assets		82,662	7,846	90,508	77,993	2,263	80,256
Non-current assets							
Receivables		52	-	52	9,300	-	9,300
Investments		3	-	3	-	-	-
Investment in subsidiaries	4(e)	-	-	-	-	1,625	1,625
Property, plant and equipment	4(a)	943,913	118,241	1,062,154	943,913	(45,304)	898,609
Deferred tax assets	4(e)	15,542	-	15,542	15,542	(12)	15,530
Intangible assets	4(a)	-	9,199	9,199	-	9,199	9,199
Other		14,440	-	14,440	-	-	-
Total non-current assets		973,950	127,440	1,101,390	968,755	(34,492)	934,263
TOTAL ASSETS		1,056,612	135,286	1,191,898	1,046,748	(32,229)	1,014,519
LIABILITIES							
Current liabilities							
Trade and other payables		43,376	(119)	43,257	38,911	-	38,911
Interest-bearing loans and borrowings		24,207	-	24,207	25,037	-	25,037
Income tax payable		14,466	-	14,467	14,467	-	14,467
Provisions	4(c)	36,098	(1,815)	34,283	36,098	(1,815)	34,283
Government grants		-	8,085	8,085	-	-	-
Other		789	-	789	789	-	789
Total current liabilities		118,936	6,151	125,088	115,302	(1,815)	113,487
Non-current liabilities							
Interest-bearing loans and borrowings		269,496	-	269,496	265,929	-	265,929
Deferred tax liabilities	4(e)	16,710	2,354	19,064	16,711	1,745	18,456
Provisions	4(c)	1,471	1,815	3,286	1,471	1,815	3,286
Government grants	4(d)	-	161,161	161,161	-	-	-

30 June 2005	Note	Consolidated			Corporation		
		AGAAP \$'000	AIFRS Impact \$'000	AIFRS \$'000	AGAAP \$'000	AIFRS Impact \$'000	AIFRS \$'000
Other		789		789	789		789
Total non-current liabilities		288,466	165,330	453,796	284,900	3,560	288,460
TOTAL LIABILITIES		407,402	171,481	578,884	400,202	1,745	401,947
NET ASSETS		649,210	(36,195)	613,014	646,546	(33,974)	612,572
<i>EQUITY</i>							
Equity attributable to equity holders of the Corporation		-	-	-	-	-	-
Contributed equity		-	-	-	-	-	-
Reserves		381,770	(381,770)	-	381,770	(381,770)	-
Retained earnings		267,439	345,575	613,014	264,776	347,796	612,572
TOTAL EQUITY		649,209	(36,195)	613,014	646,546	(33,974)	612,572
<i>Breakdown of impact on retained earnings</i>							
Movement from asset revaluation reserve	4(a)	-	-	381,770	-	-	381,770
Devaluation of Plant and Equipment in 2004	4(a)	-	-	(31,461)	-	-	(31,461)
Depreciation adjustment on Devaluation in 2004	4(a)	-	-	710	-	-	710
Remove general overheads from Plant and Equipment	4(a)	-	-	(3,091)	-	-	(3,091)
Recognise tax on AIFRS changes	4(e)	-	-	(2,353)	-	-	(2,353)
Transferring tax values to subsidiaries	4(e)	-	-	-	-	-	2,221
		-	-	613,014	-	-	612,572
<i>Breakdown of impact on other reserves</i>							
Asset revaluation reserve		-	-	381,770	-	-	381,770
Adjustment due to transition exemption under AASB 1	4(a)	-	-	(381,770)	-	-	(381,770)
		-	-	-	-	-	-

29. Explanation of Transition to Australian Equivalents to IFRS (AIFRS) continued

(2) Reconciliation of profit under previous AGAAP to profit under Australian equivalents to IFRS (AIFRS)

