PowerWater

Annual Report

2017-18

This Report

The purpose of this Annual Report is to meet the obligations of Power and Water Corporation as contained within the *Government Owned Corporations Act*, 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* 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 2017-18, highlighting major projects, key achievements and outcomes, as they relate to the strategic objectives of the corporation contained in the 2017-18 Statement of Corporate Intent.
- Financial management and performance of the corporation during 2017-18, pursuant to the *Corporations Act 2001 (Cwlth)*.

Letter to the Shareholder

Hon Nicole Manison 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 2018, in accordance with the provisions of sections 41 and 44 of the *Government Owned Corporations Act.*

Yours sincerely

John Langoulant AO
Chair
28 September 2018

Michael Thomson
Chief Executive
28 September 2018

We want everyone to make it home – so safety comes first, last and every moment in between.

We embrace change, diversity and community.

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Respect the environment and each other.

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We stand up and do what's right.

We put
PEOPLE FIRST

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Chair's message

With just over 12 months in the job I certainly have a much greater appreciation now of the hard work our people across the Territory put in every day and I would like to thank each and every one of you for your efforts.

I have been fortunate to get out and see our operators at work across the Territory in a number of our locations and remote communities and I'm looking forward to spending even more time in 2018-19, learning first-hand about the ways our people continue to deliver services to the people of the Northern Territory.

This past year has been a year of great achievement and I hope as you read through this Annual Report, you'll agree that Power and Water is continuing to go from strength-to-strength.

With progress well underway on the five priority projects, I am confident there is a clear path forward for the business, our customers and our people.

Everyone in leadership roles spends a lot of effort ensuring everyone at Power and Water recognises the need for safe work practices, just as we ensure the public is safe around our services. The Board sees this issue as its greatest responsibility and won't rest until the workforce is free of incidents which may or do result in worker injury.

The transition to the National Electricity Rules has certainly presented Power and Water with its fair share of challenges but I am proud to say we have some excellent people on the job across the business that continue to work towards this significant milestone, as we become the first ever non-interconnected network to join the national regulatory regime.

The journey towards the National Electricity Rules has not only changed the way we think about our networks business, but it has also led us to re-think the way we approach what we do across the rest of the business as well. This has led to an enhanced degree of rigour and maturity applied to the way we conduct our business for all of our services. These improvements will enhance our service delivery capability for all customers. The Board is committed to seeing these improvements implemented as soon as it is achievable.

I would also like to mention the considerable effort made by all staff in responding to Cyclone Marcus that hit Darwin in March this year, which caused widespread damage to homes and to our power network.

During these challenging times the Board and I were very satisfied with the way Michael, our Chief Executive, and his team led the recovery effort and got Darwin back on its feet. Being able to tap into our specialist crews in Katherine and Alice Springs and the way they responded, is one of the key strengths of Power and Water and I am very appreciative of the work everyone put in over that time.

Finally I would like to acknowledge the work and dedication of the five retiring Directors from the Board: Richard Griffiths, Helen Stanton, MaryAnn Bin-Salik, Ian Kowalick and Ken Clarke. It has been a pleasure working with each of you and I thank you for your contributions over the years to Power and Water and the community of the Northern Territory.

These departures have however led to the appointment of five new Board members: David Bartholomew, Teresa Dyson, Rowena McNally, Gaye McMath and Charles Burkitt. Each of these new Board Directors brings a unique set of skills and a vast array of experience and I am confident, together we will make a valuable contribution to Power and Water's future.

John Langoulant AO
Chair

Chief Executive's message

I am pleased to report that Power and Water is continuing to make good progress on its transformation journey, adapting to the future, to evolving customer expectations and changing regulatory conditions.

2016-17 was about reviewing where we were and where we needed to be, laying the groundwork for the road ahead. Now as we reflect on 2017-18 I am happy to see that Power and Water is on track, forging ahead towards it goals.

This year we submitted our first ever regulatory proposal to the Australian Energy Regulator, we completed the first tranche of the Solar SETuP program installing system-sized PV in remote communities, we responded to the challenges of PFAS in the water in Katherine, finalised some large gas deals to keep our economy growing and we continued to build our internal capabilities and culture through intensive training and coaching at all levels of the business.

On top of all of that, our planning, our team work and dedication faced its toughest challenge in the form of the devastation brought to Darwin by Cyclone Marcus. With 26,000 customers suddenly left without power on Saturday 17 March, Power and Water sprung into action and thanks to the hundreds of people from all corners of the Territory, we had half of Darwin reconnected in 48 hours and almost everyone else reconnected by the end of that first week.

The coordination and commitment this took was remarkable and I must again pay thanks to everyone who gave it their all during this difficult time for Power and Water.

I'm also very happy to report that we've continued the downward trajectory of our lost time injuries, down to three this year, which is the best result we've had at Power and Water for 10 years. But we are still having too many minor injuries and near misses, so it is remains the responsibility of each and everyone one of us to remain vigilant and to make sure we don't become complacent about our own safety and the safety of others, including our contractors and our customers.

Looking to the future, our priority projects are all making great headway and central to it all, the Operating Model project, has reached the refinement and implementation phase where we have started to evolve the way our business is structured, the way we interact across traditional business lines and the way we operate, to better achieve our long term purpose of Enriching the Future for our community, our customers and each other.

I have appreciated the support John and the Board have shown over the year, and the Executive Leadership team and I are looking forward to facing whatever new challenges come our way, together with the new Board Directors and our dedicated team of professionals and technical specialists across the Territory.

Michael Thomson
Chief Executive

Key Statistics

1.3 million square kilometres

244,300 people

72 remote communities, 66 outstations, 5 major centres, 13 minor centres

94,300 electricity customers

52,300 water and sewerage customers

3 regulated power systems controlled

1,920 gigawatt hours distributed

7,170 km of overhead lines maintained

3,290 km of underground cable maintained

65 billion litres of drinking water sourced

28 billion litres of waste water collected/treated

2,990 km of water mains maintained

1,550 km of sewer mains maintained

90% of gas needs to NT grid connected electricity generators

$4.0 billion in long-term gas supplies managed

889 employees supporting the NT (full time equivalent)

$3 billion of physical assets managed

$194 million invested in capital works,

including $54 million servicing remote communities

$428 million paid to suppliers

Our Purpose

Power and Water has recently articulated its purpose as "enriching the future". Organisational values have been refreshed, culture and capability initiatives commenced and the strategic framework further refined.

As a government owned corporation of the Northern Territory, Power and Water's purpose is:

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

We recognise the need to quickly evolve, give customers better choices and be an organisation that is easy to deal with. Our commitment is to become a more accountable organisation which has good risk management and governance practices with simplified systems and processes that leverage the synergies of being a multi-utility.

This will be achieved through our people – by having the right culture, leadership and technical capabilities which are aligned to delivering a commercially focused, customer centric organisation while meeting our Shareholder's expectations.

Power and Water's vision is to be "A best practice, commercially focused and customer centric multi-utility respected by the community for its contribution to the Northern Territory economy and its pursuit of the long term interests of consumers"

Our Business

We have four core operational business units: Power Networks; Water Services (water and sewerage); System Control; and Remote and Regions, which operate under their respective licences issued by the Utilities Commission. We also contract for long term wholesale gas supply contracts and transportation agreements.

Across the Territory, Power and Water:

- owns and operates the large dams and groundwater fields to deliver clean drinking water to households and businesses and take the wastewater away and treat it before disposing of it in an environmentally responsible manner;
- operates a retail water and wastewater business;
- owns and operates the regulated and parts of the unregulated electricity network;
- provides full end-to-end electricity, water and sewerage services in the Indigenous Essential Services (IES) remote towns and communities, under agreement with the Northern Territory Government;
- makes sure the electricity network is balanced and stable, safe and reliable through our System Control operations and operates the interim wholesale electricity market;
- manages large scale gas purchase and transportation agreements and sells that gas to Territory Generation and other large businesses across the Territory;
- retails electricity to a small number of mining towns, as a result of legacy contracts dating back decades with the Government;
- owns and operates five generation plants in regional areas; and
- is one of the key responders after a natural disaster, helping the community to restore essential services.

Where we operate

Power networks, water, sewerage and gas

Remote communities' power, water supply and sewerage services

Achievement against key performance targets

Statement of Corporate Intent 2017-18		Target	Actual
Health and safety			
Health and safety index [1]	%	80	35
People and culture			
Employee engagement survey [2]	%	> 70	64
Organisation culture index [3]	%	+15	16.7 baseline
Aboriginal employment [4]	Headcount	81	60
Financial performance			
Return on capital employed [5]	%	> 4.0	2.9
Debt to equity ratio [6]	Times	< 1.0	1.1
Funds from operations to interest [7]	Times	> 3.0	3.4
Liquidity (Quick ratio) [8]	Times	> 1.0	0.9
Statutory net profit after tax [9]	$M	26.4	7.2
Operating cost efficiency [10]	%	< 50	56
Operating cost ratio [11]	%	< 100	109
Operational performance			
System avg interruption duration index (NT system) [12]	Min	194.7	152.4
System avg interruption frequency index (NT system) [12]	No.	3.4	2.2
Water demand Darwin per household [13]	kL	394	376
Water mains breaks per 100 km [14]	No.	14	16.2
Sewerage chokes and blockages per 100 km [15]	No.	24	12.6
Wastewater treatment plant discharges are licensed [16]	%	100	100
Customer			
Customer satisfaction index [17]	Residential / Non-residential %	80	82 / 79
Complaints resolved [18]	Average business days	14	9.6

**Refer Attachment 2 for definitions of key performance indicators*

Health and safety

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

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

WORKING TOWARDS OUR GOAL OF ZERØHARM

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

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

Following on from a detailed project planning and benchmarking period, the health and safety strategic improvement project will also implement a range of refreshed safety systems to achieve a culture maturity level of "calculative" based on the Professor Patrick Hudson maturity model.

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

Injury Performance

Overall injury performance and frequency rate has improved with a reduction in our Lost Time injuries to three. This is the lowest LTI tally in over 10 years and is a further reduction from the previous year record low of five LTI in 2016-17.

Injury rates in all classifications have fallen considerably since 2016 as a result of various improvements in our health and safety systems and other initiatives.

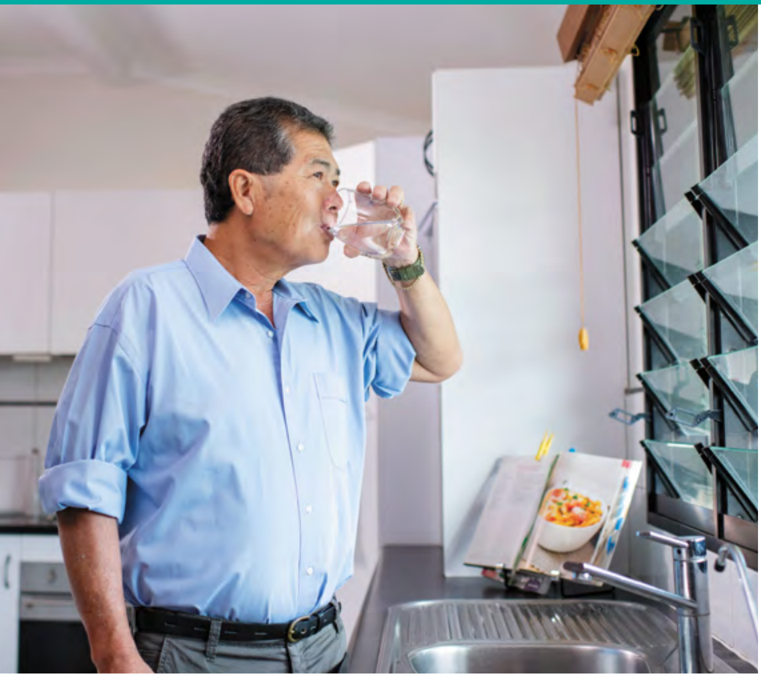
The record low injury result is expected to be further reduced as the organisation embeds improved injury management and alternative duties practices which will ensure that our employees can remain engaged in productive employment duties while recovering from relatively minor injuries.

Broader Performance Metrics

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

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

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



Drinking water quality management system

Power and Water provides drinking water to 92 urban and remote communities across a vast area of the Northern Territory. Populations served range in size from many small decentralised systems providing water to populations as low as 70, to large complex water systems with multiple water sources, servicing the major centres like Darwin and Alice Springs.

The supply of drinking water involves inherent risk to public health. Decisions and directions taken in relation to water quality impact the wellbeing of the communities served.

Power and Water considers that mitigation of drinking water quality risks is most effectively undertaken by managing whole water supply systems, from catchment to consumer, by applying a recognised framework, rather than primarily focusing on monitoring of water quality at the end point.

This sees our water quality risks being managed through a multiple barrier approach including, but not limited to, disinfection, treatment, operational controls and monitoring.

A sound water quality management framework incorporates risk-based, preventative and diverse activities, including review and continual improvement.

The range of water quality risks managed that need to be understood include pathogens, chemicals with health risks (acute and chronic), other chemicals (for example PFAS), radiological contaminates and aesthetic considerations.

As part of its commitment to best practice, Power and Water is currently finalising its Drinking Water Quality Management System (DWQMS) Improvement Project.

Once complete in late 2018, the DWQMS Improvement Project will:

- Deliver safe water to customers.
- Produce a robust and fit for purpose DWQMS.
- Provide documented evidence to demonstrate due diligence.
- Improve culture and competency in drinking water management.
- Improve visibility of, and engagement in, water quality management.
- Improve organisational tools to assess and manage water quality risks resulting in a net reduction in drinking water quality management risk.
- Provide a consistent and transparent approach to water quality management.
- Increase visibility and stakeholder confidence in Power and Water's capacity and capability to adequately manage drinking water quality risks.

Tropical Cyclone Marcus

Tropical Cyclone Marcus hit Darwin on Saturday 17 March 2018 and caused extensive damage to our electricity network and caused outages affecting over 26,000 customers.

As soon as the all-clear was given by emergency services, Power and Water staff started planning for restoration activities by establishing and standing up the Operations Control Centre and dispatching scoping teams.

There were numerous reports of wires down and many roads blocked by fallen trees. Crews were dispatched into zones to restore power to customers. Recovery teams responded and were able to get 50% of customers' power restored by Monday, less than 48 hours after the cyclone hit.

Crews worked varying shifts throughout the event to ensure fatigue did not become an issue and crews from Katherine and Alice Springs were mobilised to Darwin to assist in the recovery efforts.

By Tuesday 20 March 2018 the number of customers off supply was reduced to just 3,150. This was thanks to the efforts of service delivery teams and support staff that all pitched in to help their community. By that time, the bulk of the remaining number of outages were due to significant line damage requiring damaged poles to be removed and new ones installed, or single customer faults where the service line connection from our network to individual homes was damaged.

The primary cause of damage to our network was from fallen trees. Older northern suburbs areas suffered significant damage, as did the Howard Springs area. By comparison, those suburbs with predominantly industrial areas and areas where tree growth is not as prolific, received only minor damage.

The transmission network stood up extremely well, losing only the Woolner to City 66kV line with some flying debris and the Woolner to Casuarina 66kV line which was damaged due to a tree falling across it. Suburbs with underground power also received minimal damage, with many retaining power throughout the event.

17 March 2018
Tropical Cyclone Marcus hit Darwin

50%
of customers' power restored within 48 hours

Caring for our Environment

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

To achieve this, we have developed an Environmental Strategy that once fully implemented, will achieve the following objectives:

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

People and culture

Our values guide decision-making and collaboration across the business and forms the basis of our reward and recognition awards, highlighting the outstanding achievements of our people. Our values are promoted through a number of culture action groups and are integrated into all processes.

"Great course that gives a different view on how mind and brain works"

Culture and Leadership Program

Throughout 2017-18 Power and Water continued with the implementation of its Culture and Leadership Program as one of its priority projects that aims to embed a more constructive and proactive culture across the business.

One of the key culture change initiatives being implemented is the raising of leadership capability to develop and lead teams to meet the operational and strategic needs of the business.

Over the past year, leaders across Power and Water participated in 360 degree feedback workshops and tailored sessions that honed their leadership and coaching skills to bring out the best in their people.

We are also implementing initiatives to move Power and Water to a more constructive and positive culture – with an emphasis on goal-setting, achievement and organisational resilience through the wide spread roll-out of the Thrive personal development and wellbeing workshops.

These workshops were delivered to over 480 employees in all regions with a high participation rate and exceptionally positive feedback.

"This was well presented – it should be presented each year to reiterate the learnings"

"Fabulous session! ... after hearing about LSI workshops managers were involved in, I was very excited to hear about Thrive (very positive feedback from other staff too). I think programs like this help us feel part of the collective journey"

"I came into the workshop thinking it will be boring. It was not. It was thought-provoking and made you want to change your mindset. To be more positive and if you set a goal, to go for it"

Capability Project

Annual measurement of our leadership and culture identifies areas for continuous improvement – informing the development of tailored workshops to address behavioural or competency gaps.

Power and Water's Capability Project has been established to grow and develop our people in alignment with our Strategic Plan so that they can realise their future potential.

Over the course of 2018 Power and Water will continue to implement the foundations of building organisational capability (Phase 1), through an aligned individual performance and development toolkit that will enable us to measure and monitor organisational capability through targeted individual competency development over four key stages of the career lifecycle.

Power and Water has already identified at an organisational level that we have gaps around leadership, commercial acumen and asset management and we have commenced sourcing and building programs to bridge those gaps.

The second stage (Phase 2) of the project will use our performance and competency data and feed into a focussed Talent and Succession Management program, to ready the organisation for the future. This will occur through a targeted talent and succession program, identifying our critical roles for succession, our high-potential talent and mutually aligning career outcomes.

International Young Project Manager of the Year – Eric Vanweydeveld

Water Services Senior Project Manager Eric Vanveydeveld was awarded the 2017 International Young Project Manager of the Year and a Gold Medal at the International Project Management Association's (IPMA) Project Management Awards in Astana, Kazakhstan in September 2017.

The Award recognises high performance in projects and excellent project management from different countries, industries and organisations. The esteemed Young Project Manager of the Year Award acknowledges project managers aged between 18-35 who have demonstrated an invaluable impact to both their profession and their organisation.

To be considered for this accolade, Eric had progressed through the rigorous Territory, National and Asian Pacific Project Management Achievement awards process and was:

- winner of Young Project Manager of the Northern Territory 2016;
- winner of the National Young Project Manager of the Year 2016; and
- winner of the Asia Pacific Young Project Manager of the Year 2016.

Eric was honoured with the international recognition on his work on the Adelaide River Water Treatment Plant. The project also won the Australian Water Association's National Project Innovation Award for pioneering Australia's first biological filtration system with the use of native iron and manganese eating bugs.

Early Careers

Over 2017-18 Power and Water had 37 apprentices undertake qualifications in the electrical trades and a further nine trainees undertake vocational qualifications in business, water operations, warehouse distribution and project management.

We also had six dual trade apprentices undertake a second trade qualification in electrotechnology, two technical trainees and three graduates worked across electrical engineering, mechanical engineering and geographic information science.

2017 Garma Festival

In 2017 four Power and Water delegates attended the 2017 Garma Festival at the Gulkula site, 30 minutes from the township of Nhulunbuy.

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

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

Living Water Smart team recognised

Power and Water's Living Water Smart team has been recognised by the Australian Water Association with the Program Innovation Award for their Community Leak Program. The program, delivered in partnership with local plumbers, has saved more than one billion litres of water in Darwin per year.

By using a mobile GIS app, plumbers and Power and Water's leak checkers are able to record leaks, volumes and the repairs and upload it into their systems in real time. Through the program they discovered that 15 percent of Darwin's water consumption results from leaks.

Faced with the highest level of water use per capita in Australia, Power and Water strives to encourage smarter water use, without sacrificing Darwin's lifestyle. In Darwin, about 75% of household water use is outdoors, with most used in the garden or lost to leaks.

Power and Water's Living Water Smart team is proud to deliver programs raising awareness of water use and promoting best practice.

Power and Water's outstanding apprentice Nathan Powell

Power and Water apprentice electrician Nathan Powell has been recognised for his hard work for a second consecutive year at the Group Training NT Awards.

Nathan was named 2018 Outstanding Apprentice Stage 3 at the recent annual GTNT awards. This follows his efforts last year when he was announced as Outstanding Apprentice Stage 2.

Working alongside a supportive team is the best part of the job for apprentice electrician Nathan Powell. Nathan joined Power and Water in 2015 and is completing his Certificate III in Electro-technology Electrician in Darwin.

We are owned by the Territory and we serve the people of the Territory.

We add value – we don't just perform.

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We are essential to everyday, and we give our best at all times.

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We own our mistakes and learn from them, because every decision and every dollar counts.


OUR BEST
We value our customers and give them

Customer experience

Power and Water is committed to uplifting our customer experience and our customer service capability. A number of initiatives were completed with a focus on growing our customer two way communication and accessibility.

13,558
Power and Water Facebook Likes

5,803
Downloads of our Smartphone App

84,264
Phone calls

366
Average calls per day

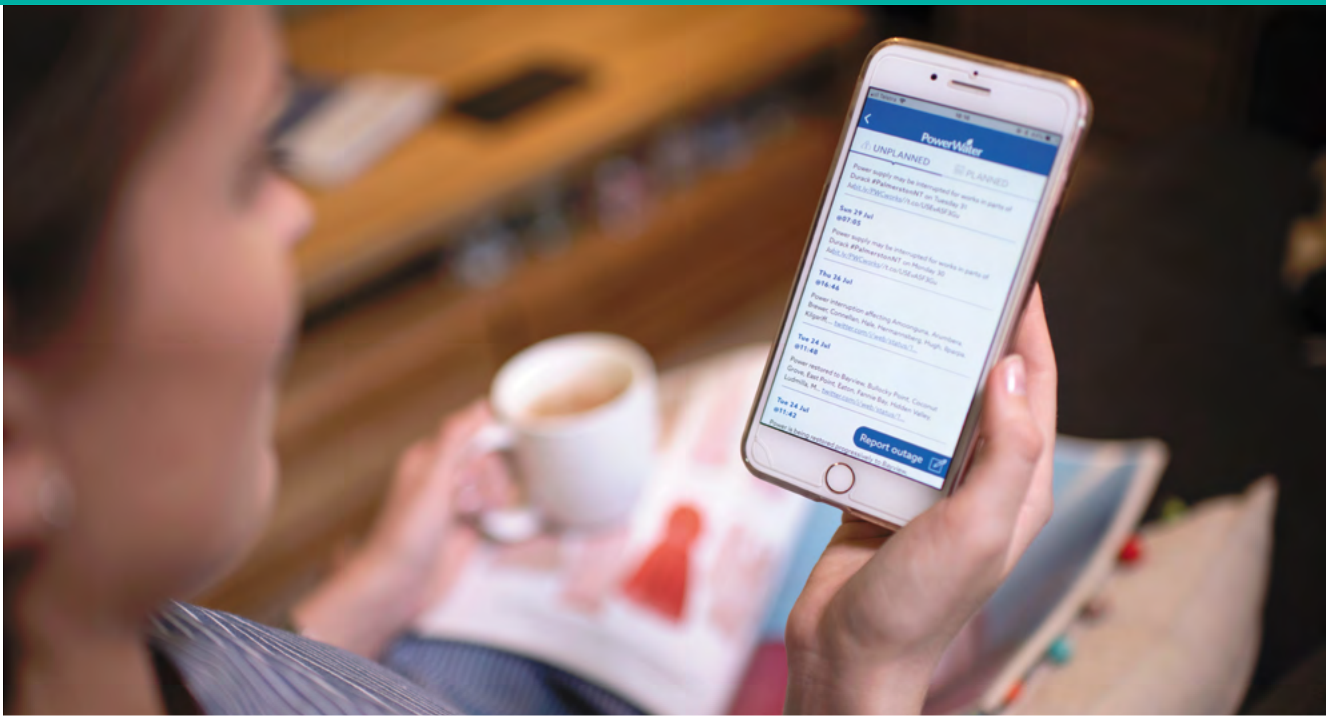
This year Power and Water designed a Digital Pipeline to improve customer choices on how they engage with us to find information, ask questions and pay their bills. The pipeline is a four year journey adapting current technology and investigating new options.

In December 2017 we introduced the new customer service communication tool, live chat an interactive pop-up via our website, which enables Power and Water to deliver optimal essential services to our customers. Live chat is simple, efficient and based in real-time on your computer or mobile device. The tool enhances our customers' experience by significantly improving service engagement and saving time.

Teams have worked closely together to improve the Power and Water Smartphone App. Our focus was to improve the App's functionality and ease of working with Power and Water including meter reading, easy to use payment forms, and simplified the way to report power and water interruptions and faults, including water leaks, faulty streetlights and outages.

Social media is growing as a two way communications for our customers. Power and Water has invested in uplifting the capability of our people in the way we communicate via Facebook and quality of information we provide. A training program was developed and rolled out to employees.

Customer expectations are changing and customers want their queries to be resolved in a simple and quick way. Steps that have been taken to meet our commitment of "One Contact Resolution". We have reviewed our structure in our customer service team and re organised the way we do business. Complex queries are handled by subject matter experts who have undergone the necessary training to provide information and resolve queries. This program is in its infancy and we expect for this program to mature and evolve.



Retail Separation from Jacana Energy

Since 1 July 2014 Power and Water and Jacana Energy have been working together to transition retail electricity functions to Jacana Energy and complete the structural separation journey.

The first big step was in 2016 when the transition of credit management was completed and Jacana Energy established its own call centre. That was followed in April 2017 when Jacana Energy commissioned its new billing system and took over responsibility for all billing and printing functions for its approximately 200 commercial and industrial customers that consume above 750MWh per annum.

The next and final step was completed in April 2018 when the retailing functions for all of Jacana Energy's approximately 80,000 mass market customers that consume below 750MWh per annum was transferred.

This transfer was enabled by the hard working teams across both Jacana Energy and Power and Water, working to separate functions which were entrenched within Power and Water's systems, requiring a complex process to make the necessary changes.

Customer Advisory Council

Throughout 2017-18 Power and Water continued to utilise the experience and expertise of our Customer Advisory Council. The Council met on five occasions this year in July, October, December 2017, February and June 2018.

The primary focus of our Customer Advisory Council to date has been to provide valuable input into:

- the second phase of the Power Networks customer and stakeholder engagement program;
- Power and Water's 2019-24 Network regulatory proposal; and
- the possible implementation strategies for the roll-out of the Northern Territory Government's proposal to underground power lines following the destruction caused by Tropical Cyclone Marcus.

The Council continues to provide valuable input and views on behalf of all Territorians and has quickly become a staple in Power and Water's engagement programs.

Operational performance

Power Networks

Elizabeth River 132kV Channel Island Power Station crossing

This project, completed in October 2017, upgraded the existing 132kV Channel Island Power Station crossing over Elizabeth River to be Category 4 cyclone rated. This reduced a significant risk of critical transmission power supply failure during a cyclone event.

Casuarina 66kV Zone Substation

The new 66kV Casuarina Gas Insulated Switchgear (GIS), new building and upgraded control systems were commissioned in October 2017. This new 66kV section of the Zone Substation provides a safer, more secure and reliable power supply for Casuarina and surrounding suburbs.

Palmerston - Archer 66kV line

Works are well underway on the new 66kV transmission line between Archer and Palmerston Zone Substations to provide system security and reliability during credible events at forecast peak loads. The 66kV line consists of both underground and overhead line and is forecast to be commissioned in late 2018.

Palmerston Zone Substation Third 66/11kV Transformer

Works are near complete on the new third transformer installation at the Palmerston Zone Substation. This is required to meet current and forecast load demand in the Palmerston area. The third transformer is forecast to be commissioned in late 2018.

Outage Management System

The project to implement an outage management system is well progressed with most of the system design complete and software application underway. The system will support whole-of-business fault call taking, dispatch and restoration.

The introduction of the outage management system will provide a Territory wide real time model of Power and Water's networks. This improved view of the current state will support accurate, safe and efficient decision making relating to network operations and restorations. It is estimated that the system will be implemented by early 2019.

Sadadeen Zone Substation 11kV Switchgear and building

This project is to install modern metal clad 11kV switchgear in a new building and associated control systems. The new switchgear will replace existing switchgear which is approaching end of serviceable life and will provide a safer, more secure and reliable power supply for Alice Springs. The project is in design phase with a major works tender to be released later in 2018 and estimated commissioning late 2019.

Pine Creek Replace 22kV and 66kV assets

This project is to replace and relocate 22kV and 66kV infrastructure from a privately owned generator site to Power and Water's Pine Creek 132-66kV substation. The new infrastructure will replace equipment which is at end of serviceable life and will provide a safer, more reliable and normalised generator connection point. The estimated project commissioning date is in late 2019.

Power Networks	2014-15	2015-16	2016-17	2017-18
Energy transported	1,873,448 MWh	1,809,533 MWh	1,796,878 MWh	1,771,596 MWh
Customers	82,369	84,196	85,416	86,357

Water Services	2014-15	2015-16	2016-17	2017-18
Water sales	51,687 ML	52,035 ML	47,664 ML	49,936 ML
Water customers	48,065	48,093	49,514	48,985
Wastewater installations	57,646	59,292	59,513	60,926

Water Services

Darwin Region Water Supply Strategy

The Darwin Region Water Supply Strategy details Power and Water's plans to meet the community's water supply needs by balancing demand for water with supply capability over time.

Power and Water regularly reviews relevant key performance indicators and makes adjustments to its strategies to deal with changes to its operating environment and forecasts.

Following a comprehensive review of its Living Water Smart demand management program, and seeing the opportunity to do more in this space, Power and Water has strengthened and extended the program to support the deferral of the need for large capital investment in water source development in the short term, to improve Power and Water's financial sustainability and reduce upward pressure on water tariffs.

In parallel with this action, further modelling, planning and project development work has resulted in a further optimised water source development program. The revised program identifies a staged return to service of Manton Dam by 2026-27, followed by the staged development of the Adelaide River Offstream Water Storage scheme to address increasing water demand and enable continued growth in the region.

These improvements to demand and supply management will provide a high level of flexibility and agility, supporting Power and Water in better targeting its investment to respond to changes in annual demand or forecast growth.

PFAS contamination in the Katherine water supply

Thanks to the commitment and support by the Katherine community, Power and Water has been able to balance the supply and demand in the town and above all, ensure the water is safe to drink, while it works on alternative solutions for water supply to the town.

Power and Water has been working closely with Northern Territory Government agencies and the Commonwealth Department of Defence to manage the impact of PFAS contamination. This has been possible thanks to the introduction of low impact water conservation measures introduced into Katherine on 21 August 2017, with overall demand continuing to hover around 20% below the same time last year.

The Living Water Smart Katherine Campaign has also completed over 1,600 leak checks and identified a total of over 530ML per annum in leaks across the community including Tindal Air Force base.

The Department of Defence installed a treatment plant in October 2017, which is currently supplying 1ML per day (10%) of PFAS treated water to the Katherine water supply while investigations are underway on a larger scale treatment plant that adopts the same technology capable of removing PFAS from the groundwater.

Meanwhile, investigative groundwater drilling is soon to get underway, looking to find PFAS-free groundwater sources in close proximity to the town, which are capable of meeting the town's longer term water needs.

What is PFAS and why is it in Katherine?

Per-fluorinated and poly-fluorinated alkyl substances (PFAS) are a class of recently regulated, manufactured compounds that have been used since the 1950s to make products that resist heat, stains, grease and water. The compounds are resistant to decomposition. As a result, they are widely distributed and can be found in soil, air and groundwater across Australia. Investigations are underway in all Australian jurisdictions to gather understandable evidence about the levels.

The PFAS contamination in Katherine groundwater (the Tindal aquifer) is from the use of firefighting chemical containing PFAS, used at the nearby Tindal Air Force base.

Like many compounds commonly found in water supply, the distribution of PFAS in the water is not homogenous (consistent) and can vary from time to time due to the uncertain movement of water in the underground aquifers.

That is why test results for these types of compounds are averaged over time for assessment with regulations and measured against a whole-of-life exposure, health based guidance values.

The whole-of-life exposure, health based guidance values measure of PFAS in drinking water is equivalent to less than 1 teaspoon in the equivalent of 10 olympic sized swimming pools or 25 million litres of water.

LIVING
WATER
SMART

Darwin Region

Living Water Smart

The Community Leak Program, which helped over 4,000 of our customers in Darwin and Katherine identify and fix their leaks, was recognised with three major awards; the ESRI 2018 Special Achievement in GIS Award for Australia, the Australian Water Association Northern Territory Program Innovation Award and the Australian Water Association National Program Innovation Award.

The Katherine Living Water Smart program worked successfully with the Katherine Community to reduce their water use which helped ensure Power and Water could provide quality drinking water as part of the response to PFAS contamination.

At over 40 local schools in Darwin and Katherine, Power and Water installed weather stations and smart irrigation controllers that will allow the schools to reduce their water use while also allowing the wider communities to tune their own smart irrigation controllers into the weather data to save water in their own gardens. This web of weather stations will be a major initiative as smart irrigation controllers become more wide spread.

Power and Water also commenced a trial of smart water meters that will allow 1,000 properties to receive automatic leak and high water use alerts. As the technology develops, smart water meters will better help our customers get on top of their water use and prevent 'bill shock'.

By partnering with the local irrigation industry, allied irrigation experts helped 1,500 customer properties reduce their water use through their Garden Tune Up irrigation audit rebate. This service fixes minor leaks and reprograms people's irrigation controllers to give their gardens the water they really need, when they need it.

Gas supply

Power and Water's Gas Services function is responsible for the effective management of its gas and transport portfolio including long-term gas acquisition, sales and pipeline transmission contracts to ensure gas is delivered to electricity generators and other major gas customers both in the Territory and soon into the East Coast of Australia.

Power and Water also owns gas infrastructure, including pipelines, which are utilised for the delivery of gas to customers and enable the provision of backup gas supply to specified customers.

Power and Water currently supplies over 90 per cent of the gas requirements for the Territory's public electricity generation sector.

Over the past 12 months, Power and Water has signed a number of long term gas sale agreements with new customers including the recently announced Newmont Tanami Project.

The Northern Territory Government has a strategy to attract local businesses to the Territory and Power and Water continues to work closely with the Government using gas as a driver for broader economic development to benefit the community.

Power and Water will expand gas supply into the east coast gas market in early 2019 as the foundation customer for the new Northern Gas Pipeline. Demand on the east coast is forecast to remain high in the near term.

Revenue from the corporation's gas operations is expected to increase by around 50% during 2019 due to recent gas sales.

Power and Water is able to offer competitively priced gas into both the Territory and east coast markets with new sales expected to be announced in the near future.

Power and Water's gas supply contract with Newmont

Power and Water has completed a multi-million dollar contract to supply gas to the Newmont Granites gold mine in the Tanami for the next 10 years.

Newmont has also announced the construction of a 450 kilometre gas pipeline and a new 62 MW dual-fuel power station at the mine representing a significant commitment to its Territory operations.

Newmont selected Power and Water via a tender process ahead of several major companies in the industry.

This project represents a mutually beneficial outcome for all parties with Power and Water currently assessing similar opportunities, particularly in the mining and energy intensive sectors.

Regions and Remote Operations

Solar Energy Transformation Program – "SETuP"

Power and Water is transforming the way power is delivered to remote communities by incorporating solar power to reduce reliance on diesel. With the support of the Northern Territory Government, Power and Water is delivering a wide-scale rollout of 10 MW of solar systems across 25 remote Indigenous communities, through the Solar Energy Transformation Program – "SETuP".

The $59 million program is co-funded by the Australian Government through the Australian Renewable Energy Agency (ARENA) $31.5 million and includes $31 million financed through the Northern Territory Government.

The program is changing Power and Water's remote community energy supply portfolio, making solar energy an established part of future power station design.

The program goal is a 15% reduction in diesel use for targeted communities, adding up to 94 million litres of diesel savings.

Tranche 1 of the SETuP project comprised of 10 sites which are all complete and operational. The low risk integration approach has proven itself, achieving diesel savings without requiring battery systems. There was also strong positive community feedback and good local community engagement and employment outcomes achieved.

The program includes a unique project at Daly River that combines a 1MW solar array with a 2MWh battery. This allows the use of 100% solar energy during the day, with the diesel engines operating at night. The system went online in March 2018 and is delivering up to 70% diesel savings.

The final 14 sites under Tranche 2 are currently under construction and due for completion in April 2019.

Community engagement for these project sites is a key deliverable, with a focus on linking the project to local economic and employment opportunities.

Wadeye Asbestos Cement Mains Replacement

Power and Water worked with the Northern Land Council and the Department of Housing and Community Development to replace the old failing asbestos cement water main in the Wadeye community.

The project was completed in December 2017 for a cost of approximately $2 million and saw all asbestos cement mains in Wadeye community replaced with PVC mains.

Barunga New Water Source Equipping

The old Barunga water supply was extracted from a spring pool located on a small tributary of Beswick Creek. The spring was at risk of contamination from buffalo in the catchment, leachate from an upstream old dump site, spills at the upstream air strip and flood events.

Power and Water worked with the Northern Land Council and the Barunga community to equip new production bores to provide the community with a safe water source.

The project was completed in December 2017 at a cost of $3 million and as a result, the community now has secure safe water supplies for now and into the future.

Smart water meters in remote communities

Smart water meters are installed to provide automated hourly flow readings for each of the individual customer lots. This data is used to identify and quantify water loss from leaks or excessive use and enables targeted community and stakeholder engagement to reduce water loss and excessive usage.

Customer smart water meters have to date been installed in nine priority remote communities: Northern Region: Galiwin'ku (Elcho Island), Milingimbi, and Gunbalanya (Oenpelli); Katherine Region: Kybrook Farm; Southern Region: Yuendumu, Santa Teresa, Ali Curung, Yuelamu, and Epenarra (Wutunugurra).

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

This collaborative charging agreement and associated fortnightly leak reporting and water efficiency activities has been successful in reducing overall bulk water demand in Milingimbi by 30%, primarily through early identification and repair of customer water leaks.

Following the success of the project, Power and Water has been funded to extend customer smart water metering to all lots in an additional six remote communities (the next priority tranche of communities) by the end of 2018: Katherine Region: Ngukurr, Amanbidji and Minyerri; Southern Region: Kintore, Engawala, and Imanpa.

System Control and Market Operator

The past 12 months has been extremely busy and challenging for the System Control and Market Operator teams. Significant work this year has been in balancing the increased workload while supporting the implementation of the Government's new Roadmap to Renewables initiative. The mammoth effort in reinstalling Darwin's power system and network in response to Cyclone Marcus, all without diminishing the work from current initiatives prior to the new renewable policy. I could not be more proud of the team's dedication and commitment to their work.

One of our main priorities this year has been how to incorporate and understand the impacts the changing dynamics of large scale renewables will have on reliability and security of the Northern Territory's power systems. The ongoing work towards implementing new procedures and redefining processes will deliver increased reliability and safety of the Northern Territory networks for Territorians while encouraging new competition and improvements in machine efficiency for power generation in the Northern Territory. In June 2018 a reliability record for the Darwin-Katherine Power System was reached with 1,000 days without a single contingency under frequency load shed event.

Interaction between System Security and I-NTEM Reform

Earlier this year System Control finalised and released its Secure System Guidelines Version 4 following system participant consultation. The guidelines detail the principles for determining the secure operation of the Northern Territory regulated power systems. This includes significant work to further progress the implementation of Frequency Control Ancillary Services that will provide real incentives for generators of all types to improve machine performance as well as optimise the provision of ancillary services and energy to ensure the lowest overall cost with secure dispatch. For a relatively small power system like Darwin-Katherine it is the provision of ancillary services that dominate dispatch decisions, which is not the case in larger power systems (such as the National Electricity Market) where energy production dominates generator dispatch.

System Control has been assisting the Department of Treasury and Finance with further reform of the Northern Territory's electricity markets by working towards the unbundling of costs associated with providing ancillary services and ensuring their inclusion in dispatch optimisation with the onset of large scale renewables. The Department of Treasury and Finance recently established a working group comprised of relevant stakeholders including System Control to design and implement 'fit for purpose' wholesale market arrangements to accommodate new renewable generation entrants into the Darwin-Katherine power system.

Further progress this year has been made in the review of generator performance standards. Undertaking this work to define technical requirements in a technology neutral manner is core to ensuring a 'fair go' for renewable energy, synchronous generators and other technologies alike.

Increasing Competition

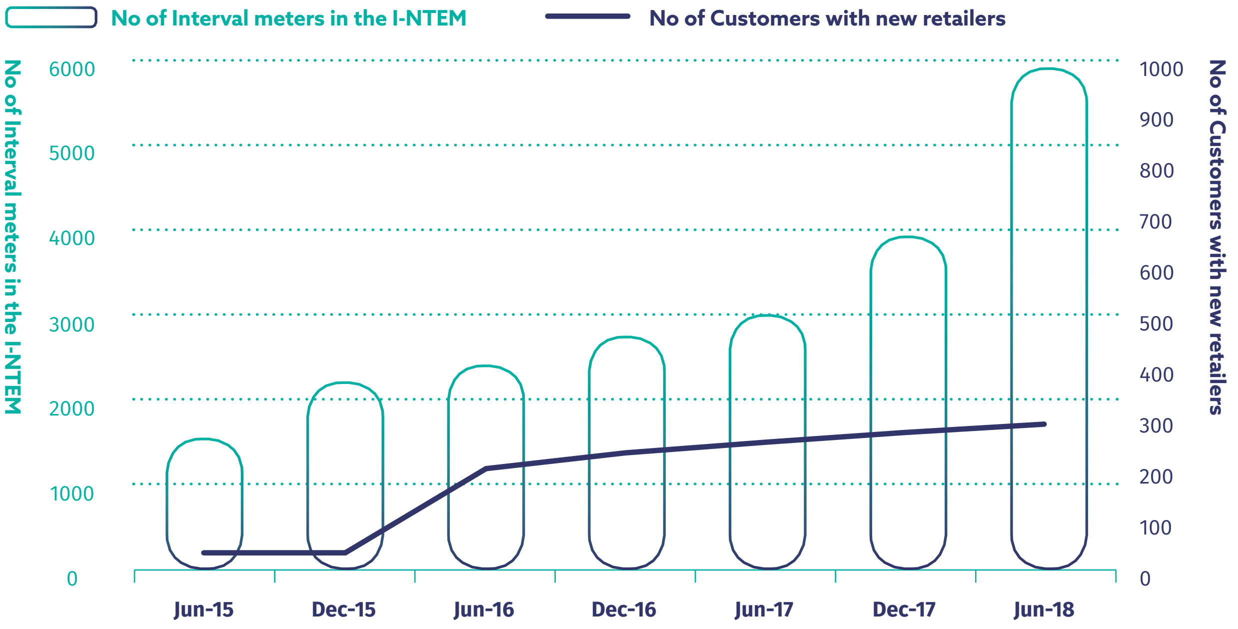
The Northern Territory's Governments Roadmap to Renewables 50% energy target has attracted much interest from numerous renewable solar energy providers across Australia with some proponents investigating to build solar power generation facilities and enter the Northern Territory's interim electricity market. Earlier this year the Utilities Commission approved electricity generation licences to two additional generation companies; Katherine Solar Pty Ltd and Airport Development Group Pty Ltd for the Darwin-Katherine power system.

System Control continues to work with interested solar proponents towards future market entry all the while ensuring the safe, secure and reliable production of energy for public consumption.

On the consumption side of the interim electricity market, as can be seen in the accompanying graph, the Market Operator team facilitated over a 100% growth or almost an additional 3,000 customer interval meters, used in monthly wholesale market settlements between retailers and generators participating in the market over the last 12 months. This is quite a significant increase when compared to the 585 additional meters included last year or the size of the market when it began three years ago with only 1,500 meters. The number of customers 'churning'to new retailers also continues to grow, increasing by 26% over the past 12 months. By load, these customers represented approximately 10% of the interim electricity market.

The additional growth in meters is a result of Power Networks, significant meter rollout program which will see Power and Water eventually install interval or 'smart' meters for all customer sites that consume greater than 40MWh per annum, a significant improvement down from the previous benchmark of 750MWh per annum. Smart meters record 30-minute energy use and are preferred for their accuracy that allows customers to make more informed decisions and better manage their peak energy demand. The number of interval meters is expected to continue to increase with the aim of having 40,000 smart meters installed for customers by 2024.

Increase in Interval Meters since I-NTEM Commencement



What is the I-NTEM and role of the Market Operator?

The Interim Northern Territory Electricity Market (I-NTEM) commenced on 27 May 2015.

The I-NTEM provides a framework to facilitate the wholesale arrangements of electricity exchange between generators and retailers in the electricity market. Consumers can then choose to buy electricity from any of the retailers licensed in the Northern Territory. The I-NTEM is designed to align the Northern Territory to other modernised Australian markets. Initially the I-NTEM will only be in effect for the Darwin-Katherine region.

The Market Operator manages this wholesale exchange of electricity between the generators and retailers and issues system participants with monthly settlements statements including credit notes to generation companies for the electricity they have produced and invoices to retailers for the electricity their customers have consumed. Currently the statements are considered 'virtual' and market participants utilise bilateral contracts to determine the price for energy production/consumption identified in the settlement statements.

Cyclone Marcus Response

The response to Cyclone Marcus earlier this year was an immense effort from not only the System Control team but staff from across Power and Water. The cyclone had caused severe damage to Darwin's distribution network and there were a high number of individual customers impacted by debris and tree damage. Restoration took four days for 90% of the power system to be restored.

While there was extensive damage to the distribution network, the Darwin-Katherine Power System held up suitably with overall generation performance responding effectively to the quick loss of load and multiple disturbances. Power and Water's emergency cyclone response was coordinated and controlled from System Control's Hudson Creek facility.

Outage Management System

System Control continues to work towards the implementation of an Outage Management System that will critically provide a single source of truth for outage management across the Northern Territory's many power systems and players. The Outage Management System will support whole-of-business fault call taking, outage and non-outage dispatch and supply restoration. Once completed, the Outage Management System will provide a Territory-wide real time model of Power and Water's power and water networks. This improved view of the current real time state of the distribution and reticulation networks will support accurate, safe, and efficient decision making relating to network operations and restorations.

Malcolm Conway
Power System Controller

We lead by example by stepping up to meet the challenge.

We share our knowledge and listen when others share theirs.

–

We communicate, collaborate and act constructively.

–

We want to improve and are here to make a difference.

We have pride in ourselves and OUR WORK

Financial performance

Financial Improvement Project

It is pleasing to report that the continuing improvement programme in relation to the financial systems and associated processes has again facilitated the delivery of an unqualified audit opinion for the year ended 30 June 2018 for both Power and Water on a consolidated basis and for its fully owned, not-for-profit subsidiary company, Indigenous Essential Services Pty Limited (IES).

Whilst the results are much "cleaner" than those reported last financial year, there are still a significant level of asset valuation movements and charges associated with Power and Water's long term gas contracts which impacts the income statement and balance sheet and so the commentary on performance also makes reference to the underlying results.

In this context, underlying results exclude the impact of asset valuation movements, banked gas impairment charges, provisions relating to the likelihood of an inability to fully recover the fixed costs associated with the corporation's gas supply and gas transport contracts and the income statement impact of gifting streetlight assets to local councils during the year.

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 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 2017-18 SCI and 2016-17 actuals is provided below.

	2017-2018 Actual $m	2017-2018 SCI $m	2016-2017 Actual $m
EBITDA	164.3	187.3	152.1
Impairments	51.7	12.8	58.1
Asset valuation movements	(31.4)	-	(3.2)
Streetlight assets gifted	16.4	-	-
Underlying EBITDA[1]	201.0	200.1	207.0
Depreciation and amortisation	(107.0)	(103.8)	(104.0)
Underlying EBIT[1]	94.0	96.3	103.0
Interest and tax (underlying)	(61.1)	(61.0)	(62.9)
Underlying Net Profit after tax[2]	32.9	35.3	40.1

[1] Earnings Before Interest, Taxes, Depreciation and Amortisation (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.

[2] Gifted Asset revenue, although a non cash item is a recurring item in the normal course and therefore has not been excluded from underlying profits after tax.

Revenue

Revenue for the corporation was $49.4 million below budget primarily as a result of the delay in securing and/or ramping up existing gas supply contracts and lower water and sewerage revenue due to a combination of the impact of lower demand from higher rainfall.

Community Service Obligations at $31.3 million were $2.8 million below budget primarily as a result of lower uniform tariff concessions. Electricity consumption was also lower than budget which when combined with tariff increases lower than budget, resulted in electricity revenue $13.3 million adverse to the SCI.

Operating costs

Associated with the reduction in gas revenue, gas cost of sales was $43.0 million below budget with the corporation consequently paying for but banking an additional $34.0 million of gas in the year.

Operating costs, excluding gas purchases, on an underlying basis were $7.2 million lower than budget with a continued focus on cost efficiency in the context of an acceptable risk profile to enable the corporation to continue to offset the cost of annualised salary and wage increases.

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. Consistent with the relevant accounting standards the income approach has a 'purchase of the business perspective' and is based on the net present value of the forecast cash flows of these businesses applying anticipated market conditions.

Accordingly, prior year impairments of $21.7 million was reversed through the income statement and credited against Power Networks' operational assets in 2017- 18, based on an assessment of current forecast cash flows. The income statement does however contain an expense of $16.4 million in relation to the carrying value of streetlight assets which were gifted to local councils during 2017-18.

For Water Services' assets, based on forecast long term cash flows; an increase in carrying value of $182.3 million was calculated. Under relevant accounting standards, increases are recorded against reserves and not through the profit and loss unless they relate to the review of prior year impairment losses taken to the income statement. Accordingly, the balance sheets and reserves positions were updated for water and sewerage operational assets with only $10.2 million recognised in the income statement (in relation to legacy assets impaired on the transition to the income approach on 1 July 2014).

Banked gas

The current gas contracts relating to the sale and purchase of gas result in the corporation having to pay for gas that will be sold in future years. These payments would be classified as intangible assets under Australian Accounting Standards Board (AASB) 136, except that the forecast future cash flows are insufficient to recognise an asset being accrued and therefore the asset has been fully impaired at 30 June 2018 with a non-cash impairment charge through the income statement of $32.2 million in 2017-18.

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". The Board have concluded that there exists an onerous contract, which has been quantified at $61.6 million at 30 June 2018 (30 June 2017 $42.1 million) with a consequent charge to the income statement for the year ended 30 June 2018 of $19.5 million. This results from the estimated cash inflows from future gas sales being lower than the unavoidable costs of gas purchase and associated transportation agreements. The current SCI was predicated on a closing provision of $13.1 million with the adverse movement to the SCI primarily driven by changing economic assumptions and the potential impact of increased renewables penetration on generation gas volumes over time.

Other expenses

The depreciation charge was $107.0 million compared to the SCI charge of $103.8 million. The additional $3.2 million unfavourable against budget is a result of higher than average value projects being capitalised from work-in-progress which is partially offset by a number of operational asset life extensions, primarily in Water Services. It is pleasing to note that the current year depreciation charge was calculated from the accounting system on an asset by asset basis.

Earnings before interest and tax (EBIT)

As a consequence of the non-cash impairment charges referred to above, the corporation recorded EBIT on a statutory basis of $57.3 million; which on an underlying basis EBIT was broadly in line with the SCI budget.

Interest

The interest charge at $47.0 million was broadly in line with budget.

Tax

The statutory tax charge for the year of $3.0 million compares to $11.3 million in the 2017-2018 SCI primarily driven by the decrease in net profit before tax of $27.4 million. The provision for income tax is favourable to the 2017-2018 SCI due the decreased tax charge for the year and a prior year tax refund receivable.

Tax cash payments of $43.6 million to the NT Government under the national tax equivalent regime were approximately $42.1 million adverse to the 2017-18 SCI, primarily as a result of finalising the tax depreciation charge (as opposed to the accounting depreciation charge) as a sub element of the fixed asset rectification project, together with now rectified shortfalls in the tax forecasting model used for SCI purposes.

Net profit after tax (NPAT)

As a consequence of all the above movements, the corporation recorded a statutory NPAT of $7.2 million for the year compared a budgeted SCI profit of $26.4 million with the shortfall primarily driven by the non-cash valuation uplift of fixed assets not fully offsetting the adverse impact of onerous gas contract provisions, banked gas provisions and gifting of streetlight assets highlighted above. On an underlying basis however, NPAT at $32.9 million is broadly in line with the SCI NPAT of $35.3 million with lower revenue being offset by lower operating costs.

Balance sheet

Equity benefited from a $118.6 million after tax increase in the value of both Power Networks and Water Services' assets which more than offset the impact of the increase in gas related provisions. This allowed the corporation to remain comfortably within its gearing limits (debt as a proportion of equity plus debt) during the year. Return on assets increased, compared to prior year reflecting the return to profitability of the Corporation. Interest cover and funds from operations were broadly in line with target levels. Capital expenditure was $7.2 million lower than budget in the year, spread across Power Networks, Water Services and in the corporate area from a reprioritisation of IT enabling projects into the "remediate the core" program. It was however pleasing to see Water Services capital programme much closer to budget levels than in prior years through an increased focus on capital planning and delivery.

Cash and cash flow

Closing cash holdings were broadly in line with the budget at $59.0 million, benefiting from higher opening cash balances but impacted by cash tax payments $42.0 million adverse to budget. As a result of the high tax payments, higher Capital expenditure, higher payments for banked gas and some reversal of working capital compared to the prior year the corporation did not generate a positive free cash flow for the year.

Dividends

The Board considered the level of NPAT for the year and its constituent elements, with a particular focus on adjusted cash backed NPAT on an underlying basis (excluding revenue from gifted assets, the movement in fixed asset valuations, gas impairments and the charge resulting from the gifting of streetlights to local councils) and having regard to that adjusted NPAT and the financial position and outlook for the Corporation across the SCI period have declared a dividend of $9.0 million subsequent to 30 June 2018 which will be paid by 1 December 2018. This has been disclosed as a subsequent event in both the Directors Report and the notes to the Accounts.

Neil Siford
Chief Financial Officer

The future

Critical to realising our goals is the review of our operating model. The operating model project will define how our capabilities, ways of working, business processes and systems are organised so that we can efficiently deliver the best service to customers.

The future continues to bring both challenges and opportunities for Power and Water. Entering the regulatory regime of the National Electricity Rules (NER) in July 2019, with network revenue being set by the Australian Energy Regulator (AER), carries the risk of increased financial pressure. This includes the possible requirement to reduce operational, business services and capital costs beyond those efficiencies already planned in the period. The growing penetration of renewable energy, which is expected to increase significantly over coming years, presents challenges to ensure that the effective integration of renewable energy technologies into the power system does not compromise system security and at the same time, meets our customer expectations.

Also, supporting the Northern Territory's growth means we must develop water conservation initiatives and review our water source strategies to ensure we continue to provide safe and secure drinking water to residents and to support future economic development.

These challenges make it imperative that we continue to seek business efficiencies and leverage all opportunities where possible, while focusing on our customers. With changing expectations in service and quality from our customers and the broader community, as well as the opportunities and challenges of new technology, we must continually improve our performance and capabilities.

Our new Operating Model

Power and Water is a multi-utility that over the years has evolved into the structure we have today, with silos and layers of duplication and inefficiency that are holding us back from being able to deliver the best levels of service to our customers.

This way of operating has been holding us back for too long, so we have instigated our Operating Model project to find ways to ensure we have the right people in the right job, with clear accountabilities, supported by properly-functioning ICT systems and streamlined processes that allow efficient work practices across the business.

The project has involved identifying areas of like-functions in our existing Water Services, Power Networks, Regions and Remote and Gas Supply businesses and grouping them to unlock synergies and enhance capabilities.

By doing this, we will operate better, with better coordination, more efficient use of resources and proactive asset management while delivering a superior customer experience.

Importantly, our new operating model will effectively support local decision-making through access to better, more accurate information that's there when it's needed.

It will improve our operations in remote areas because the whole of Power and Water will become responsible for service delivery rather than just one business unit. The on-the-ground delivery of services in remote communities will be improved through an uplift in training and capabilities for our Technical Coordinators, who will then be able to provide even greater support to our Essential Service Operators.

Furthermore, by bringing together the back-office functions for all regions under our new operating model, remote service delivery will be supported through 24/7 fault monitoring – which will allow us to proactively address emerging problems rather than wait for an asset to fail – and better supply chain management, which will mean improved capital planning and delivery in local communities.

The new Operating Model is also a key enabler of the other four priority projects set out in our Statement of Corporate Intent – Health and Safety, Culture and Capability, our transition to the National Electricity Rules and our ongoing work to remediate the core of our ICT systems – which, taken together, will form Power and Water's transformation journey out to 2022.

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 for 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

Our vision is 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.

Health and Safety

A proactive safety culture across the organisation based on accountability, trust and ethical behaviour.

- Implement and sustain a proactive safety culture supported by effective safety management systems, governance and visible safety leadership.
- Strengthen the delivery of safe drinking water to customers in line with Australian Drinking Water Guidelines.

People and Culture

A high performing, diverse workforce that has the capability and works together to drive business effectiveness.

- Improve employee engagement and performance to deliver organisational goals.
- Strengthen our capability in leadership, empowerment and accountability.
- Embed a values driven culture that fosters collaboration and innovation.
- Build regional and Aboriginal capability and opportunities.

Financial Performance

A financially robust and commercially sustainable organisation with a strong capital discipline framework and delivering appropriate returns to our shareholders.

- Lift the level of commercial focus, financial capability and transparency across the organisation.
- Enhance the focus on gross margins and capital efficiency.
- Prudently manage debt levels and other key financial metrics benchmarked against similar organisations.

Operational Performance

An efficient provider of services to our customers supported by strong asset management, governance and protection of the environment.

- Rethink the way we operate.
- Identify and adopt best practice methodologies across the organisation and leverage synergies across the multi-utility business.
- Embed an effective and efficient organisational structure to deliver services to customers.
- Simplify and enhance systems and processes to support efficient business operations.
- Ensure prudent, effective risk and governance practices, including environmental management.

Customer

A customer centric organisation that is easy to deal with and offers better choices.

- Clearly understand our customer and stakeholder needs and commit to delivering on those expectations.
- Improve the customer experience by aligning core systems and processes.
- Improve customer engagement, face-to-face and through digital platforms in line with our customer strategy.

Regulatory environment

Regulatory Submission to the AER

Power and Water submitted its first full regulatory proposal to the Australian Energy Regulator (AER) in early 2018. The proposal covered Power and Water's consumption, operational and capital expenditure (known as opex and capex) forecasts as well as our expected revenue path for our three regulated networks. The submission proposes an average revenue reduction of approximately $97 per customer in 2019-24.

Power and Water's regulatory proposal was heavily influenced by our engagement program, including:

- investment to maintain system-level reliability and improve outcomes for customers with poor performance;
- moving towards sustainable pricing structures;
- using smart meters as our standard for all new customers and when replacing faulty meters;
- improving the ways we communicate with you; and
- making it easier to connect renewables to our network.

In response, the AER conducted its first of two public forums in Darwin and scheduled the second to be held in October 2018, after the release of their draft determination.

Transition to the NER

Work continues in relation in the transition to the National Electricity Rules (NER) and framework. Even though the 2019-24 regulatory proposal has been submitted, a great deal of work is still required to be completed including:

- Transitional Agreement Negotiations where Power and Water will continue to negotiate derogation arrangements with the Department of Treasury and Finance and the Northern Territory Government, along with an AER engagement strategy ensuring a practical and cost effective transition to the NER.
- Jurisdictional Code Review which involves responding to the Utilities Commission's Code review program seeking to align jurisdictional codes with the NER.
- Transition to compliance with the NER, which addresses the activity that is required to comply with the NER and the revised jurisdictional instruments from their effective dates.

Management and Governance Assurance Framework (MGAF) project

- The Management Governance Assurance Framework (MGAF) project is designed to address many of Power and Water's systemic compliance issues, by establishing:
  - a structured approach to documented compliance processes;
  - an ability to demonstrate outcomes through policies, procedures and strategies; and
  - an updated policy, management standard and procedures framework.

- Horizon 1 of the MGAF project primarily involved a review and update of the current compliance framework and a current state assessment of policy and procedures across Power and Water, to inform an agreed "future state" and further development of existing management governance and assurance frameworks to deliver critical risk reduction outcomes.
- Horizon 1 was successfully completed with the submission of the annual compliance report to the Board and declaration to the Utilities Commission in August 2017.
- Horizon 1 focused on re-setting the foundations of the management governance and assurance framework and the commencement of updating Power and Water's enterprise obligations register. The next phase, Horizon 2, will finalise the obligations register and focuses on delivering against the framework and embedding into the organisation.
- There are six key work steams for Horizon 2:
  - Compliance – document Power and Water's legislative and regulatory compliance obligations as well as contractual obligations and best practice standards in an enterprise obligation register.
  - Quality – document and embed the management framework which is based upon the Quality Principles ISO9001 standard.
  - Accessibility - improve ease of access to information by having a single source of truth centrally located.
  - Continuous improvement through insights – driving improvement in our systems and process through insights gained from reporting, including a program view of business unit remediation plans.
  - Change management – driving an aligned business that adheres to obligations, with documented policies, management standards and procedures that are embedded into day-to-day operations.
  - Integration – mature the compliance, risk and assurance functions to an integrated management governance and assurance framework.

- Key Outcomes to date:
  - Enterprise obligations register has been updated to include all regulatory obligations, including risk assessment and assignment of Responsible and Accountable Managers.
  - Board approved Power and Water policy framework and suite of policies.
  - Management Standard framework defined and a remediation plan in place to transition existing documents to the new framework or identify any gaps.
  - Program view of business unit remediation plans tracking progress.
  - Single source of truth for employees to access policies, management standards and work procedures.

- Key Outcomes expected by June 2019
  - Enterprise obligations register has been updated to include all legislative and contractual obligations, as well as industry best practice standards, including risk assessment and assignment of Responsible and Accountable Managers
  - Work procedures are documented and stored in a central location.
  - On-going program view monitoring of business unit remediation plans and tracking against progress.
  - Implementation of an integrated governance, risk and compliance tool.
  - Improvements in role accountability with greater access to information (intranet and integrated system).

- By the end of Horizon 2 there will be greater alignment between compliance, risk and assurance functions and realising the benefits of an integrated management governance and assurance approach.

We are one team doing one big job.

We are honest, open, and upfront.

–

We build relationships, with trust as the foundation.

–

We each contribute to any and every part of our business.


THIS WAY
We work better by working
TOGETHER

Corporate governance

Organisational Chart (as at 30 June 2018)

Hon Nicole Manison MLA
Treasurer and Shareholding Minister

John Langoulant AO
Chair and Board of Directors

Michael Thomson
Chief Executive

Djuna Pollard
Executive General Manager Power Networks

Robert Brito
Executive General Manager Water Services

Malcolm Conway
General Manager System Control

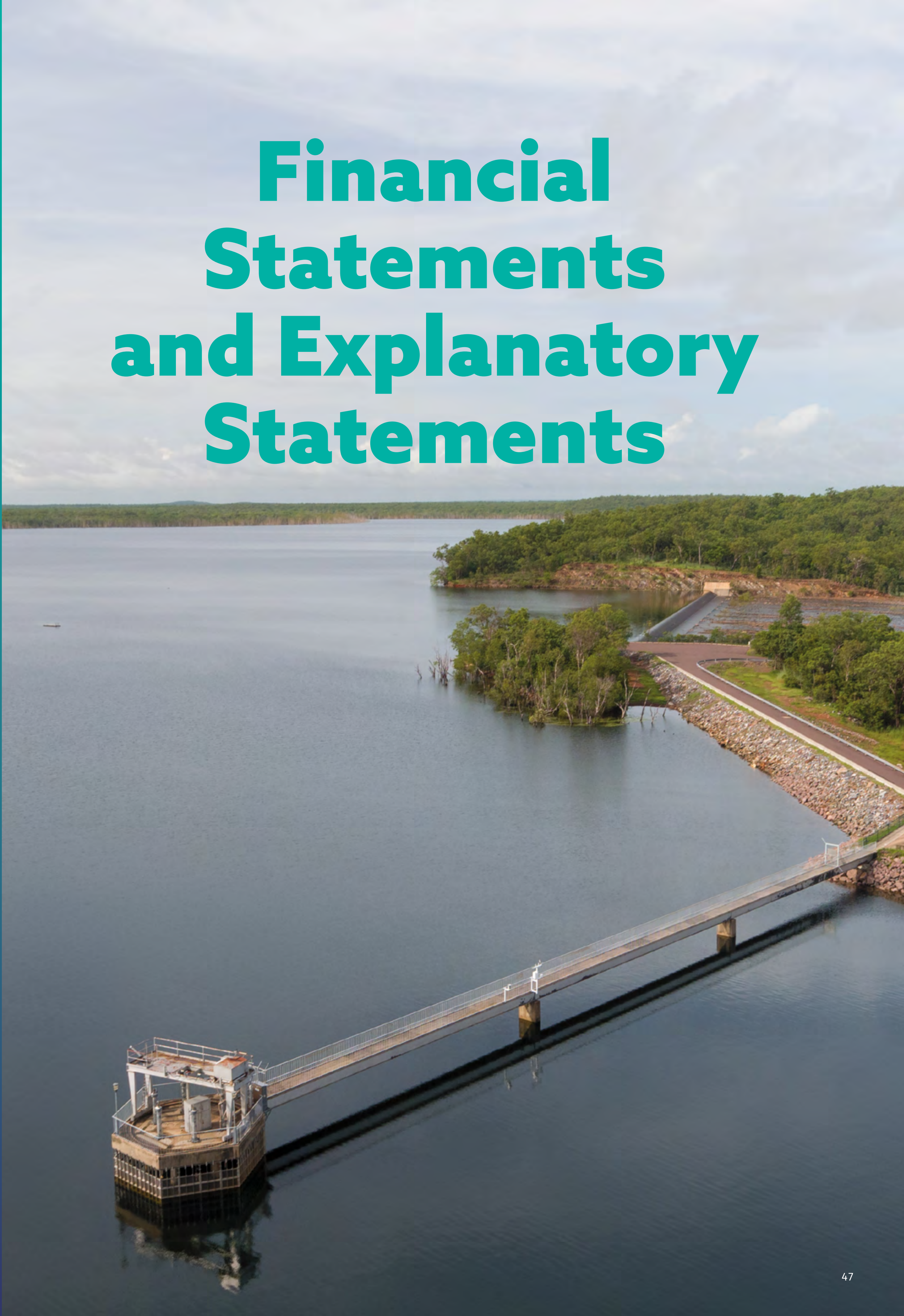
David Coucill
General Manager Regions and Remote Operations

Neil Siford
Chief Financial Officer

Antoni Murphy
General Manager Gas Supply

Amanda-Lea Smith
General Manager People, Culture and Customer

Financial Statements and Explanatory Statements



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Financial Statements and Explanatory Statements

Power and Water Corporation

Directors' report
for the year ended 30 June 2018

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 2018 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 Langoulant OAM (Chairman) B. Economics (Hons)	Mr Langoulant has an extensive list of credentials and experience from a range of industries in both the public and private sectors, including time as the head of the Western Australian Chamber of Commerce and Industry and as the Under Treasurer of Western Australia. Mr Langoulant is the Independent Chair of the Dampier to Bunbury Natural Gas Pipeline (DBNGP) and of the Telethon Institute for Child Health Research. He is also the Chair of the Government Employees Superannuation Board and the Rottnest Island Authority and has previously held the position of Chair for the Western Australian Treasury Corporation and Director of the Gold Corporation. Mr Langoulant is a member of the Board of the National Disability Insurance Scheme. In addition, Mr Langoulant consults to Curtin University, and the Westpac Group in Western Australia. Mr Langoulant joined the Power and Water Corporation Board in June 2017.
Mr Ken Clarke (Deputy Chairman until resignation from board in August 2018) BCom(Hons), Grad Dip (Mgt), MAICD	Mr Clarke has had an extensive career in public administration, with particular experience in public finance and governance. A former Under Treasurer in the Northern Territory Government, he also has experience working in Canberra as well as in the United Kingdom and Papua New Guinea. He has had various Board appointments, including Energex Limited, the NT Power and Water Authority, In Motion Technologies Pty Ltd, Northern Territory University and the Northern Territory Mango Industry Association. He works as a consultant and has Board and executive roles in a company developing software and content for the education industry in Australia and overseas. Mr Clarke joined the Power and Water Corporation Board in December 2013 and resigned in August 2018.
Mr Richard Griffiths	Mr Griffiths arrived in Darwin in 1959 with the RAAF working in Darwin and Tindal. From 1965 to 1967, he worked as a disposals officer for the Department of Transport and Works, after which he worked as a life insurance agent for MLC until 1974. In 1975, Mr Griffiths opened the Bradlaw Agencies which manages national franchises such as Sony, Westinghouse, Simpson, Chef, Dishlex, AEG & Kelvinator. His primary customers are The Good Guys, Harvey Norman, Oasis and Murray Oakley. Mr Griffiths is still the CEO of the company and runs the business along with his four children. He is a patron of the Chung Wah Society and a life member of the Warratah Football Club. Mr Griffiths was also a past president of the Carbine Club. Mr Griffiths joined the Power and Water Corporation Board in January 2014 and resigned in December 2017.
Emeritus Prof MaryAnn Bin-Sallik EdD (Harvard), Assoc. Dip. SW (SAIT) RSN, JP	Emeritus Prof Bin-Sallik was the Dean of Indigenous Research at Charles Darwin University until she retired in 2008. She was also the Dean of the College of Indigenous Education and research at University of South Australia prior to returning to Darwin in 2001. She has both her Masters Degree and Doctorate in Education from Harvard University. She graduated from general nursing at the Darwin Hospital and spent 17 years in the nursing profession in the Northern Territory before moving into higher education. She has served on a number of national committees and councils. An active researcher her book, Aboriginal Women by Degrees, was published by UQP in 2000 and records the journeys of 13 Indigenous women on their road to achievement. Prof Bin-Sallik joined the Power and Water Corporation Board in April 2014 and resigned in April 2018.
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 left the Power and Water Corporation Board in March 2013 and re-joined in April 2014.
Ms Helen Stanton BE GAICD	Ms Stanton brings strategy, risk and governance expertise to the Corporation's board. Her career spans operational, leadership and commissioning roles in the mining industry and more recently as a consultant supporting organisations to formulate strategies for bottom line, sustainable improvements. Ms Stanton is a Non Executive Director of Mater Health Services North Queensland and Northern Australia Primary Health Limited. During 2015 Ms Stanton resigned as a Non Executive Director of Ergon Energy, where she was chair of the Operational Risk Committee and a member of the Regulatory Committee. Ms Stanton joined the Power and Water Corporation Board in April 2014 and chaired the Audit and Risk Committee and the Water and Sewerage Committee. Ms Stanton resigned in April 2018.
Mr Ian Kowalick BSc (Hons), B.Ec, AM	Mr Kowalick brings to this directorship consulting experience across all levels of government and within the resources sector. He chaired a working group that examined options for the future of Adelaide's water supply and was an Independent Commissioner of the Murray Darling Basin Commission from February 2007 to December 2009. Mr Kowalick has also been on the boards of several Commonwealth and State Statutory Corporations and for 12 years was a member of the University of Adelaide Council, including 3 years as chair of the Finance Committee. Mr Kowalick was also one of 3 founding directors of Arafura Resources Ltd., a Western Australian listed Public Company. Mr Kowalick joined the Power and Water Corporation Board in July 2015. Mr Kowalick resigned in August 2018.
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 and WorkCover Queensland. 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 the National Employment Services Association and Vice President of the Mount Isa Rodeo. Ms McNally is a Director and Quality Safety and Risk Committee Chair of the North West Hospital and Health Service, a Member of the International Committee for Health Care Institutions, and previously Chair of Catholic Health Australia and Cerebral Palsy Queensland, Deputy Chair of Cerebral Palsy Australia and a Director of several Boards in the St Vincent's Hospital group in Queensland. Ms McNally is a Member of Australian Water Association and the Risk Management Institution of Australasia. Ms McNally joined the Power and Water Corporation Board in April 2018 and is also a Director Indigenous Essential Services Pty Limited

Power and Water Corporation

Directors' report
for the year ended 30 June 2018

Directors (Cont'd)

Name	
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, specialising in tax. 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, Opera Qld Ltd and the UN Women National Committee Australia. She is also the Deputy Chair 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, including as a Member of the Business Tax Working Group (2011-2012), Member of Resources Taxes Implementation Group (2011) and Member of the Centre of Excellence for International Finance & Regulation Working Group (2010-2011). 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	David is the former CEO of DUET Group, an ASX-listed utilities and energy company. He now serves as a Non-Executive Director on the boards of: Vector Limited (NZX:VCT) the Auckland-based electricity and gas distributor; Endeavour Energy, a NSW electricity distributor; Dussur, the Saudi Arabia Industrial Investment Company; and The Helmsman Project, a not-for-profit organisation providing development programs for year 9 students in western Sydney. As CEO of DUET Group he served as a Director on the Boards of: United Energy Distribution and Multinet Gas in Victoria; DBP, the owner-operator of the Dampier to Bunbury Natural Gas Pipeline; Energy Developments Limited; and DUET's minority-owned businesses, Duquesne Light (USA) and WA Gas Networks. David'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.
Ms Gaye McMath	Ms McMath has served a successful executive career, spanning 23 years with BHP and 15 years in the higher education sector. During her tenure at BHP, Gaye served in various senior strategic and operational roles, involving remote operations and delivering major infrastructure projects in mining, resources and gas. She was nominated by BHP as a director on both domestic and international mining and steel joint venture boards. Her industry experience in electricity generation and network distribution, gas and infrastructure includes as a Director with Alinta Infrastructure holdings, National Power Services (WA) Pty Ltd, Verve Energy and the Commonwealth Government Solar Flagship Council. Ms McMath's other board and governance roles include as a Director and Trustee on the Perth Anglican Church Diocesan Trust (2011-2016), Member, Deputy Chair and Chair Governance Committee, Chair Nominations and Remuneration Committee, Chair Finance and Risk Committee of the Silver Chain Nursing Association (2000–2010), Director of the Perth International Arts Festival (2008-2016) and as a Director and Chair of the Audit and Risk Committee of Perth Markets Limited (2016). Ms McMath also served as a Director of the University Club of Western Australia (2000-2016), Council Member of University Hall (2004-2016), Member of the WA State Government Major Stadia Taskforce (2005-2007), Director of the Western Australian Treasury Corporation (2003-2015) and a number of others. Ms McMath joined the 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

Mr Antoni Murphy CA BBus GAICD	Mr Murphy is a senior executive with over 25 year's local and international experience working across a wide range of organisations, functions, industries and projects. He has held a number of senior positions including acting in the roles of Chief Executive and Deputy Chief Executive. He has Board level experience which includes current and previous memberships on a number of commercial, government and not for profit organisations. Mr Murphy is the current Chair of the Audit Committee for the Northern Territory Department of Health and an Independent Member of the Audit and Risk Committee for the Northern Territory Department of Children and Families. Mr Murphy was appointed Company Secretary on 25 July 2014 resigned 21 July 2017.
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.

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 and 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 conducted by the Corporation or its subsidiary during the financial year.

Power and Water Corporation

Directors' report
for the year ended 30 June 2018

Review of Operations

	Consolidated June 2018 millions	Consolidated June 2017 millions
Revenue	712.6	712.6
Total revenue	**712.6**	**712.6**
Expenditure	(512.0)	(488.4)
Impairment charge, revaluation of assets and onerous provision adjustments added back	(20.3)	(54.9)
Total expenditure	**(532.3)**	**(543.3)**
EBITDA	**180.2**	**169.3**
Depreciation and amortisation	(164.4)	(166.4)
EBIT	**15.7**	**2.9**
Interest expense	(47.3)	(45.9)
Net loss before income tax	**(31.5)**	**(43.0)**
Income tax expense	(3.1)	(0.7)
Net loss after income tax	**(34.5)**	**(43.7)**

	Consolidated June 2018 millions	Consolidated June 2017 millions
EBITDA before impairment and onerous contract provision adjustments		
EBITDA	180.2	169.3
Impairment charge, revaluation of assets and onerous provision adjustments added back	20.3	54.9
Streetlight assets gifted	16.4	-
Underlying EBITDA[1]	**216.9**	**224.2**
Depreciation and amortisation	(164.4)	(166.4)
Underlying EBIT	**52.5**	**57.8**
Interest expense	(47.3)	(45.9)
Underlying net profit before income tax[1, 2]	**5.2**	**11.9**
Total assets	3,336.9	3,110.0
Total liabilities	(1,876.4)	(1,735.7)
Total equity	**1,460.5**	**1,374.4**

[1] 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.

[2] 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.

The consolidated entity recorded a statutory net loss after tax for 2017-18 of $34.5 million, an improvement of $9.2 million compared to a net loss after tax of $43.7 million for 2016-17. Underlying EBITDA (before the impact of impairment costs and onerous contract provision), decreased from $224.2 million to $216.9 million. The significant movements in the profit and loss for 2017-18 are:

(i) A decrease in revenue from the sale of goods of $7.2 million compared to 2016-17, driven by decreases in gas and standard control service revenue totalling $11.4 million offset by increases in water and electricity sales totalling $4.2 million

(ii) A decrease in revenue from the rendering of services and government grants of $6.2 million compared to 2016-17

(iii) An increase in revenue from gifted assets and capital contributions of $14.0 million compared to 2016-17

(iv) A decrease in depreciation and amortisation of fixed assets of $1.9 million compared to 2016-17 primarily due to the assessment of useful lives throughout the year and subsequent adjustment to increase the useful lives of assets

(v) A decrease in impairment of non-current assets and onerous contract provision expenses of $34.6 million compared to 2016-17

(vi) Net loss on disposal of property, plant and equipment increased due to streetlight assets with a net book value of $16.4 million gifted to local councils during the year

(vii) Impairment expenses primarily consist of the impairment of make-up gas of $32.1 million offset by a reversal of a prior year write down in Water Services and Power Network infrastructure assets of $31.4 million. Impairment is a non-cash accounting entry resulting from the application of Australian Accounting Standards AASB 136 Impairment of Assets

(viii) An additional $19.5 million in onerous contract provision in relation to the Corporation's long term contracts to procure gas and the associated transport charges has been recognised during 2017-18. Additional details in relation to this onerous contract are included under Gas Contracts below.

Power and Water Corporation

Directors' report
for the year ended 30 June 2018

Review of Operations (Cont'd)

The following paragraphs discuss the full year result further:

Revenue

The consolidated total revenue remained consistent with the prior year. The revenue from sale of goods and revenue from rendering of services and government grants decreased by $13.4 million primarily due to a decreased revenue from standard control services. The decrease was offset by an increase in other income of $13.2 million. This increase in other income was mainly due to the increase in gifted assets and capital contributions of $14.0 million and recoverable works income of $1.4 million offset by a decrease in miscellaneous income of $2.2 million.

Expenses

Overall consolidated expenditure including depreciation and amortisation expenses and finance costs, decreased from $755.5 million to $744.0 million, a decrease of $11.5 million. Other than impairment expenses, depreciation and other expenses, the major movements are explained as follows:

(i) Energy and material costs increased by $4.9 million, mainly as a result of increased diesel prices

(ii) Repairs and maintenance expenditure decreased by $1.1 million due to savings in repairs and maintenance costs

(iii) Employee expenses increased by $3.7 million

(iv) Other expenses increased by $8.7 million due to work-in-progress wrritten off in the year in relation to discontinued projects

Capital expenditure

Capital expenditure for the consolidated entity totalled $193.8 million for the year to 30 June 2018. Major project spending in 2017-18 included:

Location	Description	$ Million
Darwin	Inlet works Leanyer Wastewater Treatment Plant	9.6
	All Regions Customer Water Meter Replacement	1.3
	Eastern Trunk Sewer	7.1
	Humpty Doo - Sewerage Infrastructure Development	3.8
	Darwin rebuild The CIPS-Hudson Creek 132kV Transmission Line Including Elizabeth River	2.0
	Inpex - 132kV Line	3.1
Regions	Solar Energy Transformation	14.4
	Water supply upgrade	5.5
	Design of new bore field electrical infrastructure	2.1
	Asbestos Cement Water Mains Replacement	4.8
	Tiwi Islands Energy Solution	2.9
	Sewerage reticulation upgrade	5.5
Palmerston	Archer ZSS - Palmerston 66kV Line	5.9
	Palmerston ZSS Third Transformer	2.7

Cash flow

The consolidated entity's cash balance at the end of June 2018 was $103.9 million. This is a decrease of $40.8 million compared to $144.7 million as at 30 June 2017. The balance includes $44.9 million held by the Corporation's wholly owned subsidiary, IES Pty Ltd. The decrease in cash held by the consolidated entity is a result of $117.4 million in cash flow generated from operating activities and $35.2 million from financing activities offset by $183.5 million in cash flows used in investing activities.

Cash flow generated from operating activities decreased due to an increase in income tax payments as a result of the finalisation of the fixed asset rebuild in the prior year and subsequent amendments to income tax returns and an increase in payments to suppliers as a result of increased gas payments throughout the year. Receipts paid in advance decreased, reducing the cash received throughout the year whilst pre-paid expenditure increased.

There has been a continued focus on the alignment of the forecasted capital expenditure program and actual capital expenditure which has seen cash outflows increase in the investment of property, plant and equipment.

As at 30 June 2018, IES Pty Ltd owed the Corporation $18.2 million (2017: $25.1 million) which is made up of an inter-entity receivable for recovery of net costs of $7.2 million in relation to services provided and a $11.0 million loan (see Notes 7 and 11) provided during 2016-17 in respect of the ARENA IES solar set up project. The loans represent the Corporations current contribution to the obligation to fund the Corporations portion of the forecast $59.0 million solar set up project. A further $14.0 million loan is planned in 2018-19 and $2.5 million loan in 2019-20.

Power and Water Corporation

Directors' report
for the year ended 30 June 2018

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 Networks 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 however valued on a depreciated replacement cost basis.

The Directors' note to the readers of the financial statements that the income approach differs to a depreciated replacement cost basis of valuation which is based on the cost of replacing the assets of these businesses in their depreciated state.

The last depreciated replacement cost valuation the Directors obtained was in 2013 which indicated that the depreciated replacement cost of the core operational assets of Power Networks 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. AASB 116 'Property, Plant and Equipment' requires the fair value of property, plant and equipment to be revalued at least every five years. The Directors' are obtaining a new valuation on the depreciated replacement cost basis for the assets of IES Pty Ltd and a new valuation on the market value of the Corporation's land and buildings.

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 13(a) and 13(b). The net present value of the cash flows of the Gas Supply Unit under AASB 136 'Impairment of Assets' framework does not however support the continued recognition of this asset. The cash flows which are assessed under AASB 136 are the same as that used in arriving at the onerous contract provision of $61.6 million under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' albeit they are discounted at a "commercial" discount rate of 7.4%. Therefore the Corporation has written down the value to $7.7 million as at 30 June 2018 in accordance with the requirements of Australian Accounting Standards incurring a charge to the income statement of $32.2 million.

There have been no triggering events during the 2017-18 financial year which would require further analysis for an impairment write-down of fixed assets.

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.

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 as required under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', have concluded that at the date of this report there exists an onerous contract which has been quantified at $61.6 million as at 30 June 2018 ($42.1 million at 30 June 2017) with the year on year movement recognised as an impairment expense in the statement of profit or loss and other comprehensive income. This results from the estimated cash inflows from future gas sales, being lower than the unavoidable costs of gas purchase and associated transportation agreements.

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. As a sensitivity, a change of 10% in the average assumed sales price, or sales volume, would result in an overall NPV change of +/- $350 million.

Whilst the onerous contract provision of $61.6 million is material from an income statement perspective, it is not significant in the context of the remaining fixed cost of committed gas and transportation purchase contracts which amount to approximately $4.0 billion in today’s dollars, with the provision representing approximately only 1.5% of future commitments.

Dividends

Subsequent to 30 June 2018 the Board resolved to declare a dividend of $9.0 million. No dividend was declared or paid in the year ending 30 June 2018 (30 June 2017: $nil).

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.

Power and Water Corporation

Directors' report
for the year ended 30 June 2018

Going concern (Cont'd)

The Corporation has carried out an assessment of the going concern assumption. This includes assessing:

(i) Forward cash flow projections

(ii) Funding sources

(iii) Compliance with debt covenants

(iv) The continuity of key customers and suppliers

(v) The impact of current economic conditions

(vi) Forward forecasts and budgets.

For the year ended 30 June 2018, the Corporation made a net profit after tax of $7.2 million compared to a net profit after tax of $1.7 million for 2016-17. The Corporation is forecast to continue to make profits over the next 4 years as reported in the Statement of Corporate Intent 2018-19 (SCI).

Although the Corporation's current liabilities for the current year exceed its current assets by $243.4 million, this was due to the debt maturity profile of the Corporation. All debt maturing in 2017-18 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.

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 the Commonwealth and Northern Territory legislations. The Corporation received three infringement notices for alleged environmental nuisance incidents occurring throughout 2017-18. 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 final dividend of $9.0 million in September 2018, payable on 1 December 2018.

A draft decision for consultation was issued by the Australian Energy Regulator (AER) on 10 July 2018 on the factors relating to the rate of return achievable within the regulated network. Additionally, the AER issued its draft determination relating to its findings and opinions on the Power and Water Corporation submission on 27 September 2018. While in isolation both of these will potentially affect future forecasted cash flows and therefore asset valuations, as these are still draft at the date of this report and will need to be considered together with all other relevant inputs to the valuation model, it is unknown what impact, if any, the final determination will have on the fixed asset valuations for the infrastructure assets of Power Networks under the income approach.

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 2014.*

Power and Water Corporