

The logo for PowerWater, featuring the word "PowerWater" in a dark blue sans-serif font with a small green leaf icon above the letter "a".

PowerWater

# Annual Report

2019-20



# Welcome

The purpose of this Annual Report is to meet the obligations of Power and Water Corporation as contained within the *Government Owned Corporations Act 2001*, namely:

- Section 41 whereby a government-owned corporation must give to its Shareholding Minister and Portfolio Minister a report on the corporation's performance in relation to its Statement of Corporate Intent.
- Section 44 whereby a government-owned corporation must prepare an annual report of the operations of the corporation and of its subsidiaries during each financial year.

This Annual Report has been prepared in accordance with the provisions of the *Government Owned Corporations Act 2001* and other relevant legislation, which governs the operations of Power and Water Corporation.

The objective of this report is to inform the Northern Territory Government, as the owner and sole shareholder of Power and Water Corporation, our stakeholders, our customers and our regulators, of:

- Power and Water Corporation's primary services and responsibilities.
- Significant activities of 2019-20, highlighting major projects, key achievements and outcomes, as they relate to the strategic objectives of the corporation contained in the 2019-20 Statement of Corporate Intent.
- Financial management and performance of the corporation during 2019-20, pursuant to the *Corporations Act 2001* (Commonwealth).

## Acknowledgement of Country

Power and Water acknowledges the Traditional Owners of the country on which we work and live and recognise their continuing connection to land, waters and community. We pay our respects to Elders past and present.

# Letter to the shareholder

Hon Michael Gunner MLA  
Treasurer of the Northern Territory

Dear Treasurer

On behalf of Power and Water Corporation, we are pleased to present to you the corporation's annual report for the year ending 30 June 2020, in accordance with the provisions of sections 41 and 44 of the *Government Owned Corporations Act 2001*.

Yours sincerely



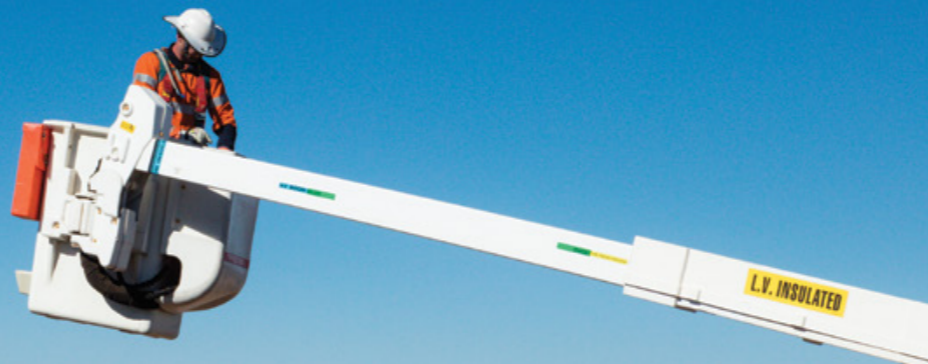
JL Langoulant AO  
Chair

29 October 2020



Djuna Pollard  
Chief Executive Officer

29 October 2020



This page: Alice Springs.  
Front Cover: Leanyer Sanderson Waste  
Stabilisation Ponds inlet works.



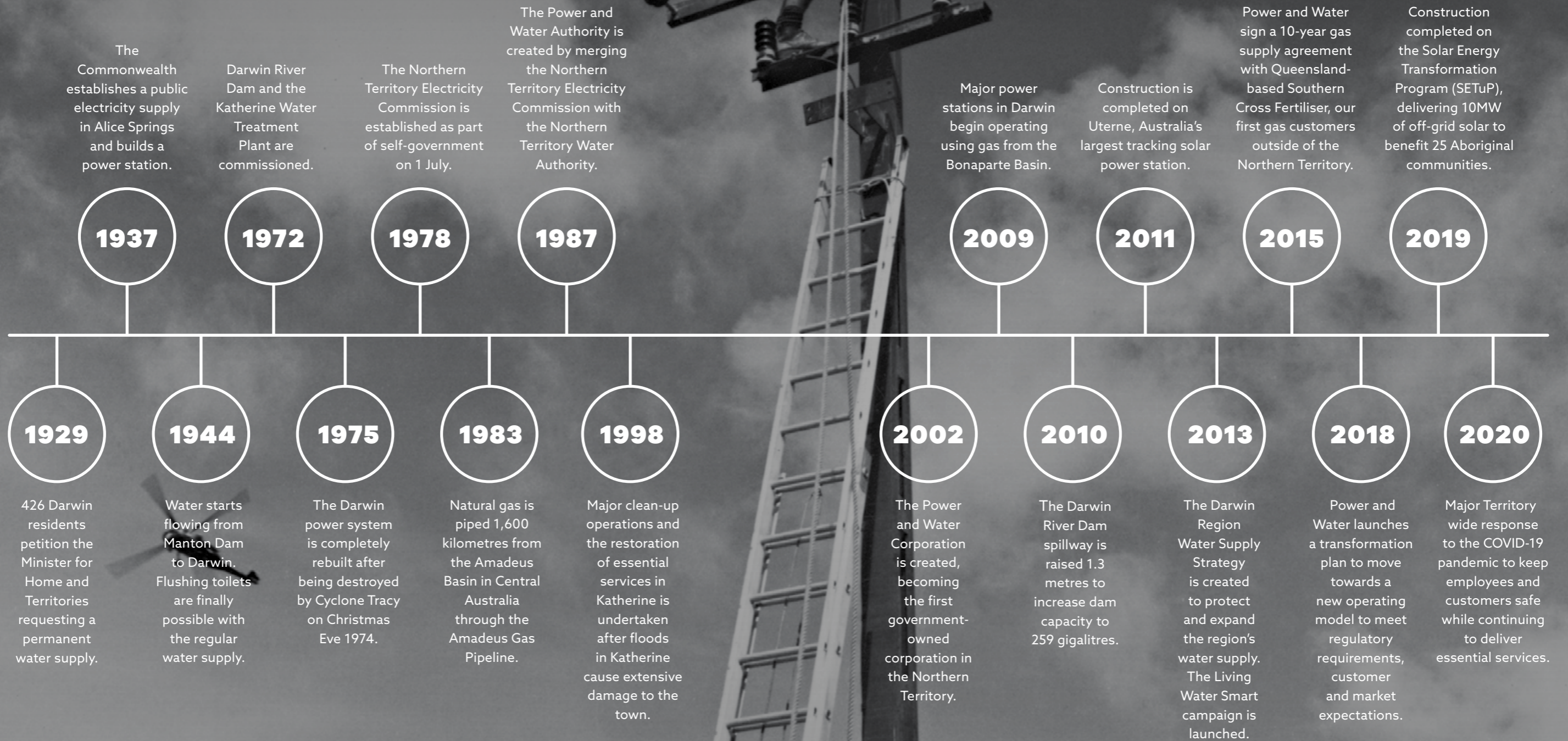
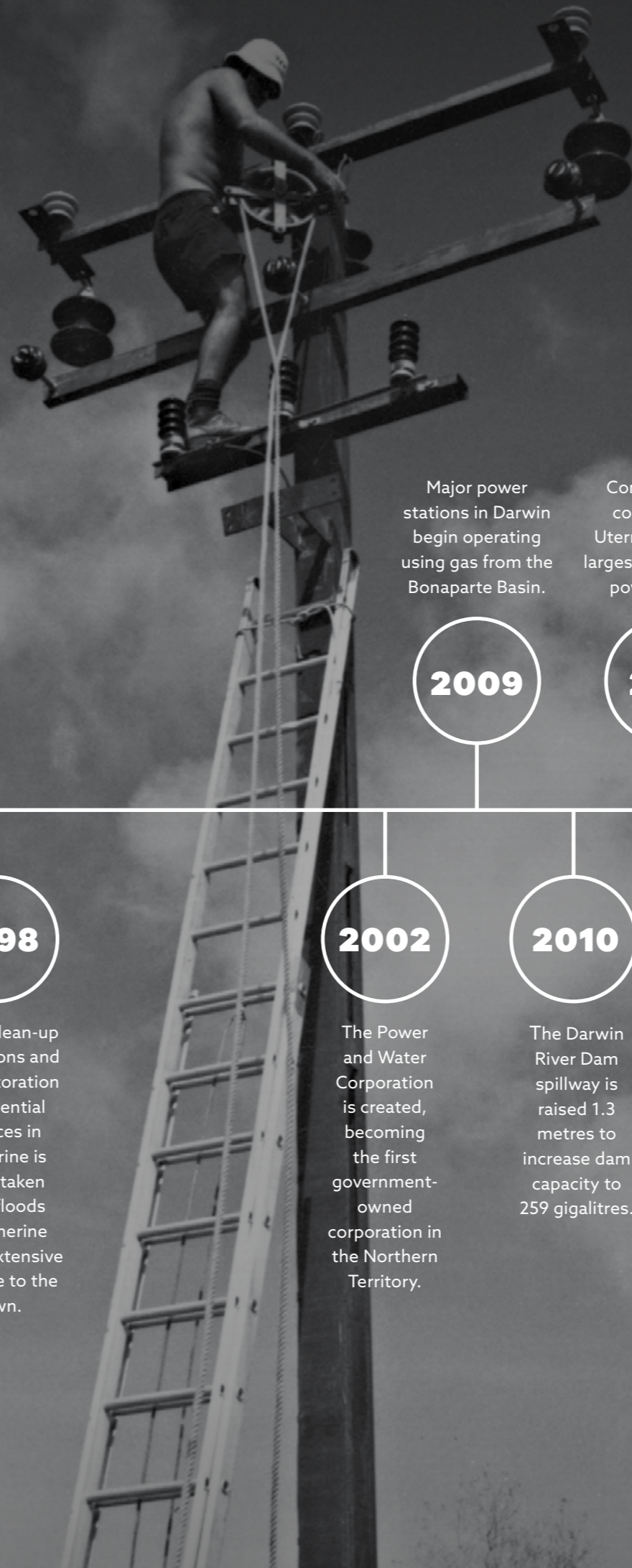
**Power and Water deliver essential services in some of the most challenging conditions in the world, including a vast landscape, regional and remote customers, cultural sensitivities and extreme weather events.**

**In addition to providing services to the community across the entire water and electricity supply chains and gas services, we also have regulatory obligations as the Power System Controller and Electricity Market Operator.**

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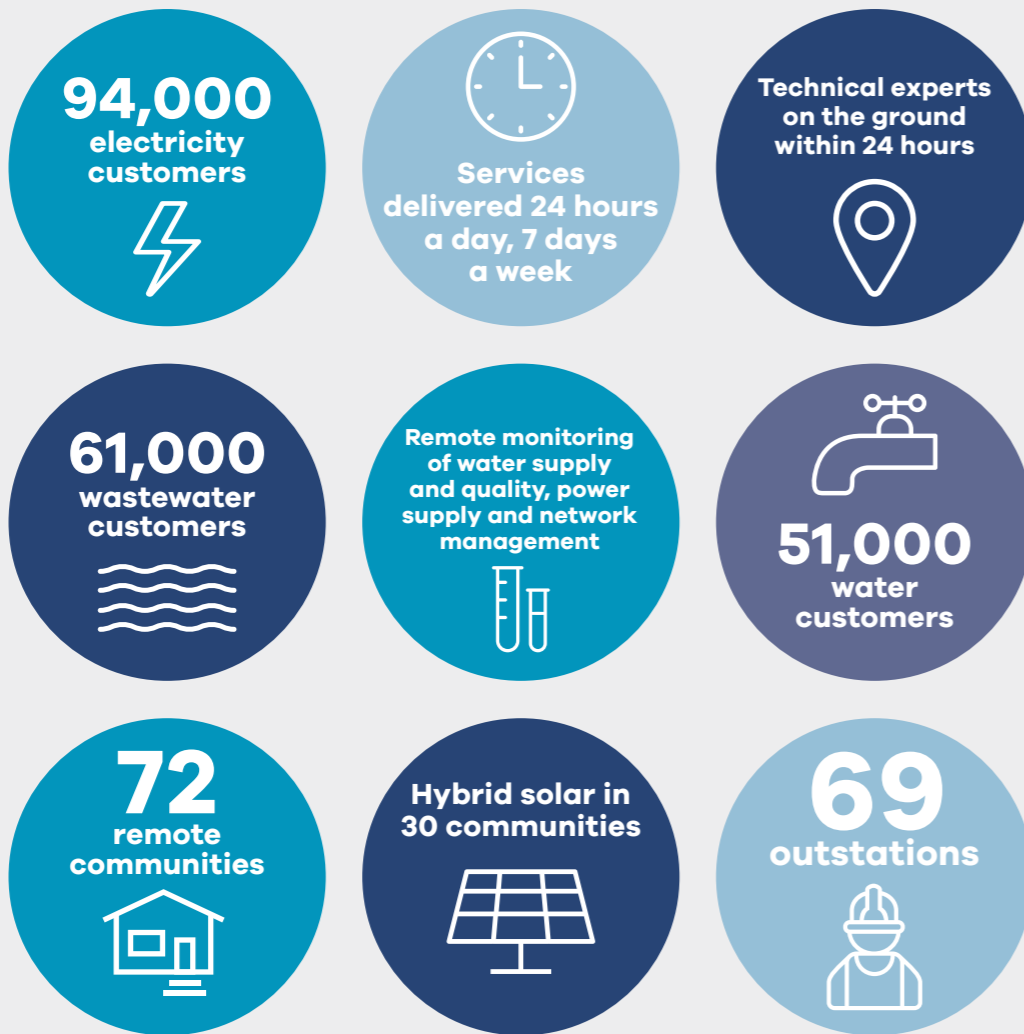
# Our history



Rebuilding the Darwin Electricity Network after Cyclone Tracy in 1974.

# Our services

Power and Water Corporation provide services to the community across the entire water and electricity supply chains and gas services, in addition to our regulatory obligations as the Power System Controller and Market Operator.



## Our service delivery area



# 2019-20 Highlights

01

## A NEW ERA UNDER AER REGIME

We recorded our first 12 months under the Australian Energy Regulator's (AER) regime for our regulated network services. We received approval for our first annual network pricing proposal to the AER under their 2019-24 final decision.

02

## RESPONSE TO COVID 19 PANDEMIC

We responded quickly to customer and employee needs during the pandemic. We voluntarily adopted the AER's policy of no electricity disconnections for non-payment and ramped up our efforts to negotiate payment options with customers. Read more on page 22.

03

## MEANINGFUL ABORIGINAL ENGAGEMENT

We continued developing the next stage of our Stretch Reconciliation Action Plan and grew our Aboriginal Employment Program. Read more on page 22.

04

## GROWING OUR GAS BUSINESS

We grew our wholesale gas supply business and connected to the east coast market through the Northern Gas Pipeline. We were recognised for powering the development of the Territory at the 2019 Chief Minister's Awards for Excellence in the Public Sector.

05

## RENEWABLES FOCUS

We continued to enable energy transformation in remote communities through a federal grant to conduct feasibility studies and the rollout of a battery energy storage system in Titjikala.

06

## STRENGTHENING THE TERRITORY'S POWER NETWORK

We updated the Generator Performance Standards to stabilise the Territory's power system by strengthening the regulatory and coordination framework.

07

## CONTINUING OUR TRANSFORMATION JOURNEY

We embarked on a program to improve our metering and billing functions, financial and asset management systems, service delivery and how we improve our customer experience.

08

## MANAGING WATER DEMAND THROUGH EDUCATION

We adopted a Territory wide focus on grassroots education on the value of water through our schools program and extensive media campaign.

09

## ENCOURAGING LOCAL SUPPLIER DIVERSITY

We strengthened our focus on supporting local businesses in partnership with the Industry Capability Network through the web-based Aboriginal Content Finder to encourage supplier diversity.

10

## NURTURING OUR COMMUNITY PARTNERSHIPS

We continued to build our presence in the community through participating in events like Foodbank's Christmas Hamper charity drive and the Special Children's Christmas party. Read more on page 26.

# Chair's message



“But first, we were extremely pleased to welcome back Djuna Pollard to Power and Water as our first female Chief Executive Officer.

**As I reflect on 2019-20 and the challenges Power and Water has faced, I am proud to have been part of a team that has risen to the occasion and taken on those challenges head-on, for itself, its customers and the Northern Territory.**

But first, we were extremely pleased to welcome back Djuna Pollard to Power and Water as our first female Chief Executive Officer.

Djuna represents everything that makes ours a great organisation – she is hard-working, dedicated and truly Territorian, working every day for the good of our community. We have great confidence in her and know we are in good hands under her stewardship.

But we mustn't forget the difficult times we have been through as well.

The Alice Springs System Black event which saw parts of the town lose power for almost nine hours was a regrettable and unfortunate event.

There has already been much time spent investigating this event from a range of independent experts, and I can assure everyone, that nowhere has this event been taken more seriously than by our Board.

We have been pleased to see strong progress being made in response to the recommendations from the Utilities Commission inquiry.

Power supply interruptions are occasionally inevitable and we take all possible steps to minimise the interruptions especially their duration, working towards our ongoing goal to provide safe and reliable power for customers.

I would also like to recognise the team's response to the COVID-19 pandemic. The Board and I were proud of the efforts to protect our customers and the ongoing vigilance of our workforce as we continue to navigate this once-in-a-generation event.

There are many great reasons for every Power and Water employee to reflect on this year with a sense of pride and achievement. In many areas great progress has been made.

This includes working with government agencies in developing the arrangements for new renewable electricity generators to enter the market, in ensuring a safe and sustainable water supply and in enhancing the efficient use of the Territory's gas contracts.

I hope that as you read this year's Annual Report, you too will acknowledge the great work we do across the Northern Territory.

**JL Langoulant AO**  
Chair

# CEO's report



“This resilience and willingness to roll up our sleeves to get the job done truly embodied the spirit of being a Territorian.

**When you deliver essential services in some of Australia's most challenging and diverse conditions, challenges are part of your everyday reality.**

However, the last 12 months brought some particularly unique highs, lows and growth opportunities for Power and Water.

We saw our safety culture improve through a strong focus on regular and timely communications as well as the centralisation of our Health, Safety and Environment team, a successful transition to the National Electricity Rules, a major overhaul of our approach to drinking water quality management and the transition to our new operating model to realise our synergies as a multi-utility.

We made further strides towards reconciliation through finalising our Innovate-level Reconciliation Action Plan and launched an online cross-cultural training program for all employees.

At the same time, the Alice Springs System Black and its subsequent ramifications prompted some soul-searching across the business.

We recognised we needed to do better in our response time and improve communication with our stakeholders.

It was a humbling experience. We know there is still much to do to rebuild our reputation and the community's trust in our organisation.

Then early 2020 brought with it the once-in-a-lifetime experience of delivering services in a global

pandemic. Despite the uncertainties, our teams rallied together and rose to the challenges.

We took stock of the situation, considered the safety of our employees and our customers, and got on with the job of delivering quality essential services for all Territorians – as we have done and continue to do every day.

This resilience and willingness to roll up our sleeves to get the job done truly embodied the spirit of being a Territorian.

I saw our people display pride in their work through the smallest gestures, which in turn filled me with pride.

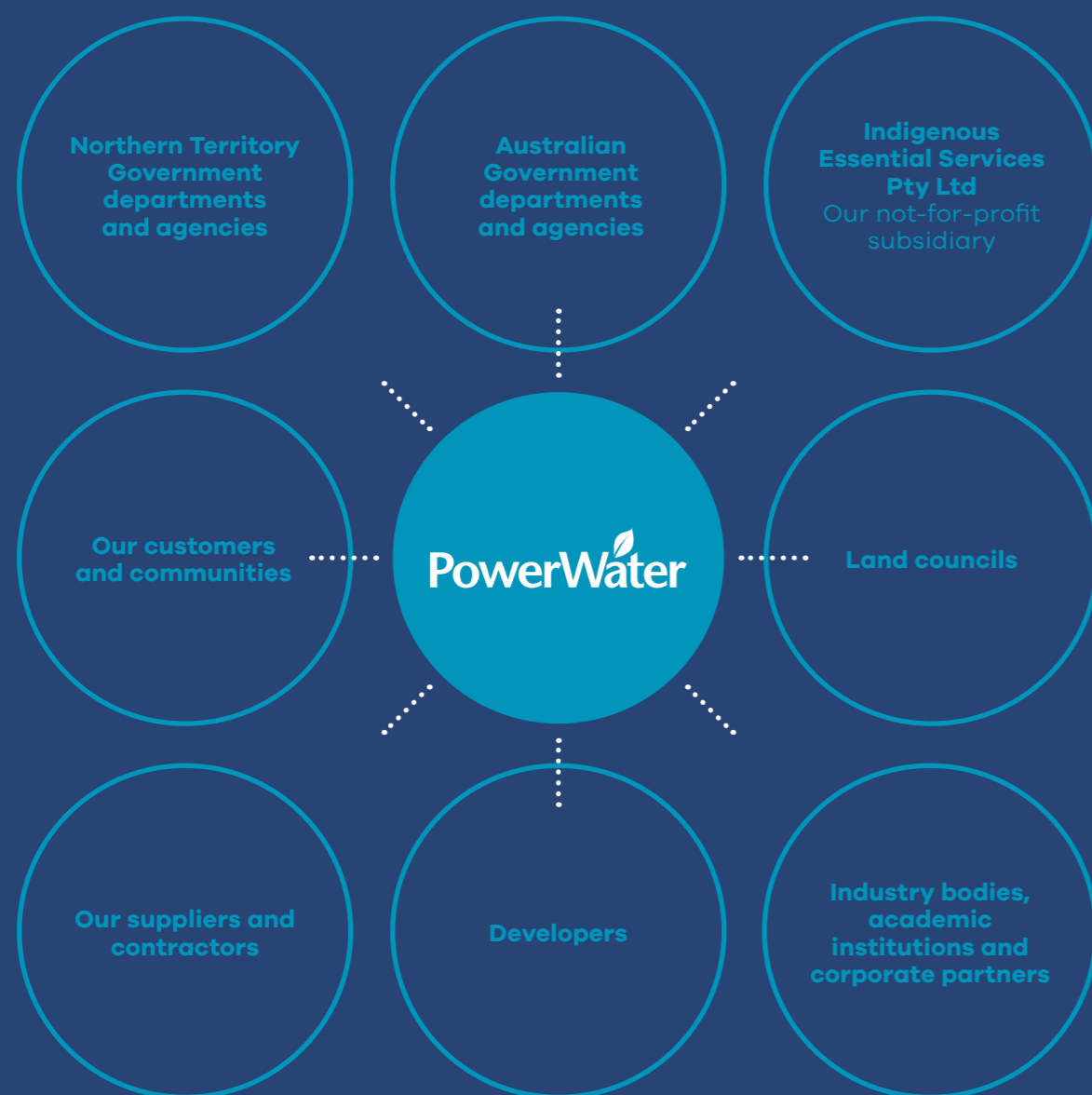
In a personal highlight, in June I was successfully appointed to the position of CEO after acting in the position for a number of months.

Having been with Power and Water for more than 20 years across my career, I am looking forward to helping the organisation realise its potential.

We still have some ways to go in becoming a mature, efficient utility which embraces renewable energy sources, and I am confident we are on the right path and we have the right people on board to make this journey.

**Djuna Pollard**  
Chief Executive Officer

# Our stakeholders and how we engage with them



## Northern Territory Government departments and agencies

### Key interest areas:

- Legislative compliance
- Public health
- Environmental management
- Financial management
- Policy and legislation
- Economic development

### How we engaged:

- Executive meetings
- Relationship management
- Advocacy groups
- Steering and working committees

## Australian Government departments and agencies

### Key interest areas:

- Legislative compliance
- Public health
- Environmental management
- Financial management
- Policy and legislation
- Economic development

### How we engaged:

- Executive meetings
- Relationship management
- Advocacy groups
- Steering and working committees

## Indigenous Essential Services Pty Ltd Our not-for-profit subsidiary

### Key interest areas:

- Power supply reliability
- Water supply and quality
- Infrastructure
- Essential Services Operator competency

### How we engaged:

- Regular meetings

## Land councils

### Key interest areas:

- Service provision
- Land tenures
- Assets and infrastructure
- Environmental protection
- Employment opportunities

### How we engaged:

- Regular meetings

## Our customers and communities

### Key interest areas:

- Water and sewerage prices
- Electricity prices
- Power supply reliability
- Customer service
- Public health
- Environmental impact
- Local employment
- Community partnerships
- Capital works

### How we engaged:

- Customer Service Centre
- Printed collateral
- Website
- Social media
- Focus groups

## Our suppliers and contractors

### Key interest areas:

- Fairness, equity and transparency in awarding contracts
- Future work opportunities
- Preferencing local businesses
- Essential Services Operator competency
- Timely payment of invoices
- Contract compliance

### How we engaged:

- Contract management meetings
- Site visits and audits
- Variation management
- Tenders and expressions of interest
- Essential Services Operator training and competency management

## Developers

### Key interest areas:

- Technical standards
- Customer service
- Legislative compliance
- Infrastructure delivery

### How we engaged:

- Dedicated website portal
- Industry forums
- Relationship management

## Industry bodies, academic institutions and corporate partners

### Key interest areas:

- Assets and infrastructure
- Collaboration opportunities
- Innovation and technology

### How we engaged:

- Conferences and events
- Participation in committees and advisory bodies
- Social media



# Our strategic direction

**Power and Water is committed to enriching the future of the Territory, our customers and for each other.**

Our strategic direction has been set after consideration of the following aspects:

- Our mandate as set by our owners, the Northern Territory Government.
- Growing customer expectations by putting our customers, community and shareholder at the forefront of all that we do when delivering our essential services, to provide greater customer value and experience.
- Our uniquely complex business context which includes a vast landscape, regional and remote communities, cultural sensitivities, extreme weather such as cyclones, and more.
- The scope and approach of the services we deliver has changed considerably over the years under different governments and leadership. Our operating structure has been formed through the combination of different businesses, whose varying needs and customisations have increased the complexity of our organisation. Restructuring is critical in order to realise the efficiencies of being a multi-utility.
- Australian utilities are facing challenges including evolving market and customer expectations, changing regulations, new technologies, energy transition and network stability, climate impacts, water security and demand management.
- Our position as a multi-utility is a base for building greater synergies and new value to take advantage of new business opportunities and to support the NTG in delivering growth and future economic development.

Our **purpose and vision** have been developed to encapsulate these aspects.

In moving towards our purpose and our vision, we have embraced a strong focus on practicing and applying the following values in everything we do in our work, to guide our decisions and actions.

- We put people first
- We value our customers and give them our best
- We have pride in ourselves and our work
- We work better by working together.

## Our values



We put  
**PEOPLE  
FIRST**



We have  
pride in  
ourselves and  
**OUR WORK**



We value our  
customers and  
give them  
**OUR BEST**



We work  
better by  
working  
**TOGETHER**



Water Demand Coordinator – Remote Call Rayment with remote water customers in Warruwi.

## Our purpose

Enriching the future of the Northern Territory and the community in which we operate, supporting economically sustainable growth and prosperity.

Enriching the future of our people, by providing growth and development opportunities that enable them to do new things, champion change and make a difference in the work they do.

Enriching the future for our customers by being easy to deal with, and providing customers with knowledge and choice

## Our vision

To be a best practice, commercially focused and customer centric multi-utility respected by the community for our contribution to the Northern Territory economy and the pursuit of the long-term interests of consumers.

**ENRICHING  
THE FUTURE**



# Delivering our new Operating Model

Over the past two years, we have been continuing to transition to our new Operating Model so we can better meet the challenges of an ever-changing customer, regulatory and operating environment.

We have a clear strategy and roadmap that sets out what needs to be done to make this happen, and this is closely aligned to our Statement of Corporate Intent.

During the year, we made significant progress on a number of important initiatives, including:

- Organisational and Process Alignment involving transition to new accountabilities structure to remove duplication of functions and consolidate our business into one strong business with three product lines – power, water and gas – that are enabled by centralised functions. This includes:
  - Completed the establishment of the business unit structure for the organisation with the formation of Customer, Strategy and Regulation (CS&R), bringing together organisational strategy with greater customer focus.
  - Enhance our Information, Communication and Technology (ICT) specialist capabilities to prepare for the upgrade of our core systems and ensure we have the necessary skills in the business to deliver these projects.

- Investment planning for ICT solutions to support the core operational capabilities of the business including Meter to Cash, Physicals to Financials, Asset Management, Service Delivery, Capital Projects and Customer Experience. This involved development of future state processes, development of business requirements and work toward development of a business case for Board and Government approval. Project delivery is proposed to continue in 2020/21.
- Investment planning for a Health, Safety, Environment, Compliance and Risk ICT solutions to replace the current system which is no longer fit for purpose and provide one ICT portal and source of truth for these functions to improve data visibility for decision making. Project delivery is proposed to continue in 2020/21.

The next steps are focused on improving our processes and continuing to align our structure. Major IT initiatives include a range of supporting projects such as Meter to Cash – together with a new billing system – and a new Health, Safety and Environment Risk and Compliance system.

# Managing the Covid-19 pandemic



As a provider of essential services to the Northern Territory community, Power and Water understands the key role it plays in the Government's response to emergency events, and has a long history preparing for and responding to natural disasters.

In response to the 2020 COVID-19 pandemic, Power and Water stood up the Incident Management Team (IMT) to lead, manage and coordinate the preparation and response. Immediate efforts were made to reprioritise works to focus on essential repairs and maintenance, with a minimum staffing footprint. Arrangements were also made and priority given to those with responsibilities for vulnerable members of our community.

The Incident Management Team.

# Financial performance

While the statutory results of the corporation are required to be presented on a consolidated basis, this commentary focuses on the performance of Power and Water, excluding its subsidiary Indigenous Essential Services (IES). In the view of management, this provides the best basis for explanation given the not for profit nature of IES and the fact that it allows direct comparison with the Statement of Corporate Intent (SCI) of the corporation. The financial performance of IES is explained in detail in the IES statutory accounts. A summary of Power and Water's underlying performance against the 2019-2020 SCI and 2018-19 prior corresponding period actuals is provided below.

Power and Water Corporation Results against SCI	2019 2020 Actual \$M	2019 2020 SCI \$M	2018 2019 Actual \$M
Revenue	728.1	711.9	657.9
Operating Expenditure	(534.3)	(450.8)	(452.8)
Impairments & Asset valuation movements	217.5	-	(156.2)
EBITDA	411.3	261.1	48.9
Impairments	(160.4)	-	22.8
Asset valuation movements	(57.1)	-	133.4
Underlying EBITDA <sup>1</sup>	<b>193.8</b>	<b>261.1</b>	<b>205.1</b>
Depreciation and amortisation	(136.9)	(133.4)	(119.3)
Underlying EBIT <sup>1</sup>	<b>56.9</b>	<b>127.7</b>	<b>85.8</b>
Interest expense	(61.4)	(66.4)	(49.6)
Tax on underlying Net Profit/(Loss) before tax	(3.2)	(18.4)	(10.9)
<b>Underlying Net Profit/(Loss) after tax</b>	<b>(7.7)</b>	<b>42.9</b>	<b>25.3</b>

<sup>1</sup> EBITDA excluding significant items is non-IFRS (International Financial Reporting Standards) information. Management has provided an analysis of significant items included in the reported IFRS financial information. These items have been considered in relation to their size and nature, and have been adjusted from the reported (i.e. IFRS) information to assist readers to better understand the financial performance of the underlying operating business. These adjustments are assessed on a consistent basis from period to period and include both favourable and unfavourable items. Non-IFRS financial information, while not subject to audit or review, has been extracted from the financial report.

<sup>2</sup> Gifted asset revenue, although a non-cash item, is a recurring item in the normal course of business and therefore has not been excluded from underlying profits before tax.

## Revenue

Revenue for the corporation was \$16 million favourable to budget. Despite a five per cent decrease in consumption over the same period, the improvement against SCI is mainly due to the introduction of restructured regulated electricity tariffs now that Power and Water sits under the Australian Energy Regulator (AER) as well as a result of increased system control charges this year.

Pleasingly, revenue from gas sales was favourable to budget by \$3.5 million. This marked an important milestone for our Gas Services team - achieving a sizable net profit and significant positive cash flow for the first time. Since 2014, the team has doubled revenue and contracts under management and maintained controllable costs within budget.

## Operating expenditure

Operating expenditure was in total \$84 million unfavourable to budget. Personnel costs were higher than projected due to budgeted labour recoveries not fully realised as repairs and maintenance and capital programs were delayed by several factors including COVID-19 travel restrictions and the reprioritisation of critical programs of work such as those relating to the Alice Springs System Black and the urgency relating to renewable connections. Professional fees were over budget as a result of the need for additional specialised resources for regulatory and other special projects.

## Non cash impairments and write downs

### Fixed asset valuation movements

The fixed assets of Power and Water are carried at fair value in accordance with the fair value requirements of the Australian Accounting Standards with the core operational assets of the Power Networks and Water Services business units using the income approach.

Due predominantly to the prevailing economic conditions, which have resulted in a reduction to the discount applied to future cash flows, a reversal of revaluation decrease totalling \$57 million has been credited to the profit and loss in the current financial year.

### Make up gas

The current gas contracts relating to the sale and purchase of gas have resulted in Power and Water previously paying for gas that will be delivered in future years. These payments are classified as intangible assets and, as a result of changes that have positively influenced the net realisable value of this make up gas in the current financial year, a reversal of previous impairment expenses totalling \$94 million has been credited to the profit and loss this year.

## Gas supply and transport contracts

The corporation has in place long term contracts to procure gas and associated transport charges. The fixed price nature of the long term gas contracts; the volatility in the market price of gas; the pricing and volume risk from as yet unsecured contracts or contracts currently under negotiation; increasing competition in the gas supply market; and more recently the potential impact from the displacement of gas by renewables over time are risks to the corporation's ability to sell the gas at a price higher than the cost of gas and transport.

The Board consider these risks as part of their ongoing monitoring of the gas sales strategy and having considered both the risks and opportunities as more probable than not and that can therefore be quantified and assessed for materiality as required under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets". As the estimated cash inflows from future gas sales are now higher than the outflows, the Board have concluded that there no longer exists an onerous contract at 30 June 2020 (compared to an onerous contract value of \$67 million in June 2019) with a consequent reversal of this amount to the income statement in the current financial year.

## Earnings before interest and taxation (EBIT)

As a consequence of the reversed non-cash impairment and asset revaluations referred to above, the corporation recorded EBIT on a statutory basis of \$274 million. Excluding the \$217 million impact of the non-cash impairments reversal and asset revaluations, the corporation recorded an underlying EBIT of \$57 million; this was \$71 million unfavourable to budget, mainly as a result of the unfavourable variances in operating expenditure noted above.

## Interest

The interest charge at \$61 million was \$5 million favourable to budget.

## Tax

The tax charge for the year of \$68 million compares to \$18 million in the SCI; the variance is primarily driven by the tax effect of unbudgeted impairment reversals and asset revaluations. In addition, the current year tax charge includes \$4.5 million expense related to the transfer pricing structure in respect of the group's internal charges between the corporation and its subsidiary.



### Net profit after tax (NPAT)

The corporation recorded a statutory NPAT of \$145 million for the year compared to a budgeted NPAT of \$43 million with the favourable variance driven by the non-cash impairment reversals in respect of fixed assets and gas onerous contract.

On an underlying basis, the negative NPAT (a loss) of \$8 million is \$51 million below budgeted NPAT of \$43 million; unfavourable operating expenditure relating in part to personnel costs and labour recoveries, professional fees, and as yet unrealised efficiency benefits have all contributed to this disappointing result.

### Impact of COVID-19

The ongoing COVID-19 pandemic has had a range of effects on the business. Most noticeably, travel restrictions to remote communities have led to significant delays in capital expenditure. The wellbeing and safety of employees, customers and contractors continues to be the highest priority.

On 8 April 2020, the Northern Territory Government announced that they will deliver additional support to Territory businesses as part of the Jobs Rescue and Recovery Plan. A component of this package is to provide a 50 per cent reduction to power, water and sewerage bills for businesses for six months (for regulated utility tariffs).

In order to identify and manage financial risks arising from the pandemic, the corporation has:

- conducted financial scenario modelling and developed options to defer costs and minimise revenue loss
- captured costs and sought cost recovery and grant opportunities
- monitored, analysed and reported the financial position and financial forecasts to enable proactive financial management of the event.

### Balance sheet and cash flows

Closing cash holdings are \$27 million favourable to budget driven in part by the opening cash balance being \$54 million higher than budgeted due to funds received for capital projects (most notably for undergrounding and PFAS rectification projects) that were not included in the budget. Expenditure on these projects has started in the current financial year. Net assets and capital work in progress are both consistent with the SCI.

The corporation spent \$81 million on capital projects in the 2019-20 financial year. This was \$105 million less than budgeted. Reprioritisation and rescheduling of critical works and COVID-19 travel/access restrictions have been contributing factors along with the extension to the timing of the overall Transformation Program.

In the current year, the delays in the budgeted program of capital works has enabled the corporation to decrease debt, repaying a net amount of \$80 million and reducing borrowings to \$1,162 million - \$139 million lower than the budgeted balance of \$1,301 million.

As a result of the high opening cash balance and capital underspend, free cash flow is \$113 million favourable to budget.

### Dividends

The Board considered the level of NPAT for the year and its constituent elements, with a particular focus on cash-backed NPAT on an underlying basis (excluding revenue from gifted assets, the movement in fixed asset valuations and reversal of gas impairments) and have declared a special dividend of \$1 million subsequent to 30 June 2020 which will be paid by 30 November 2020. This has been disclosed as a subsequent event in both the Directors Report and the notes to the Accounts.

**Martha Stewart**  
Chief Financial Officer



# Achievement against KPI targets

## Key performance indicators

	2019 20 Target	2019 20 Actual
<b>Health and safety</b>		
Health and safety index (%) <sup>1</sup>	80	30
<b>People and culture</b>		
Employee engagement (%) <sup>2</sup>	47	36
Aboriginal employment (headcount) <sup>3</sup>	87	64
<b>Financial performance</b>		
Return on capital employed (%) <sup>4</sup>	> 4.0	2.4
Debt to equity ratio (times) <sup>5</sup>	< 1.3	1.0
Free cash flow (\$M) <sup>6</sup>	(35.6)	77.6
Statutory net profit after tax (\$M) <sup>7</sup>	> 42.9	144.7
Underlying earnings before interest, tax, depreciation and amortisation (\$M) <sup>8</sup>	> 230.1	193.8
<b>Operational performance</b>		
System Avg Interruption Duration Index - NT system (minutes) <sup>9</sup>	175.8	148.6
Water demand (avg kL per household) <sup>10</sup>	384	332
Unplanned water supply interruptions (average minutes) <sup>11</sup>	120	165.1
Sewerage chokes and blockages per 100km (no.) <sup>12</sup>	22	10
Wastewater treatment plant discharges are licensed (%) <sup>13</sup>	100	100
<b>Customer</b>		
Customer satisfaction index (%) <sup>14</sup>	80	71/83/74
Complaints resolution (avg business days) <sup>15</sup>	12	8.8

All targets reflect Power and Water unconsolidated.

<sup>1</sup> **Health and safety index:** Reflects a composite measure of health and safety indicators focusing on employee, contractor and public safety performance, effectiveness and verification.

<sup>2</sup> **Employee engagement:** The level of favourable engagement for employees based on survey respondents measured annually. Previous SCI targets and scores were derived using the Insync Employee Engagement methodology which is no longer used. Targets have been reset to reflect the Kincentric methodology (previously known as AON Hewitt). The 2019-20 Power and Water engagement result was 36% using the Kincentric methodology.

<sup>3</sup> **Aboriginal employment:** Number of employees identifying as Aboriginal (permanent and fixed term, excluding contractors) as at 30 June each year.

<sup>4</sup> **Return on capital employed (ROCE):** EBIT/Capital Employed where EBIT = Taxed earnings before interest and tax adjusted for non-cash impairments and depreciation calculated using Fair Value for asset valuations; and Capital Employed = Equity adjusted for assets also at Fair Value + Borrowings.

<sup>5</sup> **Debt to Equity ratio:** (Current borrowings + non-current borrowings)/equity.

<sup>6</sup> **Free cash flow:** Operating cash flow less capital expenditure.

<sup>7</sup> **Statutory net profit after tax (NPAT):** In line with Statutory Accounts.

<sup>8</sup> **Underlying earnings before interest, tax, depreciation and amortisation (EBITDA):** Total revenue less total operating expenditure excluding non-cash impairments. The SCI excluded the impact of leasing standards.

<sup>9</sup> **System Average Interruption Duration Index (SAIDI):** Reflects distribution reliability targets approved by the Utilities Commission in the Standards of Service Code. Rolling 12 month average for the Northern Territory system.

<sup>10</sup> **Water demand Darwin:** Rolling 12 month average for Darwin households.

<sup>11</sup> **Unplanned water supply interruptions:** Average duration of unplanned water supply interruptions in Darwin and Alice Springs.

<sup>12</sup> **Sewerage chokes and blockages:** Number of chokes and blockages per 100km Darwin and Alice Springs.

<sup>13</sup> **Wastewater treatment plant discharges:** All wastewater treatment plants are licensed or have a current licence submission.

<sup>14</sup> **Customer satisfaction index:** Percentage of customers that rate their overall satisfaction with the corporation's services as either good or better. Covers major centres (including Darwin rural) based on a random sample of total customer population.

<sup>15</sup> **Complaints resolution:** Average number of business days taken to resolve customer complaints.

# Performance comments

## Health and safety index

As Power and Water continues to move towards a 'proactive safety culture', we have made incremental improvements resulting in a 10 per cent growth towards achieving our target.

Our lag indicators are healthy and we continue to focus on changing leadership, behaviours and personal responsibility.

Power and Water identified that improved health and safety reporting would assist in further cultivating awareness, behaviours and safety culture. A project has been initiated to implement a contemporary health and safety IT system by mid-2021.

## People and Culture

### Employee engagement

An employee engagement score is a result of a number of drivers and impacts across the business and addressing these continues to be a key focus of Power and Water.

## Aboriginal employment (headcount)

This target was an aspirational target set by the Board in 2016 when it doubled the target set by the Northern Territory Public Sector. Power and Water continues to focus on increasing Aboriginal employment and retention, which has seen this figure continuing to grow year-on-year.

## Operational performance

### Unplanned water supply interruptions (average minutes)

The KPI is calculated on a 12 month rolling basis, this provides a trend line to review. Even though we have had no increase in our unplanned duration, it is still recording high due to the calculation over a 12 month rolling average with a seven hour outage in April 2020 due to the main being encased in concrete.

## Customer

### Customer Satisfaction index

Power and Water continues the journey to become customer centric, with a focus on improving the overall customer experience.



Tennant Creek.

# Achievement against KPI targets



## Health and Safety

We are moving towards a proactive safety culture across our organisation based on accountability, trust and ethical behaviour.

### Highlights and opportunities:

- Held our first organisation-wide Safety Champions campaign during National Safe Work Month.
- Developed an organisation-wide personal protective equipment and clothing procedure.
- Introduced a random drug and alcohol testing program for employees, consultants, contractors, hosted apprentices and others working on our behalf.
- Implemented procedures to protect the health and safety of employees and customers in response to the COVID-19 pandemic.
- Organised a six-week mental health and wellbeing webinar series during the pandemic response period.



## People and culture

We aspire to be a high-performing, diverse workforce that has the capability and works together to drive business effectiveness.

### Highlights and opportunities:

- Held our largest simultaneous Annual Employee Awards in Darwin and Alice Springs, with more than 400 employees attending and 241 nominations received for 10 award categories.
- Held employee forums across the Northern Territory to engage with our employees on our strategic direction and priority focus areas.
- Held pop-up sessions as part of an employee roadshow on our Accountability Manuals which set a foundation for building our new operating model.
- Improved on our number of Aboriginal employees to 69 permanent and fixed-term employees, excluding contractors.



## Financial performance

We have the goal of being a financially-robust and commercially-sustainable organisation with a strong capital discipline framework delivering appropriate returns to our shareholders.

### Highlights and opportunities:

- Our Gas Services team achieved important milestones, including a sizeable net profit and significant positive cash flow for the first time. Since 2014, the team has doubled revenue and contracts under management and maintained controllable costs within budgets.
- Successfully rolled out an Enterprise Project Management system in early 2020 providing project management tools and enabling centralised, automated project reporting.
- Delivered Enterprise Project Management system training to 180 employees to enable them to track projects against the Project Investment Delivery Lifecycle aligned to schedules, agreed baselines and budget metrics.

### KPI performance:

Please refer to definitions on page 24.

- Return on capital employed at 2.4 per cent is below the budget of 4.8 per cent primarily driven by lower than budget underlying EBIT driven by higher than budget operating costs and depreciation, partially offset by higher than budget revenue. (Refer to financial statements and explanatory statements for additional information).
- Debt to equity ratio at 1.0 is lower than budget primarily due to higher equity driven by intangible asset revaluations.
- Free Cash inflows of \$77.6 million is favourable compared to budgeted cash outflows of \$13.6 million primarily due to lower than budgeted capital expenditure.
- Statutory net profit after tax at \$145 million is favourable to budgeted, due to the gas portfolio being favourable and the reversal of previous years impairments.
- Underlying earnings before interest, tax, depreciation and amortisations (EBITDA) at \$194 million is below the budget of \$261 million primarily driven by lower than budget underlying EBIT driven by higher than budget operating costs and depreciation, partially offset by higher than budget revenue. (Refer to financial statements and explanatory statements for additional information).



## Operational performance

We aspire to be an efficient provider of services to our customers supported by strong asset management, governance and protection of the environment.

### Highlights and opportunities:

- Treated more than 1 billion litres of water at the Katherine PFAS Water Treatment Plant.
- Joined the Water in Northern Australia Cooperative Research Centre focusing on water security.
- Continued to improve and upgrade our power networks through the undergrounding of power to Darwin schools and replacing high voltage power underground cables.
- Trialled an innovative power fault prediction project to anticipate and locate faults on long stretches of overhead powerlines in Darwin's rural area.



## Customer

We want to be a customer-centric organisation that is easy to deal with and offers better choices.

### Highlights and opportunities:

- Continued to carry out bi-annual phone customer satisfaction surveys.
- Launched the water-saving Weather Web program for Darwin.
- Worked together with the Northern Territory Government to provide utility bill relief for businesses affected by the pandemic.
- Prioritised the adaptation of a successful urban water educational program for schools in remote Aboriginal communities featuring rapper and 2019 Young Australian of the Year, Baker Boy.
- Continued to support the community through our new Community Partnerships Program offering small grants to grassroots organisations.

# Our projects

Our capital works program for 2019-20 was \$124.2 million.  
Key projects completed and underway are highlighted below:



## 01 Darwin

School power undergrounding, Casuarina tank reroofing, Wulagi water main replacement

## 02 Pine Creek

Substation upgrade

## 03 Katherine

PFAS water treatment plant

## 04 Borroloola

Garawa water mains

## 05 Alice Springs

Sadadeen Zone Substation upgrades



Manager Power Program Deliver Philip Small with the package substation at Alawa Primary School.

### Undergrounding power to Darwin schools

We commenced construction on undergrounding power to nine Darwin schools in July 2019 to connect schools in almost every Darwin suburb that has above ground power.

The \$3 million program saw five of the nine schools connected to underground power during the financial year.

During severe weather events, this work will help schools to avoid losing power and enable them to remain open, providing safe environments for children while recovery efforts occur.

We also involved schools directly in the works to upgrade their power supply by inviting students to design vinyl artwork wraps for the package substations on their school grounds.

### Casuarina elevated water tank roof replacement

As part of our asset maintenance and replacement program, we completed a \$1.3 million project to replace the roof of the Casuarina elevated water tank to maintain water quality within our network.

The 4ML existing tank roof was more than 30 years old, had deteriorated and reached the end of its life.

### Improving water supply reliability in Wulagi

Over a span of several years, residents of Wulagi in Darwin's northern suburbs reported water supply interruptions due to 21 breaks in the Bittern Street water main in that period.

To improve water supply reliability to customers, we replaced the mains in the area at a cost of \$210,000 which had reached the end of its life.

### Pine Creek Substation upgrade

We commenced work on upgrades worth \$9.5 million to the Pine Creek Power Station Substation to improve power supply reliability for customers.

This is the first significant investment in this particular asset in more than 20 years.

As part of these upgrades, we expanded the Pine Creek Substation and reconfigured the 66kV Cosmo Howley feeder and 22kV Mary River powerline connections.

### Katherine PFAS treatment plant

During the year, we continued to progress construction work on the 10ML/day treatment plant. We have completed early works including demolition, earthworks and electrical works and have awarded tenders for the water treatment plant building.

We also received shipment of the 21 carbon steel pressure vessels and ion exchange resins which will be used to capture the PFAS compounds. The commissioning of the plant is expected to commence by mid-2021.

The Department of Defence has contributed \$15.7 million capital for the construction of the plant and \$3.4 million for operational costs over the initial 10-year period.

### Garawa town camp water mains

In late-March, we commissioned a new water main connecting the Garawa 1 and 2 town camps to the main water treatment facility in Borroloola.

This construction of the six kilometre main, completed together with Aboriginal business NCP Contracting and funded by the Northern Territory Government through the Department of Local Government, Housing and Community Development, has resulted in improved water network quality and reliability for residents.

The works project was valued at \$3.6 million and saw the creation of two new jobs in the local area.

### Sadadeen Zone Substation upgrades

In Central Australia, we commenced works to upgrade the Sadadeen Zone Substation to provide safer, more secure and reliable power supply for Alice Springs.

The project, estimated to cost \$12 million, will see the construction of a new building and installation of switchgear to replace existing systems approaching the end of their life.

# Our people

“ We also ramped up efforts to help our customers in need with negotiated payment terms to continue to support our community as much as we could.



**Our people are essential to the Territory. Their contributions go beyond making the Territory a great place to live by keeping the lights on and water flowing – they are part of the community and many give their time and energy to various volunteer organisations outside work.**

**A people-first pandemic response**

While our people have extensive experience in preparing for and responding to severe weather events, the COVID-19 pandemic response was a new experience for the organisation.

We worked through the government’s Territory Emergency Management Council and as the leader of the Public Utilities Group, quickly stood up the cross-utility group to ensure coordination across the industry.

In recognising the people-centred nature of the pandemic, we made immediate efforts to focus on essential repairs and maintenance to ensure we could continue to deliver services and protect community assets, with a minimum staffing footprint.

We made business continuity arrangements and broad-scale working-from-home arrangements, prioritising vulnerable employees and those with responsibilities for vulnerable community members.

With many Territorians facing financial hardship due to job losses or reduced working hours, we voluntarily adopted the Australian Energy Regulator’s policy of no electricity disconnections for non-payment.

We also ramped up efforts to help our customers in need with negotiated payment terms to continue to support our community as much as we could.

**Reconciliation Action Plan**

In a major achievement for the organisation, we completed our first Innovate RAP and began engaging with key external stakeholders on the development of our next Stretch RAP.



Aboriginal Employment Program graduates.

As a result of pandemic travel restrictions, some aspects of our RAP stakeholder engagement had to be postponed and will be revisited at a later date. Despite these challenges, we established our RAP Working Group, with the first meeting held in early June.

We achieved a number of significant milestones during the year, including working together with the Industry Capability Network (ICN) of the Northern Territory to develop a new online resource to find local Aboriginal businesses.

The NT Aboriginal Content Finder, launched in July 2019, is an interactive map drawing on ICN NT’s database. The map enables easy searching of Aboriginal business and non-Aboriginal businesses that have a high number of Aboriginal employees.

This is in line with our RAP which pledges to incorporate Aboriginal and Torres Strait Islander supplier diversity within our organisation.

In September, we were also proud to see five Aboriginal Employment Program participants hosted by us celebrate their graduation from the 20-week course.

The program participants spent time working across our business to gain new qualifications, experience and insight into the workings of a large corporation while attending Charles Darwin University.

In a great outcome for all parties, all the program participants went on to commence employment contracts with us.





Senior SCADA engineer Michael Lih has been with Power and Water since he completed university.

### ESO Working Group to review competency management processes

We established a cross-business Essential Services Operator (ESO) Working Group to review the competency management process for ESOs.

The working group was formed to establish a consistent and comprehensive process to quantifiably assess ESO competence and identify where ESOs required mentoring and upskilling.

They also developed assessment tools which will enable our team to conduct ESO skills audits and provide onsite coaching if required.

ESOs will be given authorisations based on these assessments which will be logged as a renewable qualification within our authorisations database.

The new system empowers contractors to engage competent ESOs while providing us with a process to monitor and identify skills improvement opportunities.

The move towards on-site assessments will also reduce cost and travel for ESOs and contractors while providing a hands-on learning opportunity for ESOs.

The initiative replaced an intensive, classroom-based training which was delivered to ESOs every two years.

### Celebrating long-term employees

Under our Service Recognition Awards, we recognised our employees who have been employed with us or through the Northern Territory Public Sector.

At the start of 2020, we celebrated 50 employees across Darwin, Alice Springs and Katherine who reached their five, 10, 20, 30 and 40 years of service milestones.

Of the 50 employees, eight people have recorded 20 years of service or more, which speaks to their continued passion, as well as their knowledge and expertise in the essential work they do every day.

### RED25

As one of the largest employers in the Territory, it is no surprise our people form the third largest corporate group of blood donors as part of the Australian Red Cross Lifeblood Red25 team.

Over the financial year, our people made a collective 185 donations, saving more than 555 lives.

## Awards & recognition

### Winner

#### 2020 GTNT Group Awards

Michael Francis – Apprentice of the Year

Michael Bowden – Outstanding Apprentice Stage 3

#### 2019 Chief Minister's Awards for Excellence in the Public Sector

Bringing Gas to the Tanami: Powering the Development of Northern Australia – Developing Northern Australia's Economy

#### 2019 Australasian Land and Ground Water Association Excellence Award

Katherine PFAS Water Treatment Remediation Project – Best Remediation Project (exceeding \$1 million)

#### 2019 International Association for Public Participation (IAP2) Australasia Core Value Awards

Borrooloola Water Treatment Plant Upgrade – Smart Budget Special Award

#### 2019 Northern Territory Water Awards

Weather Web – Program Innovation

Borrooloola Water Treatment Plant Upgrade – Infrastructure Project Innovation

Eric Vanweydeveld – Northern Territory Water Professional of the Year

### Finalist

#### 2020 GTNT Group Awards

Tess Hanna – Apprentice of the Year

Sean Caffrey – Supervisor of the Year

#### 2019 International Association for Public Participation (IAP2) Australasia Core Value Awards

Borrooloola Water Treatment Plant Upgrade – Infrastructure (Construction) Award

#### 2019 Energy Networks Australia Energy Industry Awards

Distribution fault anticipation trial – Industry Innovation

### Commended

#### 2019 International Association for Public Participation (IAP2) Australasia Core Value Awards

Borrooloola Water Treatment Plant Upgrade – Sustainable Development Goals Award

# Our community

**The communities in which we live and work in are essential to our success and we do our best to support them.**

During the year, we participated in community events and continued to provide in-kind support through providing portable water-filling stations to promote tap water and reduce plastic bottle waste.

## Darwin Festival

The 2019 Darwin Festival was the biggest and most successful festival in its 40-year history. We have been proud supporters of its volunteers program for four consecutive years.

Last year, the festival saw a record 126 volunteers participating, including 59 first-timers. We also provided co-branded reusable water bottles for all volunteers and staff, helping create a more sustainable future for the festival.

## Darwin Street Art Festival

In an exciting first for us, we were pleased to offer access to three of our city-based assets as a blank canvas for local, national and international artists to showcase their work.

There was a positive response to the street art festival, especially with the launch of a smart phone app which transformed three murals into 3D animations.

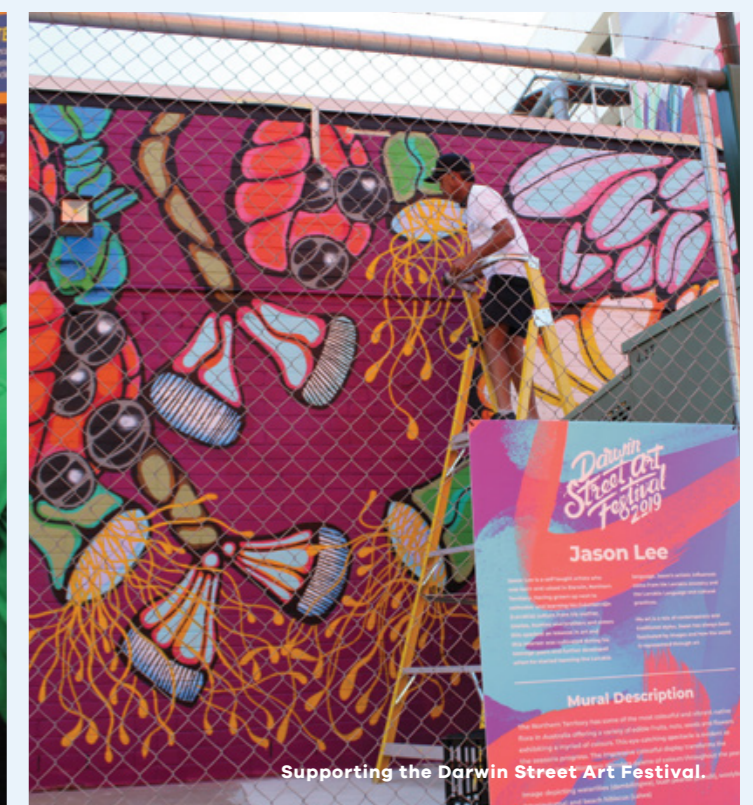


Supporting Darwin Festival's volunteers program

“We also provided co-branded reusable water bottles for all volunteers and staff, helping create a more sustainable future for the festival.”



Alice Springs show.



Supporting the Darwin Street Art Festival.

## That's My Water! school program

In response to many students learning from home during the height of the COVID-19 pandemic, we fast-tracked the rollout of the *That's My Water!* school program to give Territory students the opportunity to learn about water from Aboriginal elders and Power and Water experts.

We released online school resources accompanied by three videos featuring Yolngu rapper and 2019 Young Australian of the Year Danzal Baker, also known as Baker Boy, as our water champion. The online resources were downloaded 113 times while the videos were viewed more than 3,000 times.

## Keeping the community hydrated

Over the year, we provided in-kind support to several community events through our portable water refilling stations.

Some of the notable events we supported were the Telstra National Aboriginal and Torres Strait Islander Art Awards (NATSIAA) and the Mindil Beach Sunset Markets.

In June, we also signed on to the national Choose Tap initiative to increase awareness of the health and environmental benefits of tap water.



Board Welcome to Country, Little Mindil Beach.

## Our board

**John Langoulant AO**  
BEd (Hons)  
Chair

**Teresa Dyson**  
BA, LLB (Hons), Masters Applied Finance,  
Masters Taxation, GAICD  
Director

**Gaye McMath**  
BCom, MBA, FCPA, FAICD  
Director

**Rowena McNally**  
LLB, FAICD, FIML, FRI  
Director

**David Bartholomew**  
BEd (Hons), MBA  
Director

**Mervyn Davies**  
BEng (Hons), MEngSc, BCom, FAIEM  
Director

**Charles Burkitt**  
Director

## Executive Leadership Team

**Chief Executive Officer**  
**Djuna Pollard, term December 2019**  
Michael Thomson, November 2015 - December 2019

**Chief Financial Officer**  
**Martha Stewart, term February 2020 (Acting)**  
Tony Edmondstone, November 2018 - December 2019

**Executive General Manager Customer,  
Strategy and Regulation**  
**Simon Vardy, term February 2020**

**Executive General Manager Water Services**  
**Steven Porter**

**Executive General Manager Power Services**  
**Ross Musgrove, term May 2020**  
Peter Billing, August 2019 - May 2020  
Djuna Pollard, November 2016 - August 2019

**Executive General Manager Core Operations**  
**Jodi Triggs, term May 2020 (Acting)**  
Peter Billing, February 2019 - May 2020

**Executive General Manager Information  
and Communication Technology**  
**David Bowen**

**Executive General Manager People,  
Culture and Safety**  
**Amanda-Lea Smith**

**Executive General Manager Transformation**  
**Samantha Day Johnston**



# Financial Statements & Explanatory Statements

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## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Directors' report for the year ended 30 June 2020

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 2020 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	
Mr John Langouland OAM (Chairman) B. Economics (Hons)	Mr Langouland currently holds non-executive director positions across a diverse portfolio of public, private and not for profit businesses. These roles are predominantly in Western Australia but also in the Northern Territory and at the national level. In his executive years, Mr Langouland held the position of Western Australian Under Treasurer, Chief Executive of Australian Capital Equity, the Chamber of Commerce and Industry of Western Australia and the Oakajee Port and Rail project. In 2018 Mr Langouland led a Special Inquiry into the Western Australian Government's Programs and Projects across the period 2008-2017. In 2007 he chaired the Major Stadia Taskforce which gave rise to the development of Optus Stadium and he has undertaken other inquiries for the Western Australian and Northern Territory Governments. Mr Langouland was recognised as an Officer of the Order of Australia in 2010 for distinguished service to business and commerce, particularly through his leadership and management roles and to the community of Western Australia. In 2011 he was recognised in the Citizen WA Awards for his services to business. Mr Langouland joined the Power and Water Corporation Board in June 2017.
Mr Mervyn Davies BEng (Elec - Power & Control)(Hons 1st class), MEngSc, BCom(Econ)	Mr Davies has worked in all areas of electricity distribution and has extensive experience in managing both the financial and technical performance of the business. He has previously held senior management positions at Energy Australia (now Ausgrid), Australia's largest electricity distribution company. Since leaving Energy Australia, Mr Davies has established and operated an engineering consultancy practice, specialising in the engineering and economics of the electricity distribution industry. He previously held directorships in electricity distribution businesses in Western Australia, Queensland and Tasmania. He holds honours and masters degrees in engineering and a Bachelor of Commerce (Economics). Mr Davies originally joined the Power and Water Corporation Board in May 2009, left in March 2013 and re-joined in April 2014. Mr Davies was re-appointed to the Board in April 2019.
Ms Rowena McNally FRI, FAICD, LLB, FIML, MAWA	Ms McNally has been involved in the delivery of infrastructure projects and in the corporate governance of major water, energy and infrastructure entities at a board level for over 20 years. She has extensive previous board experience in key utilities organisations including as Chair of the Mount Isa Water Board and Board Director of Ergon Energy, Burnett Water, Gladstone Area Water. Ms McNally previously Chaired the Ministerial Advisory Council on Flood Mitigation Manuals and the Sugar Authority and was the Sugar Industry Commissioner for many years and has extensive board experience across regional and remote Australia and not-for-profits. She is the Chair of Mercy Community Services SEQ Ltd and Ski Racing Australia, Deputy Chair of Isa Rodeo Ltd and a Director of Open Minds Limited. Ms McNally was previously Chair of National Employment Services Association, Catholic Health Australia and Cerebral Palsy Queensland, Deputy Chair of Cerebral Palsy Australia and a former Director of WorkCover Queensland and North West Hospital and Health Board and several Boards in the St Vincent's Hospital group in Queensland. Ms McNally is a Member of Australian Water Association and the Risk Management Institute of Australasia. Ms McNally joined the Power and Water Corporation Board in April 2018 and is also a Director of Indigenous Essential Services Pty Limited.
Ms Teresa Dyson Masters Applied Finance, LLB, BA, Masters Taxation, GAICD	Ms Dyson has over 25 years of experience within the legal and professional services industry. Ms Dyson is a professional Non-Executive Director with a broad portfolio of directorships across the listed, government and not-for-profit sectors. Ms Dyson is a Director of Energy Queensland, Genex Power Ltd, Seven West Media Ltd, Energy Super and Shine Justice Ltd. She is also a member of the Gold Coast Hospital and Health Services Board. Ms Dyson is a Member of the Foreign Investment Review Board, the Takeovers Panel and the National Housing Finance & Investment Corporation Board. She was the first woman to be appointed as Chair of the Board of Taxation and has held a number of Federal Treasury Appointments. In 2011 Ms Dyson was named Woman Lawyer of the Year by the Women Lawyers Association of Queensland. Ms Dyson joined the Power and Water Corporation Board in April 2018.
Mr David Bartholomew BEC, MBA	Mr Bartholomew is the former Chief Executive of DUET Group, an ASX-listed utilities and energy company. He now serves as a Non-executive Director on the boards of: Atlas Arteria (ASX: ALX) a developer and operator of toll roads in France, Germany and the USA; Endeavour Energy, an electricity distributor in NSW; Dussur, the Saudi Arabia Industrial Investment Company; and The Helmsman Project, a not-for-profit organisation providing coaching and development programs for year 9 students, primarily from western Sydney schools. As CEO of DUET Group he was a Director on the boards of: United Energy Distribution and Multinet Gas in Victoria; DBP, the owner-operator of the Damper to Bunbury Natural Gas Pipeline; Energy Developments Limited, specialising in remote, clean and renewable electricity generation; and DUET's minority-owned businesses, Duquesne Light (USA) and WA Gas Networks. Mr Bartholomew's previous employment experience includes Hastings Funds Management, Lend Lease, The Boston Consulting Group and BHP Minerals. He holds a Bachelor of Economics (Honours) from Adelaide University and an MBA from the AGSM. Mr Bartholomew joined the Power and Water Corporation Board in April 2018.

### Power and Water Corporation

#### Directors' report for the year ended 30 June 2020

#### Directors (Cont'd)

Name	
Ms Gaye McMath	Ms McMath is a non-executive director with over 20 years' experience on listed companies, government trading enterprises, not-for-profit and national member organisations. Her executive career has spanned 23 years with BHP and 15 years in the higher education sector. At BHP she held senior strategic and operational roles involving major resource and infrastructure projects and operations, including being a BHP nominated director on both domestic and international mining and steel joint venture boards. Her roles in higher education included Chief Operating Officer at The University of Western Australia and the Executive Director Perth Education City. Ms McMath is currently the Deputy Chair Commissioner of the City of Perth, Deputy Chair of Southern Ports Authority WA, Chair of the Australian Masters Games and a board member of Dementia Australia. Her past boards include the Western Australian Treasury Corporation, Verve Energy, Silver Chain Nursing Association, the Australian Institute of Company Directors WA Division, CPA Australia WA Division, the Committee for Perth, the State Government Major Stadia Taskforce, the Commonwealth Government Solar Flagship Council, Gold Corporation and the Chamber of Arts and Culture WA. Ms McMath holds a Bachelor of Commerce from Melbourne University, a Masters of Business Administration from Melbourne Business School and has completed the Advanced Management Program at the Harvard Business School. Ms McMath joined Power and Water Corporation Board in September 2018.
Mr Charles Burkitt	Mr Burkitt commenced his career in Darwin, where he was originally from, as an experienced investment adviser specialising in financial markets having worked in that industry for more than 15 years, before being involved in the commercial property sector for a number of years. He now actively works as a consultant still based in Darwin providing Corporate Advisory and Property Solutions for medium-to-large corporate entities, predominantly in Northern Australia. He has also obtained extensive Board experience as an active Board Member of several local organisations for over 20 years, while also currently being a non-executive director of Australian Red Cross and Chair of their Finance Committee. Mr Burkitt enjoys an active lifestyle with an interest in most sports, leisure and local community activities. He has previously undertaken the Australian Institute of Company Directors course. Mr Burkitt joined the Power and Water Corporation Board in September 2018.

#### Company Secretary

Ms Lucia Ku LLB Bbus GAICD	Ms Ku is an executive with over 16 years of legal experience in government and government owned corporations. She has held a number of senior positions within the Solicitor for the Northern Territory including Agency Based Lawyer for various Northern Territory Government Agencies. She has worked across a broad range of functions including legal policy, litigation, and commercial and has been involved in a number of major projects within government. She also has Board level experience which includes current and previous membership on a number of Boards including the Power and Water Corporation's Procurement Appeals Board. She has legal and governance experience currently managing legal services for the Power and Water Corporation in her capacity as General Counsel. Ms Ku is currently the Company Secretary of the Power and Water Corporation and Indigenous Essential Services Pty Limited. Ms Ku is Committee Secretary for Power and Water Corporation's Audit and Risk Management Committee, Regulation and Market Operations Committee and the Safety People and Remuneration Committee. Ms Ku was appointed Company Secretary on 21 July 2017 and resigned in September 2020.
Mr John Pease LLM (Dist.), FGIA FCG, MAICD	Mr Pease has substantial, executive-level, experience leading legal and governance teams covering all aspects of in-house legal services, risk management, compliance, internal audit and assurance, business continuity and crisis management. His prior roles include St John of God Health Care, Western Power, Murdoch University and BankWest. He also has substantial experience as a lawyer, including working as a barrister at Francis Burt Chambers, a solicitor in private practice, a Deputy Registrar of the Administrative Appeals Tribunal, as well as working in various roles with the former Commonwealth Crown Solicitor's Office, the Australian Taxation Office and the NSW Magistrates Courts Administration. His legal experience covers both commercial law and dispute resolution, including intellectual property, banking and finance, debt recovery, insolvency, trade practices, higher education, corporate governance and energy, building and construction and infrastructure. He also has substantial in-house legal practice management experience. Mr Pease is a former WA President of the Australian Corporate Lawyers Association (and served four years on its national board), is a fellow of the Governance Institute of Australia and has also served on the WA State Council of Chartered Secretaries Australia. Mr Pease obtained a Master of Laws (with distinction) from the University of WA in 1998. Mr Pease was appointed Company Secretary on 11 September 2020.

#### Principal activities

The principal activities of Power and Water Corporation and its wholly owned subsidiary, Indigenous Essential Services Pty Limited (IES Pty Ltd) are the distribution of electricity, the provision of water and sewerage services to the people of the Northern Territory and gas supply to third parties.

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

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Directors' report for the year ended 30 June 2020

##### Review of Operations

	Consolidated	
	June 2020 \$ million	June 2019 \$ million
Revenue	847.5	775.6
Total revenue	<b>847.5</b>	<b>775.6</b>
Expenditure	(620.4)	(552.8)
Impairment charge, revaluation of assets and onerous provision adjustments added back	217.5	(243.2)
Total expenditure	<b>(402.9)</b>	<b>(796.0)</b>
<b>EBITDA</b>	<b>444.6</b>	<b>(20.4)</b>
Depreciation and amortisation	(200.3)	(162.5)
<b>EBIT</b>	<b>244.3</b>	<b>(182.9)</b>
Interest expense	(68.0)	(50.6)
<b>Net profit / (loss) before income tax</b>	<b>176.3</b>	<b>(233.5)</b>
Income tax benefit/(expense)	(68.3)	33.7
<b>Net profit / (loss) after income tax</b>	<b>108.0</b>	<b>(199.8)</b>
<b>EBITDA before impairment and onerous contract provision adjustments</b>		
EBITDA	444.6	(20.4)
Impairment charge, revaluation of assets and onerous provision adjustments added back	(217.5)	243.2
<b>Underlying EBITDA<sup>1</sup></b>	<b>227.1</b>	<b>222.8</b>
Depreciation and amortisation	(200.3)	(162.5)
<b>Underlying EBIT</b>	<b>26.8</b>	<b>60.3</b>
Interest expense	(68.0)	(50.6)
<b>Underlying net (loss) / profit before income tax<sup>1,2</sup></b>	<b>(41.2)</b>	<b>9.7</b>
Total assets	3,717.7	3,349.5
Total liabilities	(2,244.2)	(1,986.9)
<b>Total equity</b>	<b>1,473.5</b>	<b>1,362.6</b>

<sup>1</sup> EBITDA excluding significant items is non-IFRS (International Financial Reporting Standards) information. Management has provided an analysis of significant items included in the reported IFRS financial information. These items have been considered in relation to their size and nature, and have been adjusted from the reported (i.e. IFRS) information to assist readers to better understand the financial performance of the underlying operating business. These adjustments are assessed on a consistent basis from period to period and include both favourable and unfavourable items. Non-IFRS financial information, while not subject to audit or review, has been extracted from the financial report.

<sup>2</sup> Gifted asset revenue, although a non-cash item, is a recurring item in the normal course of business and therefore has not been excluded from underlying profits before tax.

##### Profit from continuing operations

The consolidated entity reported a net profit after tax from continuing operations of \$108.0 million for the year ended 30 June 2020 compared to a net loss after tax of \$199.8 million for the prior year. The increase in the net profit after tax was primarily attributable to a revaluation increase in assets of \$57.1 million, a reversal of impairment of Make Up Gas of \$95.4 million and a decrease in the value of the onerous contract of \$66.7 million compared to a revaluation decrease of \$223.2 million in the prior year. All of these items are recognised within the line item 'Impairment of non-current assets and onerous contract provisions' within the statement of profit or loss and other comprehensive income. Refer to Note 4.3 for more details.

The consolidated entity recognised revenue of \$847.5 million for the current year compared to \$775.6 million for the prior year; an increase of \$71.9 million. The increase in revenue recognised was primarily attributable to gas sales which increased by \$56.1 million from \$207.7 million in the prior year to \$263.8 million in the current year due to new contracts commencing in the current reporting period.

##### Liquidity and capital resources

The consolidated cash flow statement shows a decrease in cash and cash equivalents for the year ended 30 June 2020 of \$54.0 million (2019: \$73.7 million increase). Operating activities generated \$147.4 million (2019: \$179.7 million) of net cash flows.

Cash flows from operating activities have been offset by net cash used for investing activities of \$99.7 million (2019: \$164.0 million) and \$101.8 million net cash outflow (2019: \$58.0 million inflow) from financing activities, largely due to repayment of borrowings of \$242.0 million (2019: \$272.0 million) and repayment of lease liabilities of \$22.1 million (2019: \$1.0 million), offset by proceeds from borrowings during the year of \$162.0 million (2019: \$330.0 million)

The net cash outflow of \$54.0 million in the current year is primarily due to a net repayment of borrowings totalling \$80.0 million.

##### Loans to subsidiaries

As at 30 June 2020, IES Pty Ltd owed the Corporation \$29.2 million (2019: \$36.8 million) which is made up of an inter-entity receivable of \$4.2 million (2019: \$11.8 million) in relation to services provided and \$25.0 million (2019: \$25.0 million) in loans provided during 2018-19 and 2016-17 in respect of the ARENA IES solar set up project. Refer to Notes 8 and 12 for details. The loans were provided to represent the consolidated entity's contribution towards the solar set up project.

### Power and Water Corporation

#### Directors' report for the year ended 30 June 2020

##### Review of Operations (Cont'd)

##### Capital expenditure

Capital expenditure in respect of additions to work in progress for the consolidated entity totalled \$104.6 million for the year to 30 June 2020. Major project spending in the current year included:

Entity	Description	\$ million
PWC	Mobile Radio Systems - 400mhz Band Relocation.	5.8
	Mcmmins Pumping Station Back Up Power Generation Augmentation	4.9
	Palmerston ZSS Third Transformer	4.8
	Austin Knuckey Switching Station	2.8
	ICT Infrastructure Replacement Program	2.6
	Alawa - Upgrade Sewer Lines	2.5
IES	Ali Curung Sewerage Reticulation Upgrade Stage 1	5.3
	Prepayment Electricity Meter Trial	2.1
	Robinson River New Water Source Equipping	2.0

##### Property, plant and equipment

The fixed assets of Power and Water Corporation are stated at fair value, in accordance with the fair value requirements of the Australian Accounting Standards, with the core operational assets of Power Services and Water and Sewerage business units using the income approach. Consistent with the accounting standards, the income approach has a 'purchaser of the business' perspective and is based on the net present value of the forecasted cash flows of these businesses applying anticipated market conditions. The infrastructure assets of IES Pty Ltd are valued on a current replacement cost basis.

The Directors' note to the readers of the financial statements that the income approach differs to a current replacement cost basis of valuation, which is based on the cost of replacing the service capacity of the assets.

The last current replacement cost valuation the Directors obtained for Power and Water Corporation was in 2013, which indicated that the current replacement cost of the core operational assets of Power Services and Water and Sewerage business units at that date was substantially higher than the value determined using the income approach. In addition, the income approach is not the basis of valuation that would be used by an independent economic regulator for price determination or by analysts for other public policy purposes.

During the current year, the Corporation performed valuation exercises on its property, plant and equipment resulting in net assets being written up by \$60.7 million, of which \$3.6 million was recognised in Other Comprehensive Income and \$57.1 million recognised as negative impairment expense through profit or loss.

##### Gas contracts

The Corporation has in place long term contracts to procure gas and associated gas transport arrangements. The fixed price nature of the long term gas contracts, the volatility in the market price of gas, the pricing and volume risk from as yet unsecured contracts, increasing competition in the gas supply market and more recently the potential impact from the displacement of gas by renewables over time are risks to the Corporation's ability to sell the gas at a price higher than the cost of gas and transport.

Monitoring and assessing gas market conditions is important in determining potential future impacts on the Gas Services business. The Corporation engages external experts to perform independent assessments of future market conditions on a regular basis while also utilising data from a variety of credible sources to inform decision making.

Directors have considered the current gas market environment in both the Northern Territory and Australian East Coast gas market. Independent publications are predicting a shortage of gas in the East Coast market commencing as early as 2023/24.

As part of the development of the Integrated System Plan for electricity markets in Australia the Australian Energy Market Operator (AEMO) prepared forecasts for gas prices under three scenarios. AEMO price forecasts represent the closest that there is to an industry standard forecast of gas prices in eastern Australia, and therefore represent the best forecasts available. Given the current global prices (and forecasts of oil prices from the World Bank) the Slow Change scenario in the AEMO publication is the most relevant of these forecasts. As a result of this, it is expected that demand for gas will remain strong, both for domestic and export markets which will likely result in strengthening prices for firm gas arrangements as supply declines.

It should also be noted that LNG netback prices which play an important role in influencing East Coast gas prices have started to recover off recent low prices with forecasts for this trend to continue.

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Directors' report for the year ended 30 June 2020

##### Review of Operations (Cont'd)

##### Gas contracts (Cont'd)

The key risk to the outlook for higher prices is the emergence of new low cost gas supply. Given the uncertainty about where new gas in eastern Australia will be sourced from and at what prices, the likelihood of low-cost, domestic gas supply is relatively low at the moment.

Other recent developments in the gas market include the announcement of a pipeline link from Alice Springs to Moomba which would open more lucrative markets for the Corporation. It is believed this route to market will reduce transportation costs by a material amount, providing scope for increased profitability on East Coast sales.

Having considered the probability of risks and opportunities that can be quantified and assessed for materiality as required under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', the Directors have concluded that, at the date of this report, an onerous contract does not exist. In the prior year, an onerous contract provision was quantified at \$66.7 million so the year on year movement has been recognised as a reversal of impairment expense in the statement of profit or loss and other comprehensive income.

The Directors will continue to monitor the gas sales strategy and associated financial outlook having regard to sources of estimation uncertainty discussed above and note that the quantum of the provision is sensitive to both price and volume assumptions with the key underlying assumption adopted by the Directors that gas purchase volumes will be covered by sales in the market.

##### Impairment

##### Make-up Gas

The current gas contracts relating to the sale and purchase of gas result in the Corporation having to pay for gas that will only be sold in future financial years. These payments are classified as intangible assets and disclosed under Make-up Gas in Note 16. The net present value of the cash flows of the Gas Supply Unit under AASB 136 'Impairment of Assets' framework supports the recognition of a portion of the value of this asset. The cash flows which are assessed under AASB 136 are the same as those used in arriving at the onerous contract provision under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' as noted above. The Corporation has drawn \$35.5 million of this intangible asset in the current year, recognised as disposals, and reversed impairment expense of \$59.9million (2019: \$17.7 million expense).

There have been no triggering events during the current financial year which would require further analysis for an impairment write-down of the consolidated entity's fixed assets.

##### Dividends

Subsequent to 30 June 2020 the Board resolved to declare a special dividend of \$1.0 million, which will be paid from retained earnings during the year ending 30 June 2021. A dividend of \$9.64 million was declared and paid during the year ended 30 June 2020 in relation to the prior year.

##### Going concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The accounting standards require Directors to make disclosures about the existence and the nature of material uncertainties that lead to significant doubts about going concern.

For the year ended 30 June 2020, the Corporation made a net profit after tax of \$144.7 million (2019: loss after tax of \$86.3 million). The Corporation is forecast to make profits over the next 4 years as reported in the most recent Statement of Corporate Intent (SCI).

Although the Corporation's current liabilities for the current year exceed its current assets by \$258.5 million (2019: \$215.3 million), this is due to the debt maturity profile of the Corporation. All debt maturing in the next financial year, and in subsequent years of the SCI period is anticipated to the extent required, to be replaced by new long term debt.

Based on the above assessment performed, there are no material uncertainties that cast significant doubt about the Corporation's ability to continue as a going concern. The Corporation continues to work towards being commercially sustainable and until this is fully achieved, remains reliant on the continued support of its sole shareholder, the Northern Territory Government.

##### Adoption of new and revised accounting standards

The consolidated entity has adopted the new lease standard, AASB 16 Leases from 1 July 2019. The adoption of this standard has increased finance lease receivables by \$8.4 million, right-of-use assets by \$407.2 million and lease liabilities by \$415.6 million, increased amortisation expense by \$31.6 million, increased interest expense by \$11.5 million and decreased operating lease payments by \$39.3 million.

### Power and Water Corporation

#### Directors' report for the year ended 30 June 2020

##### Coronavirus (COVID-19) pandemic

The ongoing COVID-19 pandemic has had a range of effects on the business. Most noticeably, travel restrictions to remote communities have led to delays in capital expenditure. The wellbeing and safety of employees, customers and contractors continues to be the highest priority.

In order to identify and manage financial risks arising from the pandemic, the Consolidated entity has:

- Conducted financial scenario modelling and developed options to defer costs and minimise revenue loss;
- Captured costs and sought cost recovery and grant opportunities; and
- Monitored, analysed and reported the financial position and financial forecasts to enable proactive financial management of the event.

##### Future developments

The consolidated entity will continue to pursue its vision of being a best practice, commercially focused and customer centric multi utility respected in the community for its contribution to the Northern Territory economy and its pursuit of the long term interests of its customers.

##### Environmental regulation

The consolidated entity's operations are subject to significant statutory responsibilities under both Commonwealth and Northern Territory legislation. The Corporation has been issued with two written directions from the Department of Environment and Natural Resources in relation to tank cleaning activities at McMinns Water Storage Compound and overflow discharges from the East Arm Leachate collection pond. In addition, the Corporation has received two letters indicating the intention to issue Pollution Abatement Notices (PANs), to which the Corporation has the opportunity to respond. No known regulatory breaches have occurred in IES Pty Ltd. The consolidated entity continues to pursue compliance with its statutory obligations and improve processes to meet its responsibilities in this area.

##### Subsequent events

The Directors' have declared a special dividend of \$1.0 million on 25 August 2020, payable on 30 November 2020.

Other than the 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 the 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 as 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 2001*.

##### Insurance premiums

The following insurance policies were purchased to cover the Directors and Officers of the entities in the consolidated group. In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of premiums paid are confidential.

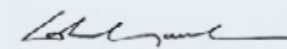
- (i) Group Personal Accident Insurance
- (ii) Professional Indemnity Insurance
- (iii) Directors' and Officers' Liability.

##### Rounding off

Amounts in the financial report have been rounded to the nearest thousand dollars (\$'000), unless otherwise stated.

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

Dated at Darwin this 29th day of October 2020



**John Langoulant**

Chair

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020



Auditor-General

Independent Auditor's Report to the Board of Directors of  
Power and Water Corporation

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## Opinion

I have audited the financial report of Power and Water Corporation (the Corporation) and its subsidiaries (the Consolidated Entity), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

In my opinion, the accompanying financial report of the Corporation and the Consolidated Entity is in accordance with the *Government Owned Corporations Act 2014*, including:

- giving a true and fair view of the Corporation's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- complying with Australian Accounting Standards.

## Basis for Opinion

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

## Emphasis of Matter

I draw attention to Notes 21, 26(g) and 26(j) of the financial report, which describe the uncertainty associated with conditions and events impacting the present value of the future outlays that the Corporation is presently obligated to make under non-cancellable contracts less the present value of revenue expected to be earned from those contracts. My opinion is not modified in respect of these matters.

## Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Key Audit Matter	Audit scope response to the Key Audit Matter
<p><b>Unbilled Revenue</b></p> <p>Revenue from the sale of goods, as disclosed in Note 3.1 to the financial statements, includes estimated values for unbilled revenue from Power Networks, System Control, Electricity and Water totalling \$36.775 million as disclosed in Note 8 to the financial statements. The estimated values are based upon unbilled units supplied to customers between the date of the last meter reading and the year end. The relevant units comprise kilowatt hours for Power Networks, System Control and Electricity, and kilolitres for Water.</p>	<p>My procedures included but were not limited to:</p> <ul style="list-style-type: none"> <li>▪ obtaining an understanding of the key controls management has in place to determine the accuracy of the estimate of supplied units (sent out data) and related revenue amounts;</li> <li>▪ comparison of unbilled revenue to the actual subsequent billings; and</li> </ul>



Auditor-General

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Key Audit Matter	Audit scope response to the Key Audit Matter
<p>The estimation of unbilled revenue is a key audit matter as it requires significant management judgement to estimate customer consumption between the last invoice date and the end of the reporting period.</p> <p><b>Valuation of property, plant and equipment</b></p> <p>Property, plant and equipment, as disclosed in Note 14 to the financial statements, totals \$2,928.602 million.</p> <p>The valuation of non-current assets is a key audit matter due to the complexity involved in estimating the recoverable amount of assets which requires significant judgement in determining key assumptions supporting the expected future cash flows of the Corporation and expected utilisation of the relevant assets.</p>	<ul style="list-style-type: none"> <li>▪ analysing the trends in billed revenue throughout the year and the reasonableness of the estimate of unbilled revenue at year end, taking into consideration seasonal fluctuations affecting demand and supply.</li> </ul> <p>My procedures included but were not limited to:</p> <ul style="list-style-type: none"> <li>▪ obtaining an understanding of the key controls associated with the preparation of the valuation models used to assess the recoverable amount of the Corporation's cash generating units;</li> <li>▪ checking, on a sample basis, the mathematical accuracy of the cash flow forecast and impairment model and the appropriateness of the inclusion of the specific cash flows in accordance with Australian Accounting Standards;</li> <li>▪ assessing the consistency of the total forecast cash flow to the Board approved Statement of Corporate Intent; and</li> <li>▪ performing a sensitivity analysis to test the key assumptions used in the estimate pertaining to key drivers such as growth rates and discount rates.</li> </ul>
<p><b>Provision for Onerous Contracts</b></p> <p>As disclosed in Note 21 to the financial statements, the Corporation has recorded a reversal of the provision for onerous contract of \$66.672 million which existed at 30 June 2019 when the economic costs associated with some gas-related contracts were determined to outweigh the benefits expected to be received based on the circumstances that existed at that date. Changes to the circumstances and events affecting future opportunities in the gas market have resulted in the Corporation reversing the previously existing provision as at 30 June 2020.</p> <p>The calculation of the net present value of contracts is a key audit matter as the calculation is complex and the valuation model is based on assumptions and estimates that are affected by future performance and market conditions.</p>	<p>My procedures included but were not limited to:</p> <ul style="list-style-type: none"> <li>▪ assessing and challenging the appropriateness of cash flow projections resulting from management's assumptions;</li> <li>▪ verifying the inputs used in the model;</li> <li>▪ recalculating the outputs of the model;</li> <li>▪ assessing the integrity of the gas contract model used by management based on assumptions around the functionality of the model when compared to industry standards; and</li> <li>▪ assessing the appropriateness of classification and the adequacy of disclosures in the financial statements.</li> </ul>



## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020



Auditor-General

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Key Audit Matter	Audit scope response to the Key Audit Matter
The assessment of the impact of the new standard is a key audit matter as the balances recorded are material, the application of the accounting policy requires policy elections and the implementation process to identify and process all relevant data associated with all leases is complex. The measurement of the right-of-use asset and lease liability requires the application of discount rates and assumptions pertaining to lease terms, including termination and renewal options.	<ul style="list-style-type: none"> <li>testing the factual inputs and calculation of the right-of-use asset and lease liability calculated by the management for each material lease contract;</li> <li>obtaining an understanding of and evaluating the key controls associated with the relevant processes for recognising and measuring leases including performing substantive procedures on balances with the financial statements that were affected by AASB16; and</li> <li>assessing the modified retrospective approach and adequacy of the Corporation's disclosures of the impact of the new standard in the Financial Statements.</li> </ul>

### Other Information

The Directors are responsible for the Other Information. The Other Information obtained at the date of this auditor's report comprises the Annual Report and the Directors' Report included in the Corporation's financial report for the year ended 30 June 2020, but does not include the financial report and my auditor's report thereon.

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

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

### Responsibilities of the Directors for the Financial Report

The Directors of the Corporation are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Government Owned Corporations Act 2014*, and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Report

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



Auditor-General

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

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report however future events or conditions may cause the Corporation to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the Consolidated Entity's audit. I remain solely responsible for my audit opinion.

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

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Julie Crisp  
Auditor-General for the Northern Territory  
Darwin, Northern Territory  
30 October 2020

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

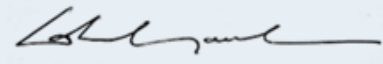
## Power and Water Corporation

Directors' Declaration  
for the year ended 30 June 2020

In the directors' opinion:

- (a) the attached financial statements and notes of the Corporation and the consolidated entity are in accordance with the *Government Owned Corporations Act 2001*, including compliance with Accounting Standards in Australia and giving a true and fair view of the financial position and performance of the Corporation and the consolidated entity;
- (b) there are reasonable grounds to believe that the Corporation and the consolidated entity will be able to pay its debts as and when they become due and payable; and
- (c) the financial statements and notes thereto are in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in Note 2.1 to the financial statements.

This declaration is made in accordance with a resolution of the directors.



**John Langoulant**  
Chair

Darwin  
29 October 2020

## Power and Water Corporation

Consolidated statement of profit or loss and other comprehensive income  
for the year ended 30 June 2020

	Note	Consolidated		Corporation	
		June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>Continuing Operations</b>					
Revenue from contracts with customers	3.1	732,605	668,696	689,236	625,410
Revenue from rendering of services and government grants	3.2	86,061	76,354	-	-
Finance revenue	3.3	2,228	1,885	2,347	1,427
Other income	3.4	26,597	28,683	26,597	28,683
Inter-Group sales		-	-	9,970	11,260
		<b>847,491</b>	<b>775,618</b>	<b>728,150</b>	<b>666,780</b>
Energy and materials		(311,437)	(272,364)	(279,770)	(239,089)
Repairs and maintenance expense	4.1	(64,569)	(71,158)	(48,997)	(53,845)
Employee benefits expense	4.2	(111,973)	(99,862)	(100,693)	(87,378)
External service agreements		(57,184)	(47,524)	(40,862)	(31,253)
Impairment of non-current assets and onerous contract provisions	4.3	217,458	(243,231)	217,458	(156,166)
Net loss on disposal of property, plant and equipment, inc gifted streetlights		(3,853)	(6,801)	(2,407)	(3,212)
Other expenses	4.4	(71,344)	(55,115)	(61,563)	(46,926)
		<b>(402,902)</b>	<b>(796,055)</b>	<b>(316,834)</b>	<b>(617,869)</b>
Earnings before interest, tax, depreciation and amortisation		<b>444,589</b>	<b>(20,437)</b>	<b>411,316</b>	<b>48,911</b>
Depreciation and amortisation expenses	4.5	(200,310)	(162,456)	(136,958)	(119,295)
Finance costs	4.6	(67,991)	(50,571)	(61,439)	(49,600)
<b>Profit/(loss) before tax</b>		<b>176,288</b>	<b>(233,464)</b>	<b>212,919</b>	<b>(119,984)</b>
Income tax equivalent expense	5 (a)	(68,253)	33,667	(68,253)	33,667
<b>Profit/(loss) for the year</b>		<b>108,035</b>	<b>(199,797)</b>	<b>144,666</b>	<b>(86,317)</b>
<b>Other comprehensive income, net of tax</b>					
<b>Items that will not be reclassified subsequently to profit or loss:</b>					
Revaluation surplus	25	2,532	105,038	2,532	11,942
Other comprehensive income for the year, net of tax		<b>2,532</b>	<b>105,038</b>	<b>2,532</b>	<b>11,942</b>
<b>Total comprehensive income for the year</b>		<b>110,567</b>	<b>(94,759)</b>	<b>147,198</b>	<b>(74,375)</b>

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

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Power and Water Corporation

Consolidated statement of financial position  
for the year ended 30 June 2020

	Note	Consolidated		Corporation	
		June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>Current assets</b>					
Cash and cash equivalents	7 (a)	123,572	177,610	67,246	94,069
Trade and other receivables	8 (a)	107,255	108,293	111,117	119,638
Finance Lease Receivables	13	876	-	1,850	-
Current tax assets	5 (c)	-	4,487	-	4,487
Inventories	9	22,182	24,893	18,343	18,682
Intangible assets	16	793	928	765	850
<b>Total current assets</b>		<b>254,678</b>	<b>316,211</b>	<b>199,321</b>	<b>237,726</b>
<b>Non-current assets</b>					
Trade and Other Receivables	8 (b)	16,112	16,112	16,112	16,112
Loans to subsidiaries	12	-	-	25,000	25,000
Investments	10	3	3	3	3
Finance Lease Receivables	13	6,887	-	23,834	-
Property, plant and equipment	14	2,928,602	2,915,224	2,269,688	2,231,266
Right-of-use assets	15	403,050	15,995	362,509	232
Intangible assets	16	81,553	14,627	81,335	14,466
Deferred tax assets	5 (b)	26,837	71,378	26,837	71,378
<b>Total non-current assets</b>		<b>3,463,044</b>	<b>3,033,339</b>	<b>2,805,318</b>	<b>2,358,457</b>
<b>Total assets</b>		<b>3,717,722</b>	<b>3,349,550</b>	<b>3,004,639</b>	<b>2,596,183</b>
<b>Current liabilities</b>					
Trade and other payables	17	60,765	65,703	52,440	50,137
Unearned revenue	18	53,218	56,411	53,218	56,411
Borrowings	19	284,000	242,000	284,000	242,000
Current tax liabilities	5 (c)	567	-	567	-
Lease liabilities	20	28,680	1,081	27,685	11
Provisions	21	39,909	104,419	39,909	104,419
Government grants	22	59,082	54,778	-	-
<b>Total current liabilities</b>		<b>526,221</b>	<b>524,392</b>	<b>457,819</b>	<b>452,978</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	5 (b)	104,041	94,307	104,041	94,307
Unearned revenue	18	15,161	12,157	15,161	12,157
Borrowings	19	878,000	1,000,000	878,000	1,000,000
Lease liabilities	20	389,355	13,819	365,616	176
Provisions	21	6,920	7,041	6,920	7,041
Government grants	22	324,472	335,209	-	-
<b>Total non-current liabilities</b>		<b>1,717,949</b>	<b>1,462,533</b>	<b>1,369,738</b>	<b>1,113,681</b>
<b>Total liabilities</b>		<b>2,244,170</b>	<b>1,986,925</b>	<b>1,827,557</b>	<b>1,566,659</b>
<b>Net assets</b>		<b>1,473,552</b>	<b>1,362,625</b>	<b>1,177,082</b>	<b>1,029,524</b>
<b>Equity</b>					
Contributed equity	23	54,336	44,336	54,336	44,336
Retained earnings	24	381,237	278,458	653,018	516,376
Asset Revaluation Reserve	25	1,037,979	1,039,831	469,728	468,812
<b>Total equity</b>		<b>1,473,552</b>	<b>1,362,625</b>	<b>1,177,082</b>	<b>1,029,524</b>

## Power and Water Corporation

Consolidated statement of changes in equity  
for the year ended 30 June 2020

	Note	Consolidated		Corporation	
		June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>Contributed equity</b>					
Balance at beginning of year		44,336	34,336	44,336	34,336
Equity contributions from the Northern Territory Government		10,000	10,000	10,000	10,000
Balance at end of year	23	<b>54,336</b>	<b>44,336</b>	<b>54,336</b>	<b>44,336</b>
<b>Retained earnings</b>					
Balance at beginning of year		278,458	486,099	516,376	614,124
Effect of adoption of new accounting standards		-	(4,155)	-	(4,155)
Net (loss)/profit for the year		108,035	(199,797)	144,666	(86,317)
Retirements transferred from asset revaluation reserve		4,384	5,311	1,616	1,724
Dividends paid	6	(9,640)	(9,000)	(9,640)	(9,000)
Balance at end of year	24	<b>381,237</b>	<b>278,458</b>	<b>653,018</b>	<b>516,376</b>
<b>Asset revaluation reserve</b>					
Balance at beginning of year		1,039,831	940,104	468,812	458,594
Increase in asset valuation		3,617	110,156	3,617	17,060
Less deferred tax effect recognised in deferred tax liabilities		(1,085)	(5,118)	(1,085)	(5,118)
Retirements transferred to retained earnings		(4,384)	(5,311)	(1,616)	(1,724)
Balance at end of year	25	<b>1,037,979</b>	<b>1,039,831</b>	<b>469,728</b>	<b>468,812</b>
<b>Total equity</b>		<b>1,473,552</b>	<b>1,362,625</b>	<b>1,177,082</b>	<b>1,029,524</b>
<b>Total equity attributable to owners of the parent</b>		<b>1,473,552</b>	<b>1,362,625</b>	<b>1,177,082</b>	<b>1,029,524</b>

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

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Power and Water Corporation

Consolidated statement of cash flows  
for the year ended 30 June 2020

	Note	Consolidated		Corporation	
		June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		787,490	699,771	751,757	651,592
Payments to suppliers and employees		(670,121)	(611,877)	(574,796)	(512,456)
Income tax paid	5 (c)	(10,010)	(15,330)	(10,010)	(15,330)
Community Service Obligations received		26,082	28,160	26,082	28,160
Receipt of Government grants		79,627	127,918	-	-
Interest received		2,327	1,851	2,409	1,392
Interest paid		(68,009)	(50,805)	(61,457)	(49,855)
<b>Net cash generated by operating activities</b>	7 (b)	<b>147,386</b>	<b>179,688</b>	<b>133,985</b>	<b>103,503</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		93	160	92	116
Payments for property, plant and equipment		(124,211)	(164,142)	(81,069)	(113,602)
Proceeds from sale of intangible assets		35,473	-	35,473	-
Payments for intangible assets		(11,012)	-	(10,928)	-
Loans to controlled entity		-	-	-	(14,000)
<b>Net cash used in investing activities</b>		<b>(99,657)</b>	<b>(163,982)</b>	<b>(56,432)</b>	<b>(127,486)</b>
<b>Cash flows from financing activities</b>					
Proceeds from equity injection	23	10,000	10,000	10,000	10,000
Repayment of borrowings	7(d)	(242,000)	(272,000)	(242,000)	(272,000)
Proceeds from borrowings	7(d)	162,000	330,000	162,000	330,000
Repayment of lease liabilities	7(d)	(22,127)	(1,010)	(24,736)	(12)
Dividends paid	6	(9,640)	(9,000)	(9,640)	(9,000)
<b>Net cash provided by/(used in) financing activities</b>		<b>(101,767)</b>	<b>57,990</b>	<b>(104,376)</b>	<b>58,988</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(54,038)</b>	<b>73,696</b>	<b>(26,823)</b>	<b>35,005</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>177,610</b>	<b>103,914</b>	<b>94,069</b>	<b>59,064</b>
<b>Cash and cash equivalents at end of year</b>	7 (a)	<b>123,572</b>	<b>177,610</b>	<b>67,246</b>	<b>94,069</b>

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements.

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

## 1 General information

Power and Water Corporation (the Corporation) is a government owned corporation domiciled in Australia. The consolidated financial report of the Corporation for the year ended 30 June 2020 comprises the Corporation and its subsidiary, Indigenous Essential Services Pty Limited (IES Pty Ltd).

The consolidated entity is principally engaged in the provision of electricity distribution, electricity, water and sewerage services to customers across the Northern Territory. The consolidated entity also sells gas to a number of customers across Australia. Further information of the nature of the operations and principal activities of the consolidated entity is provided in the Director's report. Information on other related parties are provided in Note 30.

The financial report was authorised for issue by the Directors on 29 October 2020.

## 2 Significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements for the consolidated entity consist of Power and Water Corporation and its subsidiaries.

## 2.1 Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations and the *Government Owned Corporations Act 2001*. The *Government Owned Corporations Act 2001* requires the financial statements of the Corporation and the consolidated entity to comply with the requirements of the *Corporations Act 2001*. The Corporation is a for-profit entity for the purpose of preparing these general purpose financial statements, therefore any accounting policy differences arising from IES Pty Ltd (a not-for-profit entity) are adjusted on consolidation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair value at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services.

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

The consolidated financial statements provide comparative information in respect of the previous period.

## Compliance with IFRS

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## 2.2 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 11 to the financial statements. Control is achieved when the consolidated entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the consolidated entity controls an investee if, and only if, the consolidated entity:

- Has power over the investee
- Is exposed, or has rights, to variable returns from its involvement with the investee
- Has the ability to use its power to affect its returns.

When the Corporation has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Corporation considers all relevant facts and circumstances in assessing whether or not the Corporation's voting rights in an investee are sufficient to give it power, including:

- The consolidated entity's voting rights and potential voting rights
- Rights arising from other contractual arrangements
- The contractual arrangement(s) with the other vote holders of the investee.

The consolidated entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Corporation obtains control over the subsidiary and ceases when the Corporation loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the consolidated entity gains control until the date when the consolidated entity ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of a subsidiary to bring their accounting policies into line with the consolidated entity's accounting policies. All intragroup balances and transactions, income and expenses and profit and losses resulting from intra-group transactions are eliminated on consolidation.

The financial statements of the subsidiary, IES Pty Ltd, are prepared for the same reporting period as the Corporation, using consistent accounting policies with the exception of the treatment of government grant revenue received by IES Pty Ltd. IES Pty Ltd, as a not-for-profit entity, applies Accounting Standard AASB 1058 Income of Not-for-Profit Entities for recognition and measurement of government grants. This accounting treatment is adjusted on consolidation to align to Note 2.3 (d) Government grants.

If the consolidated entity loses control over a subsidiary, it derecognises the related assets, liabilities and components of equity, while any resultant gain or loss is recognised in profit or loss.

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

### 2.3 Summary of significant accounting policies

#### (a) Current versus non-current classification

The consolidated entity presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
  - Held primarily for the purpose of trading
  - Expected to be realised within twelve months after the reporting period
- Or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
  - It is held primarily for the purpose of trading
  - It is due to be settled within twelve months after the reporting period
- Or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The consolidated entity classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

#### (b) Fair value measurements

Some of the consolidated entity's assets and liabilities are measured at fair value for financial reporting purposes. The consolidated entity uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The consolidated entity uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the consolidated entity determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

External values are involved for valuation of significant assets, such as infrastructure assets. At the end of each reporting period the consolidated entity analyses the movements in property, plant and equipment that are required to be remeasured or re-assessed as per the consolidated entity's accounting policies. For this analysis the consolidated entity verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to relevant documents. The consolidated entity in conjunction with the external valuers, also compares the change in the fair value of property, plant and equipment with relevant external sources to determine whether the change is reasonable.

The consolidated entity presents the results of the valuation exercise to the Audit Risk and Management Committee. This includes a discussion of the major assumptions used in the valuations.

Fair value related disclosures for financial assets (i.e. borrowings) and property, plant and equipment that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Property, plant and equipment Note 14
- Financial instruments Note 27

#### (c) Revenue from contracts with customers

The consolidated entity recognises revenue from the following major sources: sale of gas, electricity distribution, water and sewerage services to customers across the Northern Territory.

In addition to the major sources of revenue discussed above, the consolidated entity also recognises revenue from a number of other minor sources such as electricity generation and retail services to some minor and remote centres across the Northern Territory, gifted assets and capital contributions towards the purchase or construction of infrastructure assets owned and controlled by the consolidated entity.

Revenue is measured based on the consideration to which the consolidated entity expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The consolidated entity recognises revenue when it transfers control of a product or service to a customer.

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

### 2.3 Summary of significant accounting policies (cont'd)

#### *Sale of gas*

The consolidated entity has a number of long term contracts with customers for the sale of gas. The majority of these contracts have been established as take-or-pay arrangements, whereby the minimum amount specified is considered the contract as it is the only enforceable part of the agreement. Options in the contract to acquire additional volumes of gas are considered a separate contract at the time the customer exercises the option on the basis that the additional units are provided at a standalone selling price. The transaction price is subject to periodic price escalation throughout the course of each contract. Any future price adjustments are not reflected in the initial transaction price as they are unknown at the time of the initial contract.

The sale of gas represents a promise to transfer a series of distinct goods (i.e. each gigajoule of gas) to the customer and is therefore considered a single performance obligation satisfied over time. Revenue is recognised over time as the consolidated entity satisfies its performance obligations and transfers control of the gas to the customer who simultaneously receives and consumes that gas. The amount of revenue recognised is determined by measuring the progress toward the complete satisfaction of the performance obligation. A receivable is recognised by the consolidated entity as it transfers control of the gas to the customer. An invoice is raised once the consolidated entity is entitled to compensation. There is not considered to be a significant financing component in these types of contracts with customers as the period between the recognition of revenue and the payment is less than one year.

For those contracts established as take-or-pay arrangements, any gas paid for but not taken is recognised as a contract liability until such time as the customer takes delivery of that make-up gas. It is only when the customer takes delivery and control of that make-up gas that the consolidated entity satisfies its performance obligations under the contract and therefore recognises revenue.

At the end of each reporting period, the consolidated entity undertakes an assessment of its contract liabilities related to make-up gas for breakage i.e. the consolidated entity assesses the likelihood of the customer taking delivery of the full quantity of make-up gas assets that they are entitled to before the end of contract or other time as specified in the contract. Revenue is recognised where it has been assessed that it is highly probable that the customer will not take delivery of the full quantity of make-up gas on or before the end of the contract or other time as specified in the contract.

#### *Electricity distribution services*

The consolidated entity provides electricity distribution services under long term variable price contracts to a small number of customers (third party retailers). The electricity distribution services represents a promise to transfer a series of distinct services to the customer and is therefore considered a single performance obligation satisfied over time. The transaction price is subject to annual price adjustment or escalation throughout the course of each contract as determined by the Australian Energy Regulator through the Network Price Determination Agreement. Any future price adjustments are not reflected in the initial transaction price as they are unknown at the time of the initial contract.

The consolidated entity recognises revenue from electricity distribution services over time as the service is rendered, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the consolidated entity.

#### *Sale of water, electricity and sewerage services*

The consolidated entity sells water and sewerage services to a large number of customers as a bundled package and for those customers located in minor centres and remote communities, the bundled package may also include the supply of electricity. For some customers the contract may only be for the sale of electricity. Each contract entered into may consist of one, two or three separate performance obligations because the promises to transfer water, sewerage services and electricity are distinct and separately identifiable goods and services and are not dependent on each other for complete satisfaction of the performance obligations under the contract.

Each contract entered into with a customer is a variable contract because the volume of water and/or electricity to be transferred to the customer over the duration of the contract is not specified; however for the provision of sewerage services the transaction price is fixed. The transaction price for water, sewerage services and electricity is subject to an annual price adjustment or escalation as determined by the regulators.

Revenue from the sale of water and electricity is recognised over time as the consolidated entity transfers the electricity and water to the customer who simultaneously receives and consumes the benefits provided by the consolidated entity. The amount of revenue recognised is determined using an input method to measure progress towards complete satisfaction of each of the performance obligations. A contract asset is recognised when the consolidated entity has transferred the water and/or electricity to the customer until the consolidated entity has a right to invoice the customer for payment of consideration at which time the contract asset is transferred to trade receivables. Customers are billed quarterly and consideration is payable when invoiced.

Revenue from the provision of sewerage services is recognised over time based on the stage of completion of the contract, being the total number of days that has elapsed at the end of the reporting period. Customers are generally billed quarterly in advance based on the number of sanitary fittings and recognised as a contract liability until the service is rendered. Consideration is payable when invoiced.

#### *Community Service Obligations*

Revenue in the form of Community Service Obligation (CSO) is 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 attached conditions have been complied with.

#### *Contract balances*

##### *Contract assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the consolidated entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

##### *Trade receivables*

A receivable represents the consolidated entity's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

##### *Contract liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which the consolidated entity has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the consolidated entity transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the consolidated entity performs under the contract.

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

### 2.3 Summary of significant accounting policies (cont'd)

#### (d) Government grants

Government grants are not recognised until there is reasonable assurance that the consolidated entity will comply with the conditions attaching to them and the grants will be received. Where the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, the consolidated entity has elected to present the grant in the statement of financial position by reducing the carrying amount of the asset. The grant is then recognised in the profit or loss over the useful life of the depreciable asset by way of a reduced depreciation charge.

When the consolidated entity receives grants of non-financial assets, the asset and the grant are recorded at cost and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the consolidated entity with no future related costs are recognised as income in the period in which they become receivable.

#### (e) Goods and services tax

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

Receivables and creditors 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 statement of financial position.

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

#### (f) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time (greater than 24 months) to get ready for the qualifying asset's intended use are capitalised as part of the cost of the asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

To the extent that the funds are borrowed generally and used for the purpose of obtaining or constructing a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditure on that asset. The average carrying amount of the asset during the period, including borrowing costs previously capitalised, is used as the basis for determining expenditures to which the capitalisation rate is applied in that period.

All other borrowing costs are expensed in the period in which they are incurred.

#### (g) Income tax equivalents

Income tax equivalent payments are made pursuant to section 33(3) of the *Government Owned Corporations Act 2001* and are based on rulings set out in the National Tax Equivalent Regime's manual. The National Tax Equivalent Regime manual gives rise to obligations which reflect in all material respects those obligations for taxation which would be imposed by the *Income Tax Assessment Act 1936* and *1997*.

The Corporation is required to make income tax equivalent payments to the Northern Territory Government based on taxable income. It is not liable to pay the Commonwealth tax that would be payable if it were not a Government Owned Corporation.

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

#### Current tax

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. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because of items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible.

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 end of the reporting period.

#### Deferred tax

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. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

#### Deferred tax liabilities

Deferred tax liabilities are recognised for all taxable 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
- When the taxable temporary difference is associated with investments in controlled entities, 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.

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

### 2.3 Summary of significant accounting policies (cont'd)

#### Deferred tax assets

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.
- When the deductible temporary difference is associated with investments in controlled entities, 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 the end of each reporting period 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 the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred 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 end of the reporting period.

#### Deferred tax relating to items recognised outside profit or loss.

Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

#### Current and deferred tax for the year

Current and deferred tax is recognised as an expense or income in the profit or loss, except when it relates to items recognised in other comprehensive income, in which case current and deferred tax are also recognised in other comprehensive income. Income taxes relating to these items are recognised directly in other comprehensive income.

#### (h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with financial institutions.

#### (i) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### Financial assets

##### Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the consolidated entity's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the consolidated entity has applied the practical expedient, the consolidated entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the consolidated entity has applied the practical expedient are measured at the transaction price determined under AASB 15 Revenue from Contracts with Customers. Refer to the accounting policies in Note 2.3 (c): Revenue from Contracts with Customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The consolidated entity's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flow. The business model determines whether the cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

##### Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains or losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss.

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

### 2.3 Summary of significant accounting policies (cont'd)

#### *Financial assets at amortised cost (debt instruments)*

This category is most relevant to the consolidated entity. The consolidated entity measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The consolidated entity's financial assets at amortised cost includes trade receivables and a loan to a subsidiary included under non-current assets.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The consolidated entity did not have any financial assets at fair value through profit or loss as at and for the year ended 30 June 2020 (2019: Nil).

#### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the consolidated entity's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The consolidated entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the consolidated entity has transferred substantially all the risks and rewards of the asset, or (b) the consolidated entity has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the consolidated entity has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the consolidated entity continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the consolidated entity also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the consolidated entity has retained.

#### *Impairment of financial assets*

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Critical accounting judgements and key sources of estimation uncertainty Note 2.5
- Trade receivables Note 8

The consolidated entity recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the consolidated entity expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (as 12 month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the consolidated entity applies a simplified approach in calculating ECLs. Therefore, the consolidated entity does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The consolidated entity has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

In certain cases, the consolidated entity may consider a financial asset to be in default when internal or external information indicates that the consolidated entity is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the consolidated entity. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

### 2.3 Summary of significant accounting policies (cont'd)

#### *Financial liabilities*

##### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in case of loans and borrowings and payables, net of directly attributable transaction costs.

The consolidated entity's financial liabilities include trade and other payables, loans and borrowings.

##### *Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

##### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the consolidated entity that are not designated as hedging instruments as defined by AASB 9. Separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 9 are satisfied. The consolidated entity has not designated any financial liability as at fair value through profit or loss.

##### *Loans and borrowings*

This is the category most relevant to the consolidated entity. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

##### *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms on an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

##### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis and settle the liabilities simultaneously.

#### (i) Inventories

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

#### (k) Leases

##### *The consolidated entity as lessee*

All leases are accounted for by recognising a right-of-use asset and a lease liability except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the consolidated entity recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

AASB 16 was adopted on 1 July 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 July 2019, see Note 2.4. The following policies apply subsequent to the date of initial application, 1 July 2019.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the consolidated entity's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

### 2.3 Summary of significant accounting policies (cont'd)

#### (k) Leases (cont'd)

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, any initial direct costs, less any lease incentives received. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position. The consolidated entity applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

The consolidated entity remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

#### *The consolidated entity as lessor*

Leases for which the consolidated entity is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the parent or consolidated entity is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rentals are recognised as revenue in the period in which they are earned.

#### *Policies applicable prior to 1 July 2019*

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if 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 (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

#### *The Group as lessee*

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the consolidated entity is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between 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 in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the consolidated entity will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

#### *The Group as lessor*

Leases in which the consolidated entity does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rentals are recognised as revenue in the period in which they are earned.

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

### 2.3 Summary of significant accounting policies (cont'd)

#### (l) Property, plant and equipment

Construction in progress is stated at cost, net of accumulated impairment losses, if any.

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

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

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

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

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

Fair value of property, plant and equipment is based on a market participants' perspective, using valuation techniques (market approach, cost approach, income approach) that maximises relevant observable inputs and minimises unobservable inputs.

The market approach uses prices and other relevant information generated by market transactions involving identical or similar assets. The income approach is a technique that converts future cash flow amounts (or income and expenses) to a single current discounted amount.

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

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

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

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

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

Where an asset that has previously been revalued is disposed of, any balance remaining in the revaluation surplus in respect of that asset is transferred to accumulated funds.

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

Freehold land is not depreciated.

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

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

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

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed.

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

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



## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

### 2.3 Summary of significant accounting policies (cont'd)

#### (m) Intangible assets

##### *Intangible assets acquired separately*

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated depreciation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite useful lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised on disposal (i.e., at the date the recipient obtains control) or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of an intangible asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of profit or loss.

##### *Purchased software*

All purchased software items have limited useful lives and are amortised using the straight-line method over their estimated useful lives. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

##### *Make-up gas*

The consolidated entity has entered into a Take-or-Pay Gas Purchase Agreement that came into effect during the 2010-11 financial year. Make-up gas paid for under the terms of the contract but not physically taken is recorded as an intangible asset. The residual value of the make-up gas asset equals the asset's carrying amount.

##### *Renewable Energy Certificates*

The Renewable Energy Certificate Scheme operates under Federal Government legislation which requires energy retailers to source a target proportion of their electricity purchases from renewable sources. The consolidated entity generates and purchases Green Certificates in order to comply with the relevant legislation. Obligations to surrender certificates based on targets are of accrual nature and are disclosed in the statement of financial position as current liabilities. Rights held are of the nature of intangible assets and are disclosed in the statement of financial position as current assets. The assets and liabilities held under the scheme are acquitted throughout the year. Assets remaining after the acquittal process are expected to be realised within twelve months after the date of acquittal.

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

	Purchased software	Make-up gas	Renewable Energy Certificates
Internally generated or acquired	Acquired	Acquired	Acquired
Useful lives	Finite (1-21 years)	Finite (34 years)	Indefinite
Amortisation method	Amortised on a straight-line basis over the expected useful	No amortisation	No amortisation

#### (n) Employee benefits

##### *Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

##### *Wages and Salaries*

A provision for wages and salaries, including non-monetary benefits 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. These liabilities are measured at the amounts expected to be paid when the liabilities are settled including related on-costs.

##### *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 including any related on-costs.

##### *Long-term employee benefits*

##### *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 Commonwealth Government Bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows. Any actuarial gains or losses are recognised in the statement of profit or loss and other comprehensive income.

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

### 2.3 Summary of significant accounting policies (cont'd)

#### (n) Employee benefits (cont'd)

##### *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.

Contributions to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

##### *Termination benefits*

Termination benefits are recognised as an expense when the Corporation is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

#### (o) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the consolidated entity 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 and the amount of the receivable can be measured reliably. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimate to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

##### *Onerous contracts*

If the consolidated entity has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the consolidated entity recognises any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e. the costs that the consolidated entity cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

#### (p) Dividends

A provision for dividends payable is recognised in the reporting period that it is declared. The Northern Territory Government's dividend policy requires the Corporation to provide for a dividend payable, in principle at a rate of 50% of net profit after income tax, but after covering all requirements of the GOC Act and Corporations Act. See Note 6 for further information.

#### (q) Impairment of tangible and intangible assets

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

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

Recoverable amount is the higher of fair value less costs of disposal 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 current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

#### (r) Comparative figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

#### 2.4 Adoption of new and revised Accounting Standards

##### (a) New and amended AASB Standards that are effective for the current year

###### Impact of initial application of IFRS 16 Leases

Effective 1 January 2019, AASB 16 replaces AASB 117 Leases and provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. The date of initial application of AASB 16 Leases for the consolidated entity will be 1 July 2019.

AASB 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

The consolidated entity adopted AASB 16 using the cumulative-effect method in accordance with AASB 16:C5(b). Consequently, the comparative financial statements will not be restated.

For contracts in respect of lessee accounting, AASB 16 substantially carries forward the lessor accounting requirements in AASB 117.

###### Transition method and practical expedients utilised

The consolidated entity adopted AASB 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 July 2019), without restatement of comparative figures.

The consolidated entity used the practical expedient available on transition to AASB 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with AASB 117 and Interpretation 4 will continue to apply to those leases entered or modified before 1 July 2019.

AASB 16 provides for certain optional practical expedients, including those related to the initial adoption of the Standard. The consolidated entity applied the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if AASB 16 had been applied since the commencement date;
- Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under AASB 136 as at the date of initial application; and
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the consolidated entity previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under AASB 16, the consolidated entity recognises right-of-use assets and lease liabilities for most leases. However, the consolidated entity has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

###### Impact on Lessee Accounting

###### Former operating leases

AASB 16 changes how the consolidated entity accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet.

On initial application of AASB 16, for all leases (except as noted below), the consolidated entity:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136 Impairment of Assets.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the consolidated entity has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within 'other expenses' in profit or loss.

###### Former finance leases

The main differences between AASB 16 and AASB 117 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. AASB 16 requires that the consolidated entity recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by AASB 117. This change did not have a material effect on the consolidated entity's financial statements.

On initial application, the consolidated entity has presented equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, in a separate line for lease liabilities.

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

#### 2.4 Adoption of new and revised Accounting Standards (cont'd)

##### (a) New and amended AASB Standards that are effective for the current year (cont'd)

###### Impact on Lessor Accounting

Under AASB 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, AASB 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under AASB 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under AASB 117).

Because of this change, the consolidated entity will reclassify certain of its sublease agreements as finance leases. As required by AASB 9, finance lease receivables have been assessed for expected credit losses (ECL); the ECL allowance has been assessed as nil as there is no history of default.

###### Financial impact of the initial application of AASB 16

The following table presents the impact for each financial statement line item of adopting AASB 16 for the current year.

	Adjustments	30 June 2019 as originally presented \$'000	AASB 16 \$'000	1 July 2019 \$'000
<b>Consolidated entity</b>				
<b>Assets</b>				
Finance Lease Receivables - current	(a)	-	788	788
Finance Lease Receivables - non-current	(a)	-	7,635	7,635
Property, plant and equipment	(b)	2,931,219	(15,995)	2,915,224
Right-of-use asset	(c)	-	423,214	423,214
Net impact on total assets			415,642	
<b>Liabilities</b>				
Lease liabilities - current	(d)	1,081	26,790	27,871
Lease liabilities - non-current	(d)	13,819	388,852	402,671
Net impact on total liabilities			415,642	
<b>Parent entity</b>				
<b>Assets</b>				
Finance Lease Receivables - current	(a)	-	1,754	1,754
Finance Lease Receivables - non-current	(a)	-	24,987	24,987
Property, plant and equipment	(b)	2,231,498	(232)	2,231,266
Right-of-use asset	(c)	-	382,561	382,561
Net impact on total assets			409,070	
<b>Liabilities</b>				
Lease liabilities - current	(d)	11	26,462	26,473
Lease liabilities - non-current	(d)	176	382,608	382,784
Net impact on total liabilities			409,070	

(a) Finance Lease Receivables were recognised for operating type leases under AASB 117 that had not previously been accounted for 'on balance sheet'. They have been recognised based on the present value of the future lease payments as at 1 July 2019.

(b) Property, plant and equipment was adjusted to reclassify leases previously classified as finance type to right-of-use assets. The adjustment reduced the cost of property, plant and equipment by \$21,533k and accumulated amortisation by \$5,538k for a net adjustment of \$15,995k.

(c) The adjustment to right-of-use assets is as follows:

	\$'000
Adjustment noted in (b) - finance type leases	15,995
Operating type leases	407,219
Right-of-use assets	423,214

(d) The following table reconciles the minimum lease commitments disclosed in the consolidated entity's 30 June 2019 annual financial statements to the amount of lease liabilities recognised on 1 July 2019:

	Previously Note 26	Previously Note 27	\$'000
Gas transportation			1,326,890
Operating lease arrangements			6,824
Minimum operating lease commitment at 30 June 2019			1,333,714
Less: commitments assessed not to contain a lease under AASB 16			(825,928)
Undiscounted lease payments			507,786
Less: effect of discounting using the incremental borrowing rate as at the date of initial application			(92,144)
Lease liabilities for leases classified as operating type under AASB 117			415,642
Plus: leases previously classified as finance type under AASB 117			14,900
Lease liability as at 1 July 2019			430,542

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

#### 2.4 Adoption of new and revised Accounting Standards (cont'd)

##### (a) New and amended AASB Standards that are effective for the current year (cont'd)

###### AASB Interpretation 23 Uncertainty over Income Tax Treatments

The Interpretation sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the consolidated entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess if it is probable that the tax authorities will accept an uncertain tax treatment. If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

Upon adoption of the Interpretation, the consolidated entity considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Corporation's tax return includes deductions related to transfer pricing with its subsidiary, which is not a taxable entity, and the taxation authorities may challenge those tax treatments. Historically, the Corporation has a strong history of tax compliance. In keeping with that philosophy, the Corporation has undertaken a transfer pricing study in order to provide comfort over its treatment. The initial findings indicate it is not probable that its tax treatment will be accepted by the taxation authorities. The adoption of Interpretation 23 resulted in a \$4.5M increase in corporate tax liabilities, relating to the group's transfer pricing structure. The impact of the increase in corporate tax liabilities was recorded in tax expense in the current year.

###### Other amendments to standards and interpretations

In the current year, a number of other amendments to AASB Standards and Interpretations were issued that are effective for annual reporting periods that begin on or after 1 January 2019, however are not applicable to the consolidated entity. They are as follows:

- Amendments to AASB 9: Prepayment Features with Negative Compensation
- Amendments to AASB 119: Employee Benefits Plan Amendment, Curtailment or Settlement
- Amendments to AASB 28: Long-term interests in associates and joint ventures
- Annual Improvements to IFRS Standards 2015–2017: Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

##### (b) Standards and Interpretations in issue not yet effective

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

Standard or Interpretation	Effective annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 17 'Insurance contracts'	1 January 2021	30 June 2022
Amendments to AASB 3 'Definition of a business'	1 January 2020	30 June 2021
Amendments to AASB 101 and AASB 108 'Definition of material'	1 January 2020	30 June 2021
Conceptual Framework 'Amendments to References to the Conceptual Framework in IFRS Standards'	1 January 2020	30 June 2021

The consolidated entity does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the consolidated entity in future periods, except as noted below:

###### Amendments to AASB 101 and AASB 108 'Definition of material'

The amendments are intended to make the definition of material in AASB 101 easier to understand and are not intended to alter the underlying concept of materiality in AASB Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in AASB 108 has been replaced by a reference to the definition of material in AASB 101. In addition, other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' have been amended to ensure consistency.

###### Amendments to References to the Conceptual Framework in IFRS Standards

While no changes have been made to any of the current accounting standards, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020 if they have public accountability and are required by legislation to comply with Australian Accounting Standards.

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

#### 2.5 Critical accounting judgements and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the 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. Refer below for a discussion of critical accounting judgments and key sources of estimation uncertainty.

##### Critical judgements in applying the consolidated entity's policies

The following are the critical judgements, apart from those involving estimations (see below), that management have made in the process of applying the consolidated entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

##### Capitalisation of borrowing costs on qualifying assets

Under AASB 123 'Borrowing Costs', borrowing costs associated with qualifying assets must be capitalised. The definition of a qualifying asset for this purpose is any asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The consolidated entity has determined that assets taking longer than 24 months to construct will be deemed qualifying assets and as such, borrowing costs associated with these assets will be capitalised.

##### Discount rate to be used in determining the provision for onerous contracts

Under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', for contracts that are onerous the present obligation under the contract shall be recognised and measured as a provision. The definition of an onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs of a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Significant judgement is required when selecting the discount rate that shall be applied in determining the carrying amount of the provision. The consolidated entity has determined that any provision cash-flow workings shall be discounted using the long term bond yield rate of 1.96% (2019: 2.8%). Refer to Note 21 for further details.

##### Key sources of estimation uncertainty

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

##### Fair value measurements and valuation processes

A number of the consolidated entity's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

In estimating the fair value of an asset or a liability, the consolidated entity uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the consolidated entity engages third party qualified consultants to perform the valuation.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Notes 14 and 27.

##### Impairment write-back

An entity must assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity must estimate the recoverable amount of that asset. The recoverable amount of an asset is the higher of fair value less cost to sell and the value in use of an asset. The consolidated entity has determined that the recoverable amount is represented by fair value less cost to sell.

##### Impairment write-off

Determining whether an asset is impaired requires analysis of internal and external indicators. If such indication exists, the asset's carrying amount is tested against the asset's recoverable amount. The recoverable amount of an asset is the higher of fair value less cost to sell and the value in use of an asset. The consolidated entity has determined that the recoverable amount is represented by fair value less cost to sell.

##### Unbilled revenue

As per accounting standard AASB 15 'Revenue from contracts with customers', revenue is recognised to the extent that performance obligations are satisfied, it is probable that the revenue will not be reversed and the revenue can be reliably measured. Therefore, the consolidated entity estimates the amount of electricity, standard control services and water consumed at reporting date but that is yet to be billed. For further information on revenue recognition, refer to Note 2.3 (c) above.

##### Useful lives of property, plant and equipment

As described in Note 2.3 (l) above, the consolidated entity reviews the estimated useful lives of buildings and property, plant and equipment at the end of each reporting period and updates the useful life if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

### 2.5 Critical accounting judgements and key sources of estimation uncertainty (cont'd)

#### Capitalisation of expenses

During the current year, the consolidated entity capitalised a number of expenses as follows:

##### (i) Borrowing costs

As described in Note 2.3 (f) above, borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. To the extent that the funds are borrowed generally and used for the purpose of obtaining or constructing a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditure on that asset. The average carrying amount of the asset during the period, including borrowing costs previously capitalised, is used as the basis for determining expenditures to which the capitalisation rate is applied in that period. Therefore, the consolidated entity has estimated the amount of borrowing costs to be capitalised at the end of each reporting period.

##### (ii) Labour recovery costs

Each year the consolidated entity estimates the portion of employee expenses that are attributable to the construction of an asset. The consolidated entity has determined the labour recovery attributable to the construction of assets each year with the impact of this being a reduction in the total employee expenses recognised in the statement of profit or loss.

##### (iii) Indirect costs supporting capital projects

The consolidated entity has adopted an accounting treatment and methodology to identify support costs included in Corporate Services, Power Networks and Water Services which may directly or indirectly relate to the acquisition or construction of capital assets. The financial effect of this change in estimate is a reduction in the expenses recognised in the statement of profit or loss.

#### Coronavirus (COVID-19) pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of the consolidated financial statements. The consolidated entity has developed various accounting estimates based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the consolidated entity. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the fair value measurement of property, plant and equipment, impairment assessments of right-of-use assets, expected credit losses for trade and other receivables and the net realisable value of inventory.

The impact of the COVID-19 pandemic on each of these accounting estimates is discussed further below. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

- *Fair value measurement of property, plant and equipment*

There is a wide range of possible outcomes from the COVID-19 pandemic, resulting in a high degree of uncertainty in respect of future forecasts.

The weighted average cost of capital (WACC) is used as the discount rate applied to future cash flows to determine the fair value of infrastructure system assets. An incremental risk premium of 0.25% has been applied to the WACC to reflect the additional market uncertainty that is currently present due to COVID-19, as observed by recent movements and volatility in equity markets. The risk premium reflects the uncertain impact on future cash flows and the additional returns expected by investors to compensate for these risks.

Cash flows have not been adjusted for potential COVID-19 uncertainties and risks in the valuation model in order to ensure the appropriate risk is not duplicated as a result of the adjustment to WACC.

- *Impairment assessments of intangible and right-of-use assets*

The assumptions underpinning the value-in-use calculations used to evaluate the supportability of intangible and right-of-use assets were adjusted to reflect reasonable estimates of the impact of COVID-19. Contractual obligations in respect of these lease agreements have limited the risks associated with the estimated cash flows and no material impairment issues have been identified.

- *Expected credit losses*

The impact of COVID-19 on the recoverability of receivables have been considered. While the methodologies and assumptions applied in the base expected credit loss (ECL) calculations remained unchanged from those applied in the prior financial year, the consolidated entity has incorporated estimates, assumptions and judgements specific to the impact of the COVID-19 pandemic and the associated customer support packages provided. Whilst no material recoverability issues have been identified, there is a risk that the economic impacts of COVID-19 could be deeper or more prolonged than anticipated, which could result in higher credit losses than those modelled under the base case. Refer to Note 8 for further details on ECL.

- *Net realisable value of inventory*

Inventory will continue to be used to repair and maintain the existing infrastructure. It is not expected that any incremental obsolescence would occur as a result of the pandemic.

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>3 Revenue</b>				
<b>3.1 Revenue from contracts with customers</b>				
Revenue from contracts with customers	732,605	668,696	689,236	625,410
	<b>732,605</b>	<b>668,696</b>	<b>689,236</b>	<b>625,410</b>

#### (a) Disaggregation of revenue from contracts with customers

The consolidated entity derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	Gas \$'000	Electricity distribution \$'000	System Control \$'000	Water \$'000	Sewerage \$'000	Electricity \$'000	Gifted assets & capital contributions \$'000	Other \$'000	Total \$'000
<b>For the year ended 30 June 2020</b>									
<b>Consolidated entity</b>									
Revenue from external customers	263,806	191,659	8,541	124,730	79,553	37,249	18,651	8,416	732,605
Timing of revenue recognition									
- Over time	263,806	191,659	8,541	124,730	79,553	37,249	-	6,405	711,943
- At a point in time	-	-	-	-	-	-	18,651	2,011	20,662
	<b>263,806</b>	<b>191,659</b>	<b>8,541</b>	<b>124,730</b>	<b>79,553</b>	<b>37,249</b>	<b>18,651</b>	<b>8,416</b>	<b>732,605</b>
<b>Corporation</b>									
Revenue from external customers	263,806	191,576	8,541	119,247	76,452	3,438	17,760	8,416	689,236
Timing of revenue recognition									
- Over time	263,806	191,576	8,541	119,247	76,452	3,438	-	5,166	668,226
- At a point in time	-	-	-	-	-	-	17,760	3,250	21,010
	<b>263,806</b>	<b>191,576</b>	<b>8,541</b>	<b>119,247</b>	<b>76,452</b>	<b>3,438</b>	<b>17,760</b>	<b>8,416</b>	<b>689,236</b>
<b>For the year ended 30 June 2019</b>									
<b>Consolidated entity</b>									
Revenue from external customers	207,685	181,648	1,747	123,942	79,518	35,665	25,015	13,476	668,696
Timing of revenue recognition									
- Over time	207,685	181,648	1,747	123,942	79,518	35,665	-	6,405	636,610
- At a point in time	-	-	-	-	-	-	25,015	7,071	32,086
	<b>207,685</b>	<b>181,648</b>	<b>1,747</b>	<b>123,942</b>	<b>79,518</b>	<b>35,665</b>	<b>25,015</b>	<b>13,476</b>	<b>668,696</b>
<b>Corporation</b>									
Revenue from external customers	207,685	181,551	1,747	118,396	76,448	3,422	24,140	12,021	625,410
Timing of revenue recognition									
- Over time	207,685	181,551	1,747	118,396	76,448	3,422	-	5,166	594,415
- At a point in time	-	-	-	-	-	-	24,140	6,855	30,995
	<b>207,685</b>	<b>181,551</b>	<b>1,747</b>	<b>118,396</b>	<b>76,448</b>	<b>3,422</b>	<b>24,140</b>	<b>12,021</b>	<b>625,410</b>

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

## 3.1 Revenue from contracts with customers (Cont.)

## (b) Assets and liabilities related to contracts with customers

The consolidated entity has recognised the following assets and liabilities related to contracts with customers:

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
Receivables*	36,685	45,091	36,617	44,966
Contract assets (current)	36,775	36,164	36,775	36,164
Contract liabilities (current)	53,218	56,411	53,218	56,411
Contract liabilities (non-current)	15,161	12,157	15,161	12,157

\* Receivables related to contracts with customers under AASB 15 which are included in 'Trade and other receivables'

The contract assets primarily relate to the consolidated entity's rights to consideration for work completed but not billed at the reporting date on gas contracts, electricity and water contracts, power distribution and contracts. The contract assets are transferred to receivables when the rights become unconditional.

The contract liabilities relate primarily to the advance consideration received from customers for:

- Waste removal (sewerage) contracts for which revenue is recognised over time as the consolidated entity satisfies its performance obligations
- Capital contributions for the purpose of constructing infrastructure assets that will be owned by the consolidated entity, for which the revenue will be recognised at a point in time on completion of the construction of the infrastructure asset and connected to the network system
- Capital contributions (recoverable works) for the purpose of constructing infrastructure assets that will be owned by the customer, for which revenue is recognised over time as the asset is being constructed (as the asset is constructed on the customers premises).

Significant changes in the contract assets and the contract liabilities balances during the period as follows:

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	12,621	7,233	12,237	7,233
Increases due to cash received, excluding amounts recognised as revenue during the period	9,358	13,496	9,350	13,496

## (c) Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date:

	1 to 2 years	3 to 5 years	6 to 10 years	10 years +
	\$'000	\$'000	\$'000	\$'000
<b>30 June 2020</b>				
Gas sales	-	-	15,161	-
<b>30 June 2019</b>				
Gas sales	164	-	11,993	-

For sales of electricity distribution services, water, sewerage and other waste management services and electricity, the consolidated entity is unable to disclose information relating to unsatisfied (or partially unsatisfied) performance obligations at the reporting date because the contracts are for indefinite periods or the volumes of goods and/or services to be provided were unknown at the initial date of the contract.

The consolidated entity applies the practical expedient in paragraph 121 of AASB 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>3.2 Revenue from rendering of services and government grants</b>				
IES capital government grants	31,699	20,460	-	-
IES recurrent government grants	54,362	55,894	-	-
	<b>86,061</b>	<b>76,354</b>	-	-

## 3.3 Finance revenue

Interest income:

Financial instruments measured at fair value:

Finance leases	218	-	710	-
Financial instruments measured at amortised cost:				
Bank deposits	949	1,231	576	773
Loans to related party	1,061	654	1,061	654
	<b>2,228</b>	<b>1,885</b>	<b>2,347</b>	<b>1,427</b>

## 3.4 Other income

Community Service Obligations:

Uniform tariffs	5,294	6,798	5,294	6,798
Gas CSO	16,200	16,200	16,200	16,200
Pensioner Concessions Scheme	4,588	5,162	4,588	5,162
Other revenue	515	523	515	523
	<b>26,597</b>	<b>28,683</b>	<b>26,597</b>	<b>28,683</b>

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>4 Expenses</b>				
<b>4.1 Repairs and maintenance expense</b>				
Materials	40,817	46,235	28,645	31,800
Labour	23,752	24,923	20,352	22,045
	<b>64,569</b>	<b>71,158</b>	<b>48,997</b>	<b>53,845</b>
<b>4.2 Employee benefits expense</b>				
Personnel	134,894	128,190	119,649	112,768
Superannuation	14,922	13,632	13,384	12,104
	149,816	141,822	133,033	124,872
Contract and apprentice labour	4,527	5,400	4,174	4,753
	154,343	147,222	137,207	129,625
Less: capital and maintenance labour recovery	(42,370)	(47,360)	(36,514)	(42,247)
	<b>111,973</b>	<b>99,862</b>	<b>100,693</b>	<b>87,378</b>

Consolidated personnel expenses include superannuation costs of \$14.9 million (2019: \$13.6 million).

## 4.3 Impairment of non-current assets and onerous contract provisions

(Reversal of impairment)/impairment of make up gas	(95,386)	17,687	(95,386)	17,687
(Decrease)/increase in provision for onerous contract	(66,672)	5,068	(66,672)	5,068
Impairment of property, plant and equipment	1,684	-	1,684	-
Reversal of revaluation decrease on infrastructure assets	(57,084)	(2,692)	(57,084)	(2,692)
Revaluation decrease	-	223,168	-	136,103
	<b>(217,458)</b>	<b>243,231</b>	<b>(217,458)</b>	<b>156,166</b>

## 30 June 2020

As at 30 June 2020, the Corporation revalued its infrastructure assets resulting in a revaluation increase in assets of \$57.1 million reflected in the profit or loss for Power Services, this is slightly offset by an impairment of minor assets of \$1.7 million.

A review of the value of make-up gas resulted in a reversal of impairment expense of \$95.4 million. Together with a decrease in the value of the onerous contract of \$66.7 million, the gas contracts resulted in a net reversal of impairment expense of \$162.1 million.

## 30 June 2019

As at 30 June 2019, the Corporation revalued its assets resulting in a revaluation decrease in Power Services assets of \$136.1 million reflected in the profit or loss. Buildings and land were also revalued resulting in a revaluation uplift of \$2.7 million as a reversal of impairment charges previously taken to the prior year income statements. The valuation of the consolidated entity's property, plant and equipment has resulted in a revaluation decrease of \$223.2 million reflected in the profit or loss, of which \$87.1 million relates to IES Pty Ltd.

A review of the value of make-up gas resulted in an impairment expense of \$17.7 million. Together with an increase in the value of the onerous contract of \$5.1 million, the gas contracts resulted in a net expense of \$22.8 million.

## 4.4 Other expenses

Impairment of trade receivables	2,642	1,696	2,642	1,696
Board approved write-offs	14,126	3,334	9,986	3,334
Freight	1,428	1,428	301	293
Grants and subsidies	1,313	1,518	1,313	1,517
Information technology and communications expense	11,676	10,928	10,221	9,463
Insurance costs	3,087	2,568	3,070	2,562
Laboratory fees and environmental compliance	4,190	4,339	3,373	3,476
Motor vehicle	2,741	5,771	1,922	4,776
Other expenses	8,442	3,167	8,250	1,005
Property costs	16,902	15,356	16,615	14,946
Training	1,526	1,708	1,425	1,608
Travel and accommodation	1,616	1,963	1,107	1,208
Water Conservation Program	1,655	1,339	1,338	1,042
	<b>71,344</b>	<b>55,115</b>	<b>61,563</b>	<b>46,926</b>

During the year ending 30 June 2020 \$13.4 million (2019: \$3.3 million) relating to 6 (2019: 2) projects has been written off from work-in-progress.

## 4.5 Depreciation and amortisation expense

<b>Depreciation</b>				
Buildings	1,768	1,354	1,768	1,354
Plant and equipment	5,771	4,447	5,651	4,283
Infrastructure	158,308	151,823	95,677	110,510
<b>Total depreciation</b>	<b>165,847</b>	<b>157,624</b>	<b>103,096</b>	<b>116,147</b>
<b>Amortisation</b>				
Leased assets	30,444	959	29,890	7
Intangible assets	4,019	3,873	3,972	3,141
<b>Total amortisation</b>	<b>34,463</b>	<b>4,832</b>	<b>33,862</b>	<b>3,148</b>
<b>Total depreciation and amortisation expense</b>	<b>200,310</b>	<b>162,456</b>	<b>136,958</b>	<b>119,295</b>

## 4.6 Finance costs

Interest Expense - Government	53,708	54,316	53,708	54,316
Interest Expense - Leases	16,407	319	10,902	5
Interest Expense - Other	1,594	1,146	547	489
Total interest expense for financial liabilities not classified as at FVTPL	71,709	55,781	65,157	54,810
Less: Capitalised finance costs	(3,718)	(5,210)	(3,718)	(5,210)
	<b>67,991</b>	<b>50,571</b>	<b>61,439</b>	<b>49,600</b>

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowings pool and are calculated by applying a capitalisation rate of 4.18% per annum (2019: 4.49%) to expenditure on such assets.

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>5 Income tax equivalent expense</b>				
The major components of income tax expense are:				
<b>(a) Income tax recognised in profit or loss</b>				
<i>Current income tax</i>				
Current income tax charge	15,159	15,988	15,159	15,988
<i>Deferred income tax</i>				
Over from prior years	(96)	2,322	(96)	2,322
Relating to origination and reversal of temporary differences	53,190	(51,977)	53,190	(51,977)
<b>Income tax expense reported in profit or loss</b>	<b>68,253</b>	<b>(33,667)</b>	<b>68,253</b>	<b>(33,667)</b>
<b>Numerical reconciliation between tax expense and pre-tax net profit</b>				
Profit/(loss) before income tax from continuing operations	176,288	(233,464)	212,919	(119,984)
At the consolidated entities' statutory income tax rate of 30% (2019: 30%)	52,886	(70,039)	63,876	(35,995)
Over provision from prior years	(96)	2,322	(96)	2,322
Expenditure not allowable for income tax purposes	10,983	34,050	(7)	6
Tax effect of transfer pricing adjustment	4,480	-	4,480	-
<b>Income tax expense on pre-tax profit</b>	<b>68,253</b>	<b>(33,667)</b>	<b>68,253</b>	<b>(33,667)</b>
<b>(b) Deferred income tax</b>				
Deferred income tax at 30 June relates to the following:				
<i>Deferred tax liabilities</i>				
Property, plant and equipment	103,980	94,251	103,980	94,251
Prepayments	61	56	61	56
<b>Gross deferred income tax liabilities</b>	<b>104,041</b>	<b>94,307</b>	<b>104,041</b>	<b>94,307</b>
<i>Movements:</i>				
Opening balance at 1 July	94,307	135,863	94,307	135,863
Credited/(charged) to profit or loss	8,649	(46,674)	8,649	(46,674)
DTL on revaluation recognised directly against ARR	1,085	5,118	1,085	5,118
<b>Closing balance at 30 June</b>	<b>104,041</b>	<b>94,307</b>	<b>104,041</b>	<b>94,307</b>
<i>Deferred tax assets</i>				
Employee provisions	14,442	13,483	14,442	13,483
Unearned revenue	-	667	-	667
Allowance for doubtful debts	2,806	2,102	2,806	2,102
Obsolete stock provision	707	229	707	229
Provision for onerous contract	-	20,002	-	20,002
Renewable energy provision	3	2	3	2
Make up gas impairment	3,589	32,205	3,589	32,205
Accrued expenses	69	39	69	39
Board approved write-offs	4,230	2,649	4,230	2,649
Lease repayments	991	-	991	-
<b>Gross deferred income tax assets</b>	<b>26,837</b>	<b>71,378</b>	<b>26,837</b>	<b>71,378</b>
<i>Movements:</i>				
Opening balance at 1 July	71,378	61,828	71,378	61,828
Under/(over) provision from prior years	-	2,467	-	2,467
Tax effect of adoption of new accounting standards	-	1,780	-	1,780
Credited/(charged) to profit or loss	(44,541)	5,303	(44,541)	5,303
<b>Closing balance at 30 June</b>	<b>26,837</b>	<b>71,378</b>	<b>26,837</b>	<b>71,378</b>
<b>Net deferred tax assets/(deferred tax liabilities)</b>	<b>(77,204)</b>	<b>(22,929)</b>	<b>(77,204)</b>	<b>(22,929)</b>
<b>Deferred tax expense</b>	<b>53,190</b>	<b>(51,977)</b>	<b>53,190</b>	<b>(51,977)</b>

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>5 Income tax equivalent expense (Cont'd)</b>				
<b>(c) Income tax (receivable)/payable</b>				
Opening balance at 1 July	(4,487)	(9,933)	(4,487)	(9,933)
Under/(over) provision from prior years	(95)	4,788	(95)	4,788
Income tax paid	(10,010)	(15,330)	(10,010)	(15,330)
Current year income tax expense	15,159	15,988	15,159	15,988
<b>Closing balance at 30 June</b>	<b>567</b>	<b>(4,487)</b>	<b>567</b>	<b>(4,487)</b>
<b>6 Dividends</b>				
Dividends paid to its shareholder during the financial year were as follows:				
Dividend paid during the year on ordinary shares:	9,640	9,000	9,640	9,000
	<b>9,640</b>	<b>9,000</b>	<b>9,640</b>	<b>9,000</b>
Subsequent to 30 June 2020 the Board resolved to declare a special dividend, but not recognised as a liability at year end of \$1.0 million to be paid on 30 November 2020 out of retained earnings at 30 June 2020.				
<b>7 Cash and cash equivalents</b>				
<b>(a) Reconciliation of cash</b>				
Cash at the end of the financial year as shown in the statement of cash flow is reconciled to the related items in the statement of financial position as follows:				
Cash assets	<b>123,572</b>	<b>177,610</b>	<b>67,246</b>	<b>94,069</b>
<b>(b) Reconciliation of net profit after tax to net cash flows from operations</b>				
Net (loss)/profit	108,035	(199,797)	144,666	(86,317)
<i>Adjustments for:</i>				
Depreciation and amortisation	200,310	162,456	136,958	119,295
Impairment writedown (reversal)	(217,458)	243,231	(217,458)	156,166
Contributed assets provided free of charge	(14,089)	(17,451)	(13,917)	(17,451)
Write-off of WIP	14,127	3,334	9,986	3,334
Net loss on disposal of property, plant and equipment, inc gifted streetlights	3,853	6,801	2,407	3,212
<i>Changes in assets and liabilities:</i>				
(Increase)/decrease in inventories	2,711	(188)	339	(356)
(Increase)/decrease in trade and other receivables	1,038	(33,615)	8,521	(38,248)
(Increase)/decrease in current intangible assets	135	587	85	606
Decrease in net deferred tax payable	53,189	(56,224)	53,189	(56,224)
(Decrease)/increase in current tax liabilities	5,054	7,227	5,054	7,227
(Decrease)/increase in trade and other payables	(4,938)	(25,865)	2,303	(25,370)
Increase in government grants	(6,433)	51,563	-	-
Increase/(decrease) in provisions	2,041	(355)	2,041	(355)
Increase in unearned revenue	(189)	37,984	(189)	37,984
<b>Net cash flows from operating activities</b>	<b>147,386</b>	<b>179,688</b>	<b>133,985</b>	<b>103,503</b>
<b>(c) Non-cash transactions</b>				
During the financial year the consolidated entity acquired property, plant and equipment with an aggregate fair value of \$14.1 million (2019: \$17.5 million) by means of gifts. These acquisitions are not reflected in the statement of cash flows.				
During the financial year the consolidated entity acquired right-of-use assets with an aggregate fair value of \$417.5 million. Refer to Note 15 for further details. These acquisitions are not reflected in the statement of cash flows.				
<b>(d) Reconciliation of liabilities arising from financing activities</b>				
The table below details changes in the consolidated entity's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated entity's statement of cash flows as cash flows from financing activities.				
	Consolidated		Corporation	
	Lease liabilities \$'000	Borrowings \$'000	Lease liabilities \$'000	Borrowings \$'000
Opening balance	14,900	1,242,000	187	1,242,000
Repayment of borrowings	-	(242,000)	-	(242,000)
Proceeds from borrowings	-	162,000	-	162,000
Repayment of lease liabilities	(22,127)	-	(24,736)	-
<i>Non-cash changes</i>				
Effect of adoption of AASB 16 - lease liabilities	415,642	-	409,070	-
New finance leases and remeasurements	9,620	-	8,780	-
<b>Closing balance</b>	<b>418,035</b>	<b>1,162,000</b>	<b>393,301</b>	<b>1,162,000</b>

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

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>8 Trade and other receivables</b>				
<b>(a) Current</b>				
<i>Service receivables</i>				
Service receivables	34,625	42,560	34,558	42,435
Loss allowance	(9,354)	(7,006)	(9,354)	(7,006)
	25,271	35,554	25,204	35,429
Unbilled consumption	36,775	36,164	36,775	36,164
	<b>62,046</b>	<b>71,718</b>	<b>61,979</b>	<b>71,593</b>
<i>Other receivables</i>				
Prepayments	9,334	5,339	9,251	5,105
Receivables from controlled entities	-	-	4,221	11,806
Loss allowance	-	-	-	-
	9,334	5,339	13,472	16,911
Other receivables	35,875	31,236	35,666	31,134
	<b>45,209</b>	<b>36,575</b>	<b>49,138</b>	<b>48,045</b>
	<b>107,255</b>	<b>108,293</b>	<b>111,117</b>	<b>119,638</b>

**Risk profile of service receivables**

The average age of these receivables is 32 days (2019: 37 days). No interest is charged and no collateral is held on outstanding service receivables.

The consolidated entity recognises a loss allowance for trade receivables at an amount equal to expected credit losses (ECL). The ECL on service receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The consolidated entity has undertaken a review of all receivables that are over 90 days past due and recognised a loss allowance against all receivables that are considered not recoverable based on historical experience.

An impairment analysis is performed at each reporting date using a provision matrix to measure ECL. The provision rates are based on days past due for groupings of customer types with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The consolidated entity writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off are subject to enforcement activities.

As at 30 June 2020, trade receivables of \$9.4 million (2019: \$7.0 million) had lifetime ECL of the full value of the receivables.

Set out below is the information about the credit risk exposure on the consolidated entity's trade receivables using a provision matrix:

	Current \$000	<30 days \$000	30-60 days \$000	61-90 days \$000	>91 days \$000	Total \$000
<b>30 June 2020</b>						
Expected credit loss rate	0.0%	3.4%	1.7%	0.6%	73.9%	27.0%
Gross carrying amount	15,501	3,515	2,154	1,027	12,428	34,625
Expected credit loss	2	120	37	6	9,189	9,354
<b>30 June 2019</b>						
Expected credit loss rate	0.4%	1.1%	8.6%	13.1%	70.7%	16.5%
Gross carrying amount	12,695	18,134	1,791	737	9,203	42,560
Expected credit loss	53	197	154	96	6,506	7,006

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>8 Trade and other receivables (Cont'd)</b>				
<b>Movement in the allowance for doubtful debts:</b>				
The following table shows the movement in lifetime expected credit losses that has been recognised for trade receivables in accordance with the simplified approach set out in AASB 9.				
Balance at beginning of year	(7,006)	(5,509)	(7,006)	(5,509)
Impairment losses recognised on receivables	(2,642)	(1,696)	(2,642)	(1,696)
Written off as uncollectible	294	292	294	292
Written off debts subsequently collected	-	(93)	-	(93)
<b>Balance at end of year</b>	<b>(9,354)</b>	<b>(7,006)</b>	<b>(9,354)</b>	<b>(7,006)</b>

**Explanation of significant changes**

Changes in the gross carrying amount of the trade receivables of ten customers contributed to approximately 65% of the increase in the loss allowance.

**Risk profile of other receivables**

The expected credit losses on the receivables from controlled entities has been assessed at nil on the basis of historical default experience and the financial position of the controlled entity as at 30 June 2020. The balance was subsequently settled in July 2020.

**(b) Non Current**  
*Other receivables*

	16,112	16,112	16,112	16,112
Other receivables	16,112	16,112	16,112	16,112

The amount recognised in non-current receivables represents the cost of 3 petajoules of gas that has been delivered to a third party customer. This transfer does not meet the revenue recognition criteria under AASB 15 Revenue from Contracts with Customers on the basis that the Pay Out Option has not yet been exercised and future returns cannot be reliably estimated as the amount would depend on the gas drawn down by the consolidated entity. Therefore the gas has been recognised as an asset until the exercise of the Pay Out Option or the contract expires in 2024, whichever is the earlier.

**9 Inventories**

Materials and stores	16,785	16,932	16,785	16,932
Fuel stocks	4,072	6,744	233	534
Gas stocks	1,213	1,142	1,213	1,141
Tokens	112	75	112	75
	<b>22,182</b>	<b>24,893</b>	<b>18,343</b>	<b>18,682</b>

The cost of inventories recognised as an expense during the year in respect of continuing operations for the Corporation and the consolidated entity respectively was \$201.2 million and \$225.6 million (2019: \$151.2 million and \$178.9 million respectively). The cost of inventories recognised as an expense for the Corporation and the consolidated entity includes \$0.3 million (2019: \$0.2 million) in respect of write-downs of inventory to net realisable value.

**10 Investments**

2,500 \$1 unlisted units, in Amadeus Gas Trust beneficially held by the Corporation	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
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The Corporation also holds 5 (2019: 5) ordinary shares of \$1 each in NT Gas Pty Limited.

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

#### 11 Investment in subsidiaries

	Consolidated		Corporation	
	June 2020	June 2019	June 2020	June 2019
	\$	\$	\$	\$
Indigenous Essential Services Pty Limited	-	-	10	10
	-	-	10	10

Details of the consolidated entity's subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation and operation	Equity Interest	
		June 2020	June 2019
BGP Tenure Holdings Pty Limited	Australia	50%	50%
Indigenous Essential Services Pty Limited	Australia	100%	100%

The parent entity within the consolidated entity is Power and Water Corporation. The ultimate Australian parent entity is the Northern Territory Government which at 30 June 2020 owned 100% (2019: 100%) of the issued ordinary shares of Power and Water Corporation. This share is held by the Shareholding Minister on behalf of the Northern Territory.

#### Principal activities of the subsidiaries

##### Indigenous Essential Services Pty Limited

The principal activities of Indigenous Essential Services Pty Limited as a not-for-profit entity are to provide electricity, water and sewerage services to remote Indigenous communities in the Northern Territory.

##### BGP Tenure Holdings Pty Limited

BGP Tenure Holdings Pty Limited was established in February 2008 to hold land tenure interests for the Corporation in the Bonaparte Gas Pipeline project in the Northern Territory. Its central office is based in Sydney.

#### Details of non-controlling interests in subsidiaries

The Corporation owns 50% of the shares in BGP Tenure Holdings Pty Limited with the remaining 50% held by non-controlling interests. The relevant activities of the BGP Tenure Holdings Pty Limited are determined by the Board of Directors of BGP Tenure Holdings Pty Limited. The Board of Directors of BGP Tenure Holdings Pty Limited consists of two members, of which one of the positions is held by an individual nominated by the Corporation.

BGP Tenure Holdings Pty Limited is a non-trading entity and as such did not make a profit for the year ended 30 June 2020 (2019: \$Nil).

Summarised financial information in respect of BGP Tenure Holdings Pty Limited that have non-controlling interests is set out below.

	Corporation	
	June 2020	June 2019
	\$	\$
Non-current assets	100	100
Equity	100	100
Equity attributable to the Corporation		
- Corporation	50	50
- Non-controlling interests	50	50

#### Change in the consolidated entity's ownership interest in a subsidiary

There have been no changes in the ownership interests held by the consolidated entity in any of its subsidiaries during the year ended 30 June 2020 (2019: Nil).

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

#### 11 Investment in subsidiaries (Cont'd)

##### Financial support

The financial statements for IES Pty Ltd have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. IES Pty Ltd has incurred a net loss for the year ended 30 June 2020 of \$27.8 million and a net loss of \$3.6 million for the year ended 30 June 2019. IES Pty Ltd's net working capital at 30 June 2020 was a deficit of \$8.0 million and a deficit of \$9.7 million at 30 June 2019. Current liabilities, excluding unearned revenue and lease liabilities at 30 June 2020 and 2019 include \$12.6 million and \$27.4 million of trade and other payables respectively.

Assets are fundamental to the essential services provided by IES Pty Ltd. Accordingly, IES Pty Ltd is economically dependent on the Northern Territory Government to fund its future capital expenditure as well as a significant portion of its operating expenses. IES Pty Ltd's cash balances as at 30 June 2020 decreased by \$27.2 million from \$83.5 million to \$56.3 million due to cash outflows for grants received in the prior year to construct property, plant and equipment.

The Corporation will provide financial support to IES Pty Ltd to ensure that it has sufficient funds to meet its financial obligations to pay its debts as and when they become due and payable. The Corporation has also undertaken that it will not take any action which may result in IES Pty Ltd being unable to perform those financial obligations, including the Corporation not calling upon any loans owed by IES Pty Ltd unless there are sufficient excess funds available to do so.

	Consolidated		Corporation	
	June 2020	June 2019	June 2020	June 2019
	\$'000	\$'000	\$'000	\$'000
	-	-	25,000	25,000
	-	-	25,000	25,000

#### 12 Loans to subsidiaries

Financial assets measured at amortised cost:

Non-current	-	-	25,000	25,000
	-	-	25,000	25,000

On 18 March 2019, the Corporation provided a loan of \$14.0 million to its subsidiary IES Pty Ltd taking the total loans provided since 2017-18 (\$7.5 million on 29 March 2017 and \$3.5 million on 29 June 2017) to \$25.0 million. The loans were provided to IES Pty Ltd as capital assistance towards the Arena Solar Project where IES Pty Ltd is building a solar farm to reduce the cost of electricity production in the communities it services.

The three loans provided are interest only fixed term loans for five years ending 29 March 2022, 29 June 2022 and 17 March 2024. Interest is charged on the outstanding balances at 4.55% for the two loans provided in 2016-17 and 3.88% on the loan provided during 2018-19.

The expected credit losses on the loans to subsidiaries have been assessed at nil as at 30 June 2020 on the basis that the third party funding provider has given written agreement that they will fund the current long-term cash shortfall of the subsidiary from distillate cost savings arising from the solar project.

In determining the expected credit losses for the loans to subsidiaries, the consolidated entity has taken into account the historical default experience, the financial position of the counterparties, as well as the future prospects of the industries, as appropriate, in estimating the probability of default of the loans to subsidiaries occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for the loans to subsidiaries.



## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

## 13 Finance lease receivables

	Minimum lease payments			
	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<i>Amounts receivable under finance leases:</i>				
Year 1	1,020	-	2,510	-
Year 2	1,020	-	2,510	-
Year 3	1,020	-	2,510	-
Year 4	1,020	-	2,510	-
Year 5	1,020	-	2,510	-
Onwards	3,570	-	17,718	-
Undiscounted lease payments	8,670	-	30,268	-
Less: unearned finance income	(907)	-	(4,584)	-
Present value of lease payments receivable	7,763	-	25,684	-
Impairment loss allowance	-	-	-	-
Net investment in the lease	7,763	-	25,684	-
<i>Discounted lease payments analysed as:</i>				
Recoverable within 12 months	876	-	1,850	-
Recoverable after 12 months	6,887	-	23,834	-
	7,763	-	25,684	-

During the year, the finance lease receivables increased due to the adoption of AASB 16, which changes how the consolidated entity accounts for leases previously classified as operating leases under AASB 117.

The consolidated entity has entered into finance leasing arrangements as a lessor for certain gas pipelines. The term of the lease depends on the needs of the customer. Generally, these lease contracts do not include extension or early termination options except in exceptional circumstances outside the control of the consolidated entity.

The consolidated entity is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in Australian Dollars. Residual value risk is not significant, because of the existence of insurance indemnity in place. The finance lease arrangements do not include variable payments.

Amounts included in profit or loss are disclosed in Note 3.3.

The average effective interest rate contracted approximates 10% (Corporation: 15%) per annum.

The estimated loss allowance on finance lease receivables at the end of the reporting period is an amount equal to lifetime ECL. None of the finance lease receivables at the end of the reporting period is past due, and taking into account the historical default experience and the future prospects of the industries in which the lessees operate, no finance lease receivable is considered to be impaired.

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>14 Property, plant and equipment</b>				
<b>Carrying amounts of:</b>				
Land at fair value	80,108	80,078	80,108	80,078
Buildings at fair value	24,308	25,848	24,308	25,848
Infrastructure at fair value	2,590,710	2,539,141	1,997,988	1,920,800
Plant and Equipment at fair value	24,345	18,600	23,557	17,153
Capital Work in Progress at cost	209,131	251,557	143,727	187,387
	<b>2,928,602</b>	<b>2,915,224</b>	<b>2,269,688</b>	<b>2,231,266</b>

Movement in carrying amounts	Land at fair value \$'000	Buildings at fair value \$'000	Infrastructure at fair value \$'000	Plant and Equipment at fair value \$'000	Work in Progress at cost \$'000	Total Property, Plant and Equipment \$'000
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## Year ended 30 June 2020

<b>Consolidated</b>						
Opening Balance	80,078	25,848	2,539,141	18,600	251,557	2,915,224
Transfer/Adjustments	-	-	605	(625)	-	(20)
Additions	-	-	40,533	1,108	104,578	146,219
Depreciation	-	(1,768)	(158,308)	(5,771)	-	(165,847)
Transfers from WIP	32	228	113,589	11,047	(132,878)	(7,982)
Disposals	(2)	-	(5,551)	(14)	-	(5,567)
Board approved write-offs	-	-	-	-	(14,126)	(14,126)
Revaluation	-	-	60,701	-	-	60,701
<b>Closing balance</b>	<b>80,108</b>	<b>24,308</b>	<b>2,590,710</b>	<b>24,345</b>	<b>209,131</b>	<b>2,928,602</b>

<b>Corporation</b>						
Opening Balance	80,078	25,848	1,920,800	17,153	187,387	2,231,266
Additions	-	-	40,533	1,108	61,180	102,821
Depreciation	-	(1,768)	(95,676)	(5,652)	-	(103,096)
Transfers from WIP	32	228	75,734	10,962	(94,854)	(7,898)
Disposals	(2)	-	(4,104)	(14)	-	(4,120)
Board approved write-offs	-	-	-	-	(9,986)	(9,986)
Revaluation	-	-	60,701	-	-	60,701
<b>Closing balance</b>	<b>80,108</b>	<b>24,308</b>	<b>1,997,988</b>	<b>23,557</b>	<b>143,727</b>	<b>2,269,688</b>

## Year ended 30 June 2019

<b>Consolidated</b>						
Opening Balance	82,672	23,672	2,591,245	17,819	300,666	3,016,074
Transfer/Adjustments	-	(3,441)	(853)	(416)	7,065	2,355
Additions	-	-	18,823	-	156,141	174,964
Depreciation	-	(1,354)	(151,822)	(4,448)	-	(157,624)
Transfers from WIP	287	3,623	199,442	5,648	(212,315)	(3,315)
Disposals	-	-	(6,909)	(3)	-	(6,912)
Revaluation	(2,881)	3,348	(110,785)	-	-	(110,318)
<b>Closing balance</b>	<b>80,078</b>	<b>25,848</b>	<b>2,539,141</b>	<b>18,600</b>	<b>251,557</b>	<b>2,915,224</b>

<b>Corporation</b>						
Opening Balance	82,672	20,231	1,985,404	16,024	238,357	2,342,688
Transfer/Adjustments	-	-	(3,595)	(224)	7,065	3,246
Additions	-	-	18,823	-	105,601	124,424
Depreciation	-	(1,354)	(110,510)	(4,283)	-	(116,147)
Transfers from WIP	287	3,623	150,772	5,639	(163,636)	(3,315)
Disposals	-	-	(3,276)	(3)	-	(3,279)
Revaluation	(2,881)	3,348	(116,818)	-	-	(116,351)
<b>Closing balance</b>	<b>80,078</b>	<b>25,848</b>	<b>1,920,800</b>	<b>17,153</b>	<b>187,387</b>	<b>2,231,266</b>

Note: Depreciation and Transfers from WIP do not include the amounts in relation to intangible assets. For depreciation and transfer from WIP relating to intangible assets refer to Note 16.

## Historical Cost Basis

If the consolidated entity's freehold land, buildings and infrastructure had been measured on a historical cost basis, the carrying amount would have been as follows:

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
Land	17,547	17,517	17,547	17,517
Buildings	24,308	25,848	24,308	25,848
Infrastructure	1,999,508	1,963,322	1,663,380	1,630,950
	<b>2,041,363</b>	<b>2,006,687</b>	<b>1,705,235</b>	<b>1,674,315</b>

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

#### 14 Property, plant and equipment (Cont'd)

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

Property Plant and Equipment	June 2020	June 2019
Plant and equipment	2 to 50 years	2 to 50 years
Buildings	5 to 53 years	5 to 53 years
Infrastructure	4 to 100 years	4 to 100 years

#### As at 30 June 2020

During 2019-20, the consolidated entity undertook a review of property, plant and equipment and their remaining useful lives for both the Corporation and its subsidiary, IES Pty Ltd.

For existing assets, the useful lives applied to all Infrastructure classifications were reviewed against the standard useful lives approved by each business unit in June 2020. No significant variances were identified.

#### As at 30 June 2019

During 2018-19, the consolidated entity undertook a review of property, plant and equipment and their remaining useful lives for both the Corporation and its subsidiary, IES Pty Ltd.

The review identified a number of assets that require a life adjustment in order to align with the replacement lifecycle of the asset and the consolidated entity's future capital replacement program. The main indicator of the asset life adjustments required was an assessment undertaken to establish updated standard useful lives per asset category. These re-life adjustments have the effect of reducing the Corporation's depreciation expense by \$3.6 million and the consolidated entity's depreciation expense by \$17.9 million.

Property, Plant and Equipment	June 2020	June 2019
Plant and equipment	8 to 40 years	8 to 40 years
Buildings	1 to 40 years	1 to 40 years
Infrastructure	8 to 40 years	8 to 40 years
Finance leases	12 to 40 years	12 to 40 years

#### Fair value measurement of property, plant and equipment (excluding right-of-use assets and capital works in progress)

The following valuation techniques are used for the Corporation <sup>(1)</sup>:

Asset class	Valuation policy	
Land and buildings	Specialised land	Market approach
	Non-specialised land	Market approach
	Office buildings	Market approach
Infrastructure systems	Water and sewerage	Income approach
	Electricity generation	Income approach
	Electricity distribution and transmission	Income approach
	Gas supply <sup>(2)</sup>	Income approach
Plant and equipment <sup>(3)</sup>	Non-specialised plant and equipment	Historical cost

(1) Excludes the assets of IES Pty Ltd in which assets are measured using the Current Replacement Cost approach for infrastructure systems assets.

(2) Gas supply assets are comprised of the McArthur River Gas Pipeline and the Palm Valley Interconnect Pipeline.

(3) Non-specialised assets such as minor items of office equipment are held at historic cost.

The fair value of the freehold land and buildings was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

The fair value of infrastructure system assets was determined using the Income approach. This reflects the cost a market participant would be willing to pay if buying an asset. The Income approach converts future amounts (e.g., Cashflows or income and expenses) to a single current (ie. discounted) amount. When the Income approach is used, the fair value measurement reflects current market expectations about those future amounts. The significant factors include the transportation factor, foreign exchange rates, CPI Index, Reserve Bank cash rates and the construction cost factor.

The fair value of non-specialised plant and equipment were determined using historical cost as these are minor asset items such as operating and office equipment.

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

#### 14 Property, plant and equipment (Cont'd)

##### Revaluation of property, plant and equipment

#### As at 30 June 2020

Following AASB 13 Fair Value, the consolidated entity values infrastructure assets using the income approach method. Under this model, there is a requirement to review the carrying value of these assets each year. The review resulted in an increase in the consolidated entity's infrastructure assets of \$60.7 million. This is largely a result of the effect of the 2019-20 weighted average cost of capital (WACC), which has decreased from 6.25% to 5.75% due to lower growth and inflation assumptions, offset by 0.25% incremental risk premium to reflect market uncertainty in respect of the coronavirus pandemic. The increase is also a result of transformation initiatives flowing through to profitability, updated capital expenditure assumptions and operational cashflow expectations over the medium to longer term.

#### As at 30 June 2019

During 2018-19, the consolidated entity performed valuation exercises on its property, plant and equipment across both the Corporation and IES Pty Ltd resulting in net assets being written down by \$110.3 million, of which \$110.2 million was recognised in Other Comprehensive Income offset by \$220.5 million recognised in impairment expense through profit or loss.

The Corporation's assets are stated at the revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation losses. The fair value measurement of the Corporation's infrastructure assets as at 30 June 2019 ("Valuation Date") was performed by the Corporation with an independent consulting firm engaged to assess the valuation model, approach and methodology used and derive the fair value. This has resulted in the Corporation's net assets decreasing by \$116.3 million, of which \$17.1 million was recognised in Other Comprehensive Income and \$133.4 million recognised in profit or loss.

In relation to IES Pty Ltd, the reassessment of the remaining useful lives of IES Pty Ltd's property plant and equipment was performed as part of the valuation exercise undertaken by IES Pty Ltd in conjunction with an independent valuer, GHD. As part of this assessment, the valuers undertook a full review of standard useful lives for each asset category, as well as estimating revised remaining useful lives for some assets. The impact of adjusting the asset lives was an increase in the value of property, plant and equipment in the current period of \$69.5 million. In addition, from 2011, the NT Government commenced placing select government infrastructure at various aboriginal communities under lease agreement. The consolidated entity previously recognised only a 12-year life on some of these long life assets, reflecting their finance lease contract period of 12 years. Management was informed in the current period that the intent and practice of Government is to extend these short-term leases to 40 years upon survey of the land and Cabinet has approved the terms of these agreements. As such, management has revised the relevant assets' useful life to align to the lower of their economic life or the finance lease contract term of 40 years. This change in estimated life has resulted in an increase in the value of property, plant and equipment in the current period of \$61.1 million reflected in the asset revaluation reserve through Other Comprehensive Income and through an increase in lease liabilities.

In relation to IES Pty Ltd, independent valuers, GHD, were engaged to undertake a valuation of the infrastructure assets. The asset valuation was based on the service capability and in-service age of the assets as at the nominated date for the valuation i.e. assets under construction at 30 June 2019 were not included in the valuation. The valuation has resulted in an increase in the value of property, plant and equipment of \$6.0 million, of which \$93.1 million was recognised in Other Comprehensive Income offset by \$87.1 million recognised in impairment expense through profit or loss.

There have been no changes to the valuation techniques during the year ended 30 June 2020.

Details of the consolidated entity's land, buildings, infrastructure and plant and equipment and information about their fair value hierarchy as at the end of the reporting are as follows:

Consolidated entity	Level 2 \$'000	Level 3 \$'000	Fair value \$'000
<b>Fair value as at 30 June 2020</b>			
Freehold land	80,108	-	80,108
Buildings	-	24,308	24,308
Infrastructure	-	2,590,710	2,590,710
Plant and equipment	-	24,345	24,345
Work in progress	-	209,131	209,131
<b>Total</b>	<b>80,108</b>	<b>2,848,494</b>	<b>2,928,602</b>
<b>Fair value as at 30 June 2019</b>			
Freehold land	80,078	-	80,078
Buildings	-	25,848	25,848
Infrastructure	-	2,539,141	2,539,141
Plant and equipment	-	18,600	18,600
Work in progress	-	251,557	251,557
<b>Total</b>	<b>80,078</b>	<b>2,835,146</b>	<b>2,915,224</b>

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

## 14 Property, plant and equipment (Cont'd)

Corporation	Level 2 \$'000	Level 3 \$'000	Fair value \$'000
<b>Fair value as at 30 June 2020</b>			
Freehold land	80,108	-	80,108
Buildings	-	24,308	24,308
Infrastructure	-	1,997,988	1,997,988
Plant and equipment	-	23,557	23,557
Work in progress	-	143,727	143,727
<b>Total</b>	<b>80,108</b>	<b>2,189,580</b>	<b>2,269,688</b>
<b>Fair value as at 30 June 2019</b>			
Freehold land	80,078	-	80,078
Buildings	-	25,848	25,848
Infrastructure	-	1,920,800	1,920,800
Plant and equipment	-	17,153	17,153
Work in progress	-	187,387	187,387
<b>Total</b>	<b>80,078</b>	<b>2,151,188</b>	<b>2,231,266</b>

There were no transfers of assets between Level 1 and Level 2 during the year.

Level 2 inputs are inputs other than quoted market prices that are observable for the asset or liability either directly or indirectly. Valuation techniques are described above.

Level 3 inputs are unobservable inputs for the asset or liability. Valuation techniques are described above.

Core operational assets of Power Networks and Water and Sewerage business units are valued using the income approach. Consistent with the accounting standards, the income approach has a 'purchaser of the business' perspective and is based on the net present value of the forecasted cash flows of these businesses applying anticipated market conditions. Significant unobservable inputs in the model and sensitivity analysis are outlined below.

	Valuation Techniques	Significant unobservable inputs	Sensitivity
Power Networks - Infrastructure Assets	Income Approach	Weighted average cost of capital (WACC) rate, taking into account the long term view of the market cost of capital, of 5.75% (2019: 6.25%) supportable by key assumptions in the beta range being based on analysis of observed 5-year monthly asset betas of listed companies and gearing range being based on industry research of 5-year average debt to enterprise value ratio of the guideline listed companies.	A significant decrease in the WACC or discount rate while holding other variables constant would significantly increase the carrying amount of the infrastructure assets, and vice versa.
		Regulated Asset Base (RAB) Multiple to the terminal value assumption of 1.0 (2019: 1.0), taking into account the latest RAB multiples implied by publicly traded infrastructure assets and recent transactions.	A slight increase in the RAB multiple while holding other variables constant would significantly increase the carrying value of the infrastructure assets, and vice versa.
Water Services - Infrastructure assets	Income Approach	WACC rate, taking into account the long term view of the market cost of capital, of 5.75% (2019: 6.25%) supportable by key assumptions in the beta range being based on analysis of observed 5-year monthly asset betas of listed companies and gearing range being based on industry research of 5-year average debt to enterprise value ratio of the guideline listed companies.	A significant decrease in the WACC or discount rate while holding other variables constant would significantly increase the carrying amount of the infrastructure assets, and vice versa.
		Gordon Growth Method to the terminal value assumption of 2.04% perpetuity growth rate, supportable for long-life, critical infrastructure assets not subject to regulatory limitations on rates of return.	A slight increase in the growth rate while holding other variables constant would significantly increase the carrying value of the infrastructure assets, and vice versa.

**Impairment losses recognised in the year**

There were no triggering events to require further analysis for an impairment write-down of property, plant and equipment for year ended 30 June 2020.

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>15 Right-of-use assets</b>				
<b>Carrying amounts of:</b>				
Land	17,034	15,995	239	232
Buildings	12,989	-	12,989	-
Motor vehicles	3,914	-	3,914	-
Gas transport pipelines	360,034	-	342,360	-
Solar power	9,079	-	3,007	-
	<b>403,050</b>	<b>15,995</b>	<b>362,509</b>	<b>232</b>

Movement in carrying amounts	Land \$'000	Buildings \$'000	Motor vehicles \$'000	Gas transport pipelines \$'000	Solar power \$'000	Right-of-use assets \$'000
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**Year ended 30 June 2020**

<b>Consolidated</b>						
Opening Balance	15,995	-	-	-	-	15,995
Additions	(111)	16,908	6,246	384,649	9,807	417,499
Depreciation	1,150	(3,919)	(2,332)	(24,615)	(728)	(30,444)
<b>Closing balance</b>	<b>17,034</b>	<b>12,989</b>	<b>3,914</b>	<b>360,034</b>	<b>9,079</b>	<b>403,050</b>

**Corporation**

Opening Balance	232	-	-	-	-	232
Additions	10	16,908	6,246	365,755	3,248	392,167
Depreciation	(3)	(3,919)	(2,332)	(23,395)	(241)	(29,890)
<b>Closing balance</b>	<b>239</b>	<b>12,989</b>	<b>3,914</b>	<b>342,360</b>	<b>3,007</b>	<b>362,509</b>

**Year ended 30 June 2019**

<b>Consolidated</b>						
Opening Balance	10,273	-	-	-	-	10,273
Additions	6,681	-	-	-	-	6,681
Depreciation	(959)	-	-	-	-	(959)
<b>Closing balance</b>	<b>15,995</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,995</b>

**Corporation**

Opening Balance	239	-	-	-	-	239
Depreciation	(7)	-	-	-	-	(7)
<b>Closing balance</b>	<b>232</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>232</b>

The consolidated entity leases assets including land, buildings, motor vehicles, gas transport pipelines and the output of three solar power plants. The most common lease term is 40 years for land assets, 6 years for motor vehicles and 20 years for other assets.

The consolidated entity does not have the options to purchase any of these assets at the end of the lease term. The consolidated entity's obligations are secured by the lessors' title to the leased assets for such leases.

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

16 Intangible assets	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>Current</b>				
<i>Renewable energy certificates</i>				
At cost	793	928	765	850
<b>Total current - written down value</b>	<b>793</b>	<b>928</b>	<b>765</b>	<b>850</b>
<b>Non-current</b>				
<i>Make up gas</i>				
At cost	85,348	117,403	85,348	117,403
Accumulated impairment	(11,963)	(107,349)	(11,963)	(107,349)
Written down value	<b>73,385</b>	<b>10,054</b>	<b>73,385</b>	<b>10,054</b>
<i>Other intangible assets</i>				
At cost	99,140	91,526	98,056	90,546
Accumulated amortisation	(90,972)	(86,953)	(90,106)	(86,134)
Written down value	<b>8,168</b>	<b>4,573</b>	<b>7,950</b>	<b>4,412</b>
<b>Total non-current - written down value</b>	<b>81,553</b>	<b>14,627</b>	<b>81,335</b>	<b>14,466</b>
<b>Total</b>				
At cost	185,281	209,857	184,169	208,799
Accumulated amortisation	(90,972)	(86,953)	(90,106)	(86,134)
Accumulated impairment	(11,963)	(107,349)	(11,963)	(107,349)
<b>Written down value</b>	<b>82,346</b>	<b>15,555</b>	<b>82,100</b>	<b>15,316</b>
<b>Movement in carrying amounts</b>				
<i>Renewable energy certificates</i>				
Opening balance	928	1,515	850	1,457
Additions	450	20	-	-
Disposals	(537)	(607)	(73)	(607)
Movement in carrying amounts	(48)	-	(12)	-
<b>Closing balance</b>	<b>793</b>	<b>928</b>	<b>765</b>	<b>850</b>
<i>Make up gas</i>				
Opening balance	10,054	7,650	10,054	7,650
Additions	3,418	20,091	3,418	20,091
Disposals	(35,473)	-	(35,473)	-
Impairment	95,386	(17,687)	95,386	(17,687)
<b>Closing balance</b>	<b>73,385</b>	<b>10,054</b>	<b>73,385</b>	<b>10,054</b>
<i>Other intangible assets</i>				
Opening balance	4,573	4,238	4,412	4,238
Transfer/Adjustments	19	893	-	-
Amortisation	(4,019)	(3,873)	(3,972)	(3,141)
Transfer from WIP	7,595	3,315	7,510	3,315
<b>Closing balance</b>	<b>8,168</b>	<b>4,573</b>	<b>7,950</b>	<b>4,412</b>
<b>Total</b>				
Opening balance	15,555	13,403	15,316	13,345
Transfer/Adjustments	19	893	-	-
Additions	3,868	20,111	3,418	20,091
Amortisation	(4,019)	(3,873)	(3,972)	(3,141)
Transfer from WIP	7,595	3,315	7,510	3,315
Disposals	(36,010)	(607)	(35,546)	(607)
Impairment	95,386	(17,687)	95,386	(17,687)
Movement in carrying amounts	(48)	-	(12)	-
<b>Closing balance</b>	<b>82,346</b>	<b>15,555</b>	<b>82,100</b>	<b>15,316</b>

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

16 Intangible Assets (Cont'd)	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>Current</b>				
Renewable energy certificates	793	928	765	850
<b>Non-current</b>				
Other intangible assets	8,168	4,573	7,950	4,412
Make up gas	73,385	10,054	73,385	10,054
<b>Total</b>	<b>82,346</b>	<b>15,555</b>	<b>82,100</b>	<b>15,316</b>

**Impairment losses reversed and recognised during the year**

The current gas contracts relating to the sale and purchase of gas result in the Corporation having to pay for gas that will only be delivered in future financial years. These payments are classified as intangible assets and disclosed under 'Make up Gas'. Historically the net present value of the cash flows of the Gas Supply Unit under AASB 136 'Impairment of Assets' framework have not supported the continued recognition of this asset. However, as at 30 June 2020 a number of factors existed to positively influence the gas business over the life of the gas purchase contracts, resulting in a positive value of the portfolio. Therefore the Corporation has recognised the fair value of "Make up gas" to the value of \$73.4 million as at 30 June 2020, determined by reference to contracted sales less costs of disposal. There remains accumulated impairment totalling \$12.0 million recognised against the cost of the intangible asset, on the basis that the net realisable value is the lower amount.

**17 Trade and other payables**

Service creditors	20,017	25,881	14,813	18,947
Other creditors and accruals	40,748	39,822	37,627	31,190
<b>Total</b>	<b>60,765</b>	<b>65,703</b>	<b>52,440</b>	<b>50,137</b>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is less than 30 days. For most suppliers no interest is charged on the trade payables for the first days from the date of the invoice. Thereafter, interest may be charged on the outstanding balances at the Northern Territory Government bank rate. The consolidated entity has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The consolidated entity considers that the carrying amount of trade payables approximates their fair value.

**18 Unearned revenue**

Capital contributions - government (i)	42,493	41,634	42,493	41,634
Capital contributions - non-government (i)	3,600	3,169	3,600	3,169
<i>Contract liabilities arising from contracts with customers</i>				
Banked gas arising from sales to third parties (ii)	15,161	12,157	15,161	12,157
Customer payments received in advance for water, electricity and sewerage services (iii)	5,495	9,472	5,495	9,472
Recoverable works (iv)	25	328	25	328
Other	1,605	1,808	1,605	1,808
<b>Total</b>	<b>68,379</b>	<b>68,568</b>	<b>68,379</b>	<b>68,568</b>

## Provided for in the financial statements as:

Current	53,218	56,411	53,218	56,411
Non-current	15,161	12,157	15,161	12,157
<b>Total</b>	<b>68,379</b>	<b>68,568</b>	<b>68,379</b>	<b>68,568</b>

(i) Capital contributions are contributions provided by customers towards the construction of new or upgrades to existing infrastructure assets for the purpose of being connected to the network system. The consolidated entity retains control and ownership of these assets. Capital contributions are billed and paid for upfront prior to any work commencing and are recognised as a contract liability until construction of the asset is completed and the customer is connected to the network system, at which time the capital contribution is transferred from contract liabilities to revenue.

(ii) A contract liability arises in respect of take-or-pay contracts with customers for the sale of gas with the amount recognised as a contract liability representing the volume of gas paid for but not taken.

(iii) For sales of electricity and water (and in some instances sewerage services) revenue is recognised when control of the goods and/or services passes to the customer. Payments received in advance are recognised as a contract liability until the goods and/or services have been transferred to the customer.

(iv) Contract liabilities relating to recoverable works are balances due to customers under construction contracts. As with capital contributions customers are billed in advance with payment expected prior to any construction work commencing and is recognised as a contract liability until the consolidated entity achieves particular milestones.

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>19 Interest bearing borrowings</b>				
<i>Unsecured borrowings at amortised cost</i>				
Government loans - current	284,000	242,000	284,000	242,000
	<b>284,000</b>	<b>242,000</b>	<b>284,000</b>	<b>242,000</b>
Government loans - non-current	878,000	1,000,000	878,000	1,000,000
	<b>878,000</b>	<b>1,000,000</b>	<b>878,000</b>	<b>1,000,000</b>
	<b>1,162,000</b>	<b>1,242,000</b>	<b>1,162,000</b>	<b>1,242,000</b>

The consolidated entity has 19 unsecured government loans. All loans were provided by its parent entity, the Northern Territory Government with loan terms of 5 years or less. The consolidated entity obtained three of these loans in the current year totalling \$162.0 million. During the current year the consolidated entity repaid in full two loans with an outstanding balance of \$242.0 million.

The portion recognised as current liabilities represents borrowings payable within one year, being \$284.0 million (2019: \$242.0 million). The non-current balance of interest-bearing liabilities represents the portion of the consolidated entity's borrowings not due within one year. The weighted average effective interest rate on the loans is 4.2% (2019: 4.4%).

**20 Leases**

Refer to note 3.3 for details of the income from sub-leasing, note 4.6 for details of the interest expense on lease liabilities, note 13 for details of the lease receivable and note 15 for details of the associated right-of-use assets.

The consolidated entity leases assets including land, buildings, motor vehicles, gas transport pipelines and the output of three solar power plants. The most common lease term is 40 years for land assets, 6 years for motor vehicles and 20 years for other assets.

The present value discount factor used for the minimum lease payments is between 2.71% and 5.07%. Leases added in 2020 have been calculated using a present value discount factor derived from a reference rate, being the ninety day bank bill swap bid rate (BBSY), and then applying a credit risk margin above that reference rate.

	Consolidated			
	Minimum Lease Payments		Present Value of the minimum lease payments	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
Not later than one year	39,778	1,338	28,680	1,081
1 to 5 years	141,643	4,553	104,481	3,319
Later than 5 years	331,681	24,943	284,874	10,500
	513,102	30,834	418,035	14,900
less: future finance charges	(95,067)	(15,934)	-	-
<b>Total present value of minimum lease payments</b>	<b>418,035</b>	<b>14,900</b>	<b>418,035</b>	<b>14,900</b>

	Corporation			
	Minimum Lease Payments		Present Value of the minimum lease payments	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
Not later than one year	37,795	15	27,685	11
1 to 5 years	134,403	60	100,840	39
Later than 5 years	299,734	432	264,776	137
	471,932	507	393,301	187
less: future finance charges	(78,631)	(320)	-	-
<b>Total present value of minimum lease payments</b>	<b>393,301</b>	<b>187</b>	<b>393,301</b>	<b>187</b>

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
Provided for in the financial statements as:				
Current	28,680	1,081	27,685	11
Non-current	389,355	13,819	365,616	176
	<b>418,035</b>	<b>14,900</b>	<b>393,301</b>	<b>187</b>

**Total cash outflows for leases**

	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
Principal repayments on leases	22,127	1,010	24,736	12
Interest income on leases	(218)	-	(710)	-
Interest repayments on leases	16,407	319	10,902	5
	<b>38,316</b>	<b>1,329</b>	<b>34,928</b>	<b>17</b>

Future cash outflows to which the consolidated entity is potentially exposed may arise from variable lease payments that are linked to a consumer price index (CPI). Should CPI increase by 1.4%, lease payments would increase by \$6.8 million. This potential cash outflow is not reflected in the measurement of lease liabilities.

**Fair value**

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

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>21 Provisions</b>				
<b>Current</b>				
Employee benefits (i)	39,197	37,077	39,197	37,077
Other provisions:				
Employee related provisions	702	662	702	662
Renewable Energy Certificates	10	8	10	8
Onerous contracts	-	66,672	-	66,672
	<b>39,909</b>	<b>104,419</b>	<b>39,909</b>	<b>104,419</b>
<b>Non-current</b>				
Employee benefits	6,920	7,041	6,920	7,041
	<b>6,920</b>	<b>7,041</b>	<b>6,920</b>	<b>7,041</b>

(i) The provision for employee benefits represents annual leave and long service leave entitlements accrued and compensation claims made by employees (if any).

**Other provisions**

	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<i>Employee related provisions</i>				
Carrying amount at beginning of year	662	505	662	505
Provisions made during the year	9,111	9,832	9,111	9,832
Payments made during the year	(9,071)	(9,675)	(9,071)	(9,675)
Carrying amount at end of year	<b>702</b>	<b>662</b>	<b>702</b>	<b>662</b>

The employee related provisions represents accrued fringe benefits tax and payroll taxes.

*Renewable Energy Certificates*

	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
Carrying amount at beginning of year	8	39	8	39
Provisions made during the year	3	5	3	5
Surrenders made during the year	(1)	(36)	(1)	(36)
Carrying amount at end of year	<b>10</b>	<b>8</b>	<b>10</b>	<b>8</b>

The provision for Renewable Energy Certificates represents the consolidated entity's obligation to meet the Clean Energy Renewable (CER) targets by surrendering renewable energy certificates equivalent to the calculated liability on the consumption sold to customers.

*Onerous contracts*

	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
Carrying amount at beginning of year	66,672	61,604	66,672	61,604
Provisions made during the year	(66,672)	5,068	(66,672)	5,068
Carrying amount at end of year	<b>-</b>	<b>66,672</b>	<b>-</b>	<b>66,672</b>

The provision for onerous contract represents the present value of the future outlays that the consolidated entity is presently obligated to make under non-cancellable onerous contracts, less revenue expected to be earned on those contracts. The estimate may vary as a result of any new sales agreements the consolidated entity enters into and the volatility in the market price of gas.

The consolidated entity has in place long term contracts to procure gas and gas transport arrangements. The fixed price nature of the long term gas contracts, the volatility in the market price of gas, the pricing and volume risk from as yet unsecured contracts, increasing competition in the gas supply market and more recently the potential impact from the displacement of gas by renewables over time are risks to the consolidated entity's ability to sell the gas at a price higher than the cost of gas and transport.

Converting spot sales to long term gas contracts is a key component of moving the gas portfolio from an onerous position to that of a positive value. In the current financial year, the Corporation has experienced continued interest for potential gas sales both in the NT and east coast markets as commodity prices have remained relatively stable. The Corporation is also in the final stages of agreeing new short and long term gas sales agreements with customers at a time when gas spot prices are below historical averages. Based on the aforementioned, the Corporation expects to continue to "convert" spot sales into firm sales to add further certainty on quantities.

As at 30 June 2020 a number of factors, including those named above, changed to positively influence the gas business over the life of the gas purchase contracts; these influences have resulted in a positive value of the portfolio, resulting in "Make up gas" value of \$73.4 million as shown in note 16 intangible assets.

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000
<b>22 Government grants</b>				
The Corporation's subsidiary, IES Pty Ltd receives both operational and capital grant funding, with the majority received from the Northern Territory's former Department of Local Government, Housing and Community Development as follows:				
(a) Operational grants - for the provision of power, water and sewerage services to remote Indigenous communities				
(b) Capital grants - for the development of power, water and sewerage infrastructure in remote Indigenous communities.				
The following represents grant amounts received and deferred until the revenue recognition criteria is met.				
Operational grants	13,810	9,506	-	-
Capital grants	369,744	380,481	-	-
	<b>383,554</b>	<b>389,987</b>	-	-
Provided for in the financial statements as:				
Current	59,082	54,778	-	-
Non-current	324,472	335,209	-	-
	<b>383,554</b>	<b>389,987</b>	-	-
<b>23 Contributed equity</b>				
Share capital				
1 Share (2019: 1 Share)	-	-	-	-
Equity contribution	60,000	50,000	60,000	50,000
Debt to equity swap	322,582	322,582	322,582	322,582
Transfer of assets and liabilities to new entities	(328,246)	(328,246)	(328,246)	(328,246)
Total contributed equity	<b>54,336</b>	<b>44,336</b>	<b>54,336</b>	<b>44,336</b>
Contributed equity at beginning of year	44,336	34,336	44,336	34,336
Equity contributions from the Northern Territory Government	10,000	10,000	10,000	10,000
Total contributed equity	<b>54,336</b>	<b>44,336</b>	<b>54,336</b>	<b>44,336</b>
The <i>Government Owned Corporations Act 2001</i> 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 Government. The Corporation's constitution specifies the share capital to be one share. No value is assigned to this share.				
<b>24 Retained earnings</b>				
Retained earnings at beginning of year	278,458	486,099	516,376	614,124
Effect of adoption of new accounting standards	-	(4,155)	-	(4,155)
Net (loss)/profit for the year	108,035	(199,797)	144,666	(86,317)
Retirements moved from asset revaluation reserve	4,384	5,311	1,616	1,724
Dividends provided for or paid	(9,640)	(9,000)	(9,640)	(9,000)
Retained earnings at end of the year	<b>381,237</b>	<b>278,458</b>	<b>653,018</b>	<b>516,376</b>
<b>25 Asset revaluation reserve</b>				
Balance at beginning of year	1,039,831	940,104	468,812	458,594
(Decrease)/increase in asset valuation	3,617	110,156	3,617	17,060
Less deferred tax effect recognised in deferred tax liabilities	(1,085)	(5,118)	(1,085)	(5,118)
Revaluation surplus	2,532	105,038	2,532	11,942
Retirements transferred to retained earnings	(4,384)	(5,311)	(1,616)	(1,724)
Asset revaluation reserve at end of the year	<b>1,037,979</b>	<b>1,039,831</b>	<b>469,728</b>	<b>468,812</b>

The asset revaluation reserve arises on the revaluation of property, plant and equipment (assets). When revalued assets are sold, the portion of the asset's revaluation reserve that relates to those assets is transferred directly to retained earnings.

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020**26 Risk management objectives****(a) Financial risk management objectives**

The consolidated entity's principal financial instruments are government loans 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. It is the consolidated entity's policy not to trade in financial instruments. The Board of Directors reviews and agrees policies for managing the consolidated entity's financial risks and these 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 instruments are disclosed in note 2 to the financial statements.

The consolidated entity's overall strategy remains unchanged from 2019.

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

Market risk	The risk that changes in the market will adversely impact the operations and returns of the Corporation and the consolidated entity.
Interest rate risk	The risk that financing costs will increase and impact prices to customers and returns to the shareholder.
Credit risk	The risk of financial loss if a counterparty to a transaction does not fulfil its financial obligations.
Liquidity risk	The risk of insufficient funds to fulfil the cash flow obligations on a timely basis.
Foreign currency risk	The risk that contract prices will move as a result of adverse movements in foreign exchange rates.
Commodity price risk	The risk that contract prices will move as a result of adverse movements in the market.
Capital risk management	The risk of the consolidated entity structuring its balance sheet inefficiently resulting in suboptimal returns to shareholders.
Operational risk	The inherent risk resulting from internal processes and systems or from external events.

**(b) Market risk**

The Corporation was established under the *Power and Water Corporation Act 2002* and is a Northern Territory Government Owned Corporation under the *Government Owned Corporations Act 2001 (GOC Act)*.

In accordance with the GOC Act the Corporation's objectives are to:

- Operate at least as efficiently as a comparable business; and
- To maximise the sustainable return to the Northern Territory Government on its investment in the consolidated entity.

The Corporation and the consolidated entity provides safe and reliable power, water and sewerage services to the people of the Northern Territory and meets its mandated environmental obligations.

There has been no change during the current financial year to the consolidated entity's exposure to market risks or the manner in which these risks are managed and measured.

**(c) Interest rate risk management**

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 resets over the life of the loans.

The consolidated entity's policy is to manage its interest cost using fixed rate debt. The following table shows the consolidated entity's debt and interest obligations to the Northern Territory Government and the impact of a change in interest rates:

Loan term	Consolidated			Corporation		
	Fixed and Variable Rate Loans	Average Interest Rate	Increase in annual interest expense if interest rates rise by 1%	Fixed and Variable Rate Loans	Average Interest Rate	Increase in annual interest expense if interest rates rise by 1%
	\$'000	%	\$'000	\$'000	%	\$'000
<b>2020</b>						
<1 to 2 years	493,000	4.96%	740	493,000	4.38%	740
2 to 5 years	669,000	4.02%	333	669,000	4.02%	333
	<b>1,162,000</b>		<b>1,073</b>	<b>1,162,000</b>		<b>1,073</b>
<b>2019</b>						
<1 to 2 years	526,000	4.38%	876	526,000	4.38%	876
2 to 5 years	716,000	4.35%	503	716,000	4.35%	503
	<b>1,242,000</b>		<b>1,379</b>	<b>1,242,000</b>		<b>1,379</b>

**(d) Credit risk management**

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk on receivables of the consolidated entity that has been recognised in the statement of financial position is the carrying amount net of any allowance 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.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the consolidated entity's maximum exposure to credit risk.

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

#### 26 Risk management objectives (Cont'd)

##### (e) Liquidity risk management

The consolidated entity's objective is to maintain a balance between continuity of funding and flexibility through the use of government loans and finance leases. Each year the consolidated entity prepares an SCI which is tabled with the shareholding Minister for approval. The SCI is a detailed four year projection of the consolidated entity's financial position. The current year actual results are reported against the SCI budget. The consolidated entity seeks approval from the shareholding Minister for funding requirements for the forthcoming year on an annual basis based on the SCI. If the consolidated entity is unable to meet SCI targets it is able to apply to the Northern Territory Government for additional loan funding.

##### (f) Foreign currency risk management

The consolidated entity has transactional currency exposures. Such exposure arises from purchases in currencies other than the functional currency. The consolidated entity is exposed to foreign currency risk in the normal course of its operations through its procurement contracts. Large contracts are reviewed to determine if any mitigation strategies should be applied to reduce this risk. Material exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and a foreign currency bank account. The carrying amount of the consolidated entity's foreign currency denominated monetary liabilities at the reporting date was \$nil (2019: \$nil).

##### (g) Commodity price risk

The consolidated entity is exposed to changes in the price of gas that is sold to customers, however this has been mitigated through the negotiation and signing of a long-term fixed price gas purchase agreement that limits the exposure of the consolidated entity to CPI price increases in gas until the agreement expires in 2034. In the gas sales modelling assumptions, any excess gas that is not supplied under long term contracts is assumed to be sold at spot market prices. Sensitivity analysis to this are shown in note 26(j).

The current gas market in Australia has seen reduced spot prices recently due to the effects of COVID19, however contracts for long term gas agreements have not been materially impacted. According to AEMO Wallumbilla spot price history, spot market prices in Wallumbilla are showing signs of recovery with average prices increasing from recent lows.

The price for long term gas agreements in the Australian East Coast market continues to stay in the \$8 to \$10+/GJ range. This is supported by reports from the ACCC and AEMO which also continue to forecast significant shortages in the East Coast market from 2024 onwards which is likely to exacerbate the pricing situation.

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

##### (h) Capital risk management

The consolidated entity's and the Corporation's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure in line with Shareholding Minister expectations.

The capital structure of the consolidated entity consists of debt, which includes borrowings disclosed in Note 19, cash and cash equivalents and equity attributable to the equity holder of the Corporation, comprising issued capital and retained earnings as disclosed in Notes 23 and 24 respectively. In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to the shareholder, return capital to the shareholder or sell assets to reduce debt.

Operating cash flows are used to maintain and expand the consolidated entity's assets, as well as to make routine outflows of tax, dividends and servicing of debt. The consolidated entity's policy is to borrow centrally using facilities provided by Northern Territory Treasury Corporation to meet anticipated funding requirements. The consolidated entity is not subject to any externally imposed capital requirements.

The consolidated entity's overall strategy remains unchanged from prior years.

##### (i) Operational risk

Operational risk refers to the extent that process, system, compliance or fraud matters could impact the financial risk profile. This includes the integrity of information used to make decisions, maintain assets, protect staff and provide business continuity. The Corporation manages operational risk through deployment of a Risk Management system, a rigorous Internal Audit programme based on risk and controls and continuous development and improvement in its guidelines, standards, methodologies and systems.

##### (j) Gas contracts sensitivity analysis

The consolidated entity has in place long term contracts to procure gas and gas transport arrangements. The procurement contracts have provisions that require payment in full for gas up to a prescribed volume, and any gas that is procured but not consumed can be utilised, at no charge, in the future after the annual consumption of other prescribed volumes. The value of this "make-up gas", is included in intangible assets, and is calculated as the lower of cost or net realisable value.

The Directors consider these risks as part of their ongoing monitoring of the gas sales strategy and having considered both the risks and opportunities that they consider as more probable than not and which can therefore be quantified and assessed for materiality.

The sources of estimation uncertainty in the contracts have a significant risk of resulting in a material adjustment to the value of this asset and include the underlying assumption that all gas purchased is on sold, the outcome of current contract negotiations with customers, renewables penetration, the east coast gas market outlook, the forward spot gas price outlook and the outlook for other key economic factors such as CPI and the wages index.

The Directors will continue to monitor the gas sales strategy and associated financial outlook having regard to sources of estimation uncertainty discussed above and note that the quantum of the provision is sensitive to price assumptions and volume consumption assumptions of the gas customers.

#### Sensitivity analysis

% movement	NPV change as a result of:		% movement	CPI and Average weekly earnings	
	Wallumbilla hub average price increase	decrease		increase	decrease
5%	\$14.7m	(\$14.7m)	0.25%	(\$5.7m)	\$5.7m
10%	\$29.4m	(\$29.4m)	0.50%	(\$9.7m)	\$9.7m
20%	\$58.9m	(\$58.9m)	1.00%	(\$17.8m)	\$17.8m

### Power and Water Corporation

#### Notes to the financial statements for the year ended 30 June 2020

#### 27 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 \$1,196.6 million (2019: \$1,275.5 million).

	Level 2	Fair value as at 30 June 2020	Level 2	Fair value as at 30 June 2019
Consolidated entity	\$'000	\$'000	\$'000	\$'000
<b>Financial Liabilities</b>				
Borrowings	1,197	1,197	1,276	1,276

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

##### Liquidity risk management

The following table sets out the carrying amount, by maturity, of the financial instruments for the consolidated entity:

	Weighted average interest rate %	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Fixed and floating interest maturing in:			Total \$'000
					1 year or less \$'000	1 to 5 years \$'000	more than 5 years \$'000	
<b>Consolidated</b>								
<b>2020</b>								
<b>Financial Assets</b>								
Cash assets	0.64%	123,572	-	-	123,572	-	-	123,572
Receivables	-	-	-	114,033	97,921	16,112	-	114,033
Investments	-	-	-	3	-	-	3	3
		<b>123,572</b>	<b>-</b>	<b>114,036</b>	<b>221,493</b>	<b>16,112</b>	<b>3</b>	<b>237,608</b>
<b>Financial Liabilities</b>								
Payables	-	-	-	60,765	60,765	-	-	60,765
Government loans	4.18%	-	1,210,553	-	295,867	914,686	-	1,210,553
Lease liability	2.79%	-	429,712	-	29,480	107,400	292,832	429,712
		<b>-</b>	<b>1,640,265</b>	<b>60,765</b>	<b>386,112</b>	<b>1,022,086</b>	<b>292,832</b>	<b>1,701,030</b>
<b>2019</b>								
<b>Financial Assets</b>								
Cash assets	1.47%	177,610	-	-	177,610	-	-	177,610
Receivables	-	-	-	119,066	102,954	16,112	-	119,066
Investments	-	-	-	3	-	-	3	3
		<b>177,610</b>	<b>-</b>	<b>119,069</b>	<b>280,564</b>	<b>16,112</b>	<b>3</b>	<b>296,679</b>
<b>Financial Liabilities</b>								
Payables	-	-	-	65,703	65,703	-	-	65,703
Government loans	4.39%	-	1,296,493	-	252,618	1,043,875	-	1,296,493
Lease liability	4.12%	-	15,514	-	1,125	3,456	10,933	15,514
		<b>-</b>	<b>1,312,007</b>	<b>65,703</b>	<b>319,446</b>	<b>1,047,331</b>	<b>10,933</b>	<b>1,377,710</b>

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

## 27 Financial instruments (Cont'd)

## Liquidity risk management

The following table sets out the carrying amount, by maturity, of the financial instruments for the Corporation:

Corporation	Weighted average interest rate %	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Fixed and floating interest maturing in:			Total \$'000
					1 year or less \$'000	1 to 5 years \$'000	more than 5 years \$'000	
<b>2020</b>								
<b>Financial Assets</b>								
Cash assets	0.64%	67,246	-	-	67,246	-	-	67,246
Receivables	-	-	-	117,978	101,866	16,112	-	117,978
Loans to subsidiaries	4.17%	-	26,044	-	-	26,044	-	26,044
Investments	-	-	-	3	-	-	3	3
		<b>67,246</b>	<b>26,044</b>	<b>117,981</b>	<b>169,112</b>	<b>42,156</b>	<b>3</b>	<b>211,271</b>
<b>Financial Liabilities</b>								
Payables	-	-	-	52,440	52,440	-	-	52,440
Government loans	4.18%	-	1,210,553	-	295,867	914,686	-	1,210,553
Lease liability	2.43%	-	402,846	-	28,357	103,287	271,202	402,846
		-	<b>1,613,399</b>	<b>52,440</b>	<b>376,664</b>	<b>1,017,973</b>	<b>271,202</b>	<b>1,665,839</b>
<b>2019</b>								
<b>Financial Assets</b>								
Cash assets	1.47%	94,069	-	-	94,069	-	-	94,069
Receivables	-	-	-	130,645	114,533	16,112	-	130,645
Loans to subsidiaries	4.17%	-	26,044	-	-	26,044	-	26,044
Investments	-	-	-	3	-	-	3	3
		<b>94,069</b>	<b>26,044</b>	<b>130,648</b>	<b>208,602</b>	<b>42,156</b>	<b>3</b>	<b>250,761</b>
<b>Financial Liabilities</b>								
Payables	-	-	-	50,137	50,137	-	-	50,137
Government loans	4.39%	-	1,296,493	-	252,618	1,043,875	-	1,296,493
Lease liability	5.07%	-	196	-	11	41	144	196
		-	<b>1,296,689</b>	<b>50,137</b>	<b>302,766</b>	<b>1,043,916</b>	<b>144</b>	<b>1,346,826</b>

## Power and Water Corporation

Notes to the financial statements  
for the year ended 30 June 2020

	Consolidated		Corporation	
	June 2020 \$'000	June 2019 \$'000	June 2020 \$'000	June 2019 \$'000

## 28 Commitments

## Capital expenditure commitments

Contracted but not provided for and payable within one year:

	<b>21,278</b>	<b>37,755</b>	<b>10,061</b>	<b>28,498</b>
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## Purchase expenditure commitments (non-cancellable)

Contracted but not provided for:

Repairs and maintenance

	<b>3,883</b>	<b>9,463</b>	<b>2,172</b>	<b>6,128</b>
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## Purchase expenditure commitments (non-cancellable)

Contracted but not provided for:

Gas purchase

	2,967,062	3,133,700	2,967,062	3,133,700
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Gas transportation

	787,840	1,326,890	787,840	1,326,890
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	<b>3,754,902</b>	<b>4,460,590</b>	<b>3,754,902</b>	<b>4,460,590</b>
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## Payable:

Within one year

	262,163	301,193	249,234	288,601
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One year or later and no later than five years

	1,228,062	1,386,234	1,228,062	1,386,234
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Later than five years

	2,289,839	2,820,381	2,289,839	2,820,381
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	<b>3,780,064</b>	<b>4,507,808</b>	<b>3,767,135</b>	<b>4,495,216</b>
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The consolidated entity has non-cancellable purchase and hire expenditure contracts expiring between 1 to 25 years from the date of the contract. 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 25-year gas purchase agreement with Eni Australia B.V., the first supply of which commenced in the 2009-10 financial year.

## 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	17,751	17,510	17,751	17,510
After one year but not more than five years	21,212	24,121	21,212	24,121
	<b>38,963</b>	<b>41,631</b>	<b>38,963</b>	<b>41,631</b>

## 29 Contingent liabilities and contingent assets

Depending on notification from a third party, the Corporation may be responsible for decommissioning and removal of a gas pipeline and Tie-In on the expiration of a Gas Sales Agreement in December 2022. The ultimate outcome and cost cannot be determined with an acceptable degree of reliability at this time.

As reported in the previous financial year, the Corporation has identified environmental contaminants on a number of sites which are yet to be fully quantified; these include chemical and substance contaminants that will require detailed survey and an assessment of remediation cost. Additionally, the remainder of sites owned by the Corporation have had no screening survey to determine environmental contamination. Further the Corporation has a number of known building certification and compliance liabilities which are being quantified, as well as dilapidation assessments on buildings not recently surveyed which may lead to further compliance liabilities. The Corporation is currently developing its Property Strategy with preliminary options presented in October 2019 and a update with recommendations August 2020. In parallel, subordinate plans including environmental and building assessments across targeted properties have been developed. This is likely to take considerable time and resources to adequately baseline. The ultimate cost and effort associated with determining the total liability to any degree of accuracy is not possible at this time.

The consolidated entity may be responsible for remediation works and removal of infrastructure assets as a result of the failed under bore of the Aspley Straight. The ultimate outcome and cost cannot be determined with an acceptable degree of reliability at this time.

There were two events during the financial year which the Corporation has begun remediation works. Depending on the notification from a third party, the Corporation may be responsible for further rectification and remediation works in relation to these events. The ultimate outcome and cost cannot be determined with an acceptable degree of reliability at this time.

A dispute in connection with third party revenue sharing arrangements has been settled subsequent to year end for an amount that is commercial in confidence in favour of the Corporation.

There are no other contingent liabilities or assets for the year ended 30 June 2020.



## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Notes to the Financial Statements for the year ended 30 June 2020

### 30 Related party transactions

The parent entity within the consolidated entity is Power and Water Corporation. The ultimate Australian parent entity is the Northern Territory Government which at 30 June 2020 owned 100% (2019: 100%) of the issued ordinary shares of Power and Water Corporation. This share is held by the Shareholding Minister on behalf of the Northern Territory.

The consolidated entity has a related party relationship with its parent entity (includes other agencies and departments of the Northern Territory Government), director related entities and associates. All financial transactions between the consolidated entity and related parties are at arm's length terms.

The Corporation undertakes certain transactions for Jacana Energy. The Corporation sold electricity distribution services to Jacana Energy and Territory Generation.

Transitional service agreements between the Corporation and Jacana Energy and Territory Generation were implemented during 2014-15 where the Corporation provided retail, finance, payroll, information, data and security services. For 2019-20 and 2018-19 all transactions between Jacana Energy and Territory Generation were at an arm's length basis in the normal course of business and on commercial terms and conditions.

#### Trading transactions

Balances and transactions between the Corporation and its controlled entity, which is a related party of the Corporation, have been eliminated on consolidation and are not disclosed in this note.

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year. Due to the large number of transactions 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 in the following table:

Related Party	Revenue from related parties (1)	Purchases from related parties (2)	Amounts owed by related parties (3)	Amounts owed to related parties (4)	
	\$'000	\$'000	\$'000	\$'000	
The ultimate parent entity, the Northern Territory Government, including all entities that are associated with the parent entity including Territory Generation and Jacana Energy	June 2020 June 2019	368,173 368,397	106,123 104,641	35,679 47,963	1,165,671 1,245,349

(1) During the year ending 30 June 2020, the revenue received by the Corporation for services provided under the TSA from Jacana Energy was \$0.5 million (2019: \$1.4 million) and the total revenue from Territory Generation was \$0.1 million (2019: \$0.1 million).

The consolidated entity receives grants from the Northern Territory Government in the form of Community Service Obligations and other miscellaneous grants. See Notes 2.3 (d), 3.2, 3.4 and 22 for further details.

(2) For the year ended 30 June 2020, purchases from the Northern Territory Government includes interest paid on borrowings of \$53.7 million (2019: \$54.3 million) refer to Note 4.6.

(3) As at 30 June 2020, the amounts owed by related parties relate to amounts outstanding for the provision of electricity, water and standard control services, as well as accrued revenue for the supply of gas.

(4) For the year ended 30 June 2020, the amount owed to the Northern Territory Government includes borrowings of \$1,162.0 million (2019: \$1,242.0 million) refer to Note 19.

#### Loans to related parties

As disclosed in Note 12 Loans to subsidiaries, the Corporation has provided three interest only fixed loans to its subsidiary, IES Pty Ltd. The first two loans for \$11.0 million were provided in 2016-17 for a loan term of 5 years ending in 2021-22. Interest is charged at 4.55% per annum on the outstanding balance. The third loan of \$14.0 million was provided in 2018-19 for a loan term of 5 years ending in 2023-24 with interest charged at 3.88% per annum.

The Corporation provides electricity, water and sewerage services to its subsidiary, IES Pty Ltd in the normal course of business and on normal terms and conditions.

To ensure that IES Pty Ltd is able to pay its debts as and when they fall due, a letter of financial support dated September 2020 was provided by the Corporation to the subsidiary which guarantees support should IES Pty Ltd not be able to pay its debts as and when they fall due. This letter is valid to such time as IES Pty Ltd ceases to be a wholly owned subsidiary of the Corporation or until revoked.

From time to time, Directors and 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.

### Power and Water Corporation

#### Notes to the Financial Statements for the year ended 30 June 2020

### 30 Related party transactions (Cont'd)

The profit for the year includes the following items of expenses that resulted from transactions, other than compensation with key management personnel or their related entities:

	Consolidated		Corporation	
	June 2020	June 2019	June 2020	June 2019
	\$	\$	\$	\$
Expense transactions with key management personnel	5,609	10,989	5,609	10,989

For the year ended 30 June 2020, the consolidated entity has made allowance for doubtful debts relating to amounts owed by related parties of \$nil (2019: \$nil).

#### Remuneration of key management personnel

Compensation levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. Remuneration packages are usually a fixed remuneration.

The following table provides the details of all non-executive directors of the Corporation and the nature and amount of the elements of their remuneration:

		Short-term employee benefits	Post employment benefits (superannuation)	Total
		\$	\$	\$
<b>Non-executive directors</b>				
Mr John Langouant (Chairperson)	June 2020	144,757	12,559	157,316
(Term commenced June 2017)	June 2019	144,821	12,564	157,385
Mr Ken Clarke (Deputy Chairperson)	June 2020	-	-	-
(Term commenced December 2013; ended August 2018)	June 2019	14,593	1,266	15,859
Mr Mervyn Davies	June 2020	56,847	4,932	61,779
(Term recommenced April 2019)	June 2019	56,911	4,937	61,848
Ms Helen Stanton	June 2020	-	-	-
(Term commenced April 2014; ended April 2018)	June 2019	17,546	1,522	19,068
Mr Ian Kowalick	June 2020	-	-	-
(Term commenced July 2015; ended August 2018)	June 2019	10,788	954	11,742
Ms Rowena McNally	June 2020	56,847	4,932	61,779
(Term commenced April 2018)	June 2019	56,847	4,932	61,779
Mr David Bartholomew	June 2020	56,847	4,932	61,779
(Term commenced April 2018)	June 2019	56,911	4,937	61,848
Ms Teresa Dyson	June 2020	56,847	4,932	61,779
(Term commenced April 2018)	June 2019	56,847	4,932	61,779
Ms Gaye McMath	June 2020	56,847	4,932	61,779
(Term commenced September 2018)	June 2019	46,571	4,040	50,611
Charles Burkitt	June 2020	56,847	4,932	61,779
(Term commenced September 2018)	June 2019	44,299	3,843	48,142
<b>Total non-executive directors</b>	<b>June 2020</b>	<b>485,839</b>	<b>42,151</b>	<b>527,990</b>
	<b>June 2019</b>	<b>506,134</b>	<b>43,927</b>	<b>550,061</b>

No termination benefits were paid to non-executive directors during the year.

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### Power and Water Corporation

#### Notes to the Financial Statements for the year ended 30 June 2020

### 30 Related party transactions (Cont'd)

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

	Consolidated		Corporation	
	June 2020	June 2019	June 2020	June 2019
	\$	\$	\$	\$
Short-term employee benefits	2,821,933	2,836,024	2,821,933	2,836,024
Other long-term benefits	251,504	235,673	251,504	235,673
Termination benefits	243,483	258,787	243,483	258,787
Total compensation of key management personnel (excluding non-executive directors)	<b>3,316,920</b>	<b>3,330,484</b>	<b>3,316,920</b>	<b>3,330,484</b>

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

#### *Other transactions with key management personnel*

Apart from the details disclosed in this note, no key management personnel have 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 existing at year end.

From time to time key management personnel of the Corporation or its controlled entity 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 the other consolidated entity's employees or customers and are trivial or domestic in nature.

### 31 Auditor's remuneration

Audit of the financial statements	274,000	304,556	214,000	246,356
	<b>274,000</b>	<b>304,556</b>	<b>214,000</b>	<b>246,356</b>

The auditor of the Corporation and the consolidated entity is the Auditor-General for the Northern Territory.

### 32 Events after the reporting period

Subsequent to the year end the Director's declared a final dividend of \$1.0 million, payable by 30 November 2020.

Other than the 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 the affairs of the consolidated entity, in future financial years.

**Power and Water Corporation**

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