(a) Reconciliation of profit for the year ended 30 June 2005

	Note	Consolidated			Corporation		
		AGAAP ¹ \$'000	AIFRS Impact \$'000	AIFRS \$'000	AGAAP \$'000	AIFRS Impact \$'000	AIFRS \$'000
Continuing Operations							
Revenue from sale of goods		329,068	-	329,068	272,208	-	272,208
Revenue from rendering of services		75,757	-	75,757	26,779	-	26,779
Finance revenue		-	1,762	1,762	-	1,852	1,852
Other income		91,063	(7,737)	83,326	152,535	(2,006)	150,529
Revenue		495,888	(5,975)	489,913	451,522	(154)	451,368
Change in inventories of finished goods and work in progress		(8,036)	-	(8,036)	(20,014)	-	(20,014)
Raw materials and consumables used		(212,055)	1,339	(210,714)	(178,349)	385	(177,964)
Repairs and maintenance expense		(25,289)	-	(25,289)	(25,289)	-	(25,289)
Employee benefits expense	4(a)	(56,855)	(2,141)	(58,996)	(57,829)	(2,141)	(59,970)
Property costs		(3,324)	-	(3,324)	(3,324)	-	(3,324)
Information technology and communications expense		(8,815)	1	(8,814)	(8,815)	1	(8,814)
Insurance costs		(3,458)	-	(3,458)	(3,458)	-	(3,458)
Community contract fees		(5,431)	-	(5,431)	(5,431)	-	(5,431)
Depreciation and amortisation expenses	4(a)	(49,219)	(7,375)	(56,594)	(41,997)	710	(41,287)
Impairment of non-current assets	4(a)	(12,951)	12,951	-	-	-	-
Other expenses		(33,966)	(231)	(34,197)	(31,330)	(231)	(31,561)
Finance costs		(24,458)	-	(24,458)	(24,131)	-	(24,131)
Profit before income tax		52,031	(1,431)	50,602	51,555	(1,430)	50,125
Income tax expense	4(e)	(14,164)	(786)	(14,950)	(14,164)	(640)	(14,804)
Net profit for the period		37,867	(2,217)	35,652	37,391	(2,070)	35,321
Total changes in equity from non-owner related transactions attributable to the members of the parent entity		37,867	(2,217)	35,652	37,391	(2,070)	35,321

¹ The AGAAP figures shown in this column do not match the published Annual Report for 2005 as the consolidation of the Indigenous Essential Services Pty Ltd subsidiary has been restated to more appropriately represent the financial results. There is no impact on profit before or after tax as the restatement merely reclassifies the amounts from one category to another.

Reconciliation of profit for year ended 30 June 2006	Consolidated	Corporation
	30 June 2005 \$'000	2005 \$'000
AGAAP Net profit for the period	37,867	37,391
Derecognise general overheads in plant and equipment	(2,141)	(2,141)
Income tax expense on the above	642	642
Depreciation adjustment on Devaluation in 2004	710	710
Income tax expense on the above	(213)	(213)
Subsidiary tax no longer recognised by parent	-	143
Restate permanent differences to temporary differences in income tax	(1,213)	(1,211)
AIFRS Net profit for the period	35,652	35,321

(3) Reconciliation of the Cash Flow Statement for the year ended 30 June 2005

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Property, plant and equipment and intangible assets

Under previous AGAAP property, plant and equipment were carried at fair value. The consolidated entity has elected to revert to the cost basis through adoption of the deemed cost election available under the transitional arrangements of AASB 1. On transition to AIFRS, the balance of the asset revaluation reserve applicable to these assets was transferred to retained earnings.

Under AASB 116 Property, Plant & Equipment the cost of general overheads is not to be included in the value of internally constructed assets and therefore asset values have been recalculated excluding this amount. Further, computer software is classified as an intangible asset rather than plant and equipment.

Under AGAAP, the assets owned by the not-for-profit subsidiary, Indigenous Essential Services Pty Ltd, were written down to nil in the income statement each year. Under AASB 116 Property, Plant and Equipment and AASB 136 Impairment of Assets, not-for-profit entities are required to measure the carrying value of assets based on depreciated replacement cost and recognise depreciation expense in the income statement.

The recoverable amount of property, plant and equipment was determined in accordance with Under AASB 136 Impairment of Assets using the expected net cash flows discounted to their present value. The discount rate used in determining the recoverable amount was the weighted average cost of capital for each cash generating unit.

The effect of this is:

- (i) For the consolidated entity and the Corporation, asset values have been reduced by \$950,000 as at 1 July 2004 and a further \$2,141,000 as at 30 June 2005.
- (ii) For the consolidated entity and the Corporation, software of \$5,293,000 as at 1 July 2004 and \$9,199,000 as at 30 June 2005 has been reclassified from property, plant and equipment to intangible assets.
- (iii) For the consolidated entity asset values have increased by \$158,676,000 as at 1 July 2004 and \$163,544,000 as at 30 June 2005 to recognise the depreciated replacement cost of Indigenous Essential Services Pty Ltd's assets.
- (iv) For the consolidated entity and the Corporation asset values have decreased by \$31,461,000 as at 1 July 2004 and \$30,751,000 as at 30 June 2005 to reduce carrying values down to the recoverable amount. The movement between the two year's represents the depreciation adjustment in the year to 30 June 2005 of \$710,000 on the devaluation of \$31,461,000.
- (v) In addition, for the consolidated entity and the Corporation, asset values have reduced by \$2,270,000 as at 1 July 2004 and \$2,263,000 as at 30 June 2005 to reclassify rotatable stock to inventories.

(b) Inventories

Under previous AGAAP distillate stocks held by the not-for-profit subsidiary, Indigenous Essential Services Pty Ltd, were carried at nil value. Under AASB 102 Inventories, inventories held by not-for-profit entities is to be measured at lower of cost and current replacement cost.

The effect of this is:

- (i) For the consolidated entity inventories have increased by \$4,750,000 as at 1 July 2004 and \$5,704,000 as at 30 June 2005 to recognise the cost of Indigenous Essential Services Pty Ltd's distillate stocks.

- (ii) In addition, for the consolidated entity and the Corporation, inventories have increased by \$2,270,000 as at 1 July 2004 and \$2,263,000 as at 30 June 2005 to reclassify rotatable stock from plant and equipment.

(c) Provisions

Under previous AGAAP provisions for annual leave entitlements owing to employees were classified as current. Under AASB 119 Employee Benefits, employee entitlements not expected to be paid within the next 12 months are to be classified as non-current.

The effect of this is:

For the consolidated entity and the Corporation, \$1,600,000 as at 1 July 2004 and \$1,815,000 as at 30 June 2005 has been reclassified from current to non-current for provision for employee entitlements.

(d) Government grants

Under previous AGAAP government grants received were recognised as revenue in the period the grant was received. Under AASB 120 Accounting for Government Grants and Disclosure of Government Assistance, grants are recognised as revenue in the same periods to match them with the related costs which they are intended to compensate.

The effect of this is:

For the consolidated entity, \$152,195,000 as at 1 July 2004 and \$169,246,000 as at 30 June 2005 is recognised as a liability for unearned Government Grants received by the subsidiary, Indigenous Essential Services Pty Ltd, for capital and operational works to provide electricity, water and sewerage services to remote communities in the Northern Territory.

(e) Income tax

Under previous AGAAP income tax expense was determined using the income statement approach. Under AASB 112 Incomes Taxes, a comprehensive balance sheet approach to determining taxes is required. The comprehensive balance sheet method recognises deferred tax balances when there is a temporary difference between the carrying value of the asset or liability, and its value in a tax based balance sheet. Further, the consolidated entity has adopted the Stand Alone Taxpayer Approach resulting in the Corporation providing additional equity to its subsidiary to fund their annual tax payable.

The effect of this is:

- (i) For the Corporation, Investment in subsidiaries has increased by \$1,625,000 as at 30 June 2005.
- (ii) For the consolidated entity and the Corporation, deferred tax balances have changed as follows:

	Consolidated		Corporation	
	1 July 2004 \$'000	30 June 2005 \$'000	1 July 2004 \$'000	30 June 2005 \$'000
Deferred tax assets AGAAP	8,213	15,542	8,213	15,542
Transfer tax balances to subsidiaries	-	-	(8)	(12)
Derecognise general overheads in plant and equipment	286	927	286	927
Recognise temporary differences for revaluation of assets	(284)	(927)	(284)	(927)
Deferred tax assets AIFRS	8,215	15,542	8,207	15,530
Deferred tax liabilities AGAAP	18,038	16,710	18,038	16,711
Transfer tax balances to subsidiaries	-	-	(2,087)	(609)
Recognise temporary differences for revaluation of assets	1,574	2,354	1,574	2,354
Deferred tax liabilities AIFRS	19,612	19,064	17,525	18,456
Income tax expense AGAAP	-	14,164	-	14,164
Derecognise general overheads in plant and equipment	-	(642)	-	(642)
Transfer tax balances to subsidiaries	-	-	-	(143)
Tax on 2004 devaluation depreciation adjustment	-	213	-	213
Restate permanent differences to temporary differences	-	1,215	-	1,212
Deferred tax liabilities AIFRS	-	14,950	-	14,804



Historical photographs courtesy of the Northern Territory Library.

TOP LEFT:
Electricity workers at Coonawarra West Pompy Bates on back of truck. Eric Patterson in front, Jib on back of truck for putting up poles.
Truck. Tom Bridger. PH0133/0057. Northern Territory Library.

TOP RIGHT:
Substation at the 8 mile Coonawarra West connection. Les Saddler and Ray Foskey.
Substation. Foskey. PH0133/0048. Northern Territory Library.

BOTTOM LEFT:
Cliff Mellett, 1950
Photograph courtesy of Andrea Robbins, Power and Water Corporation Employee and Grand Daughter of Cliff Mellett.

BOTTOM RIGHT:
Manton Dam, constructed circa 1940 to provide first reticulated water for Darwin.
Manton Dam. Christa Roderick. PH0110/0367. Northern Territory Library.

For a history of Power and Water services in the Northern Territory, go to www.powerwater.com.au.



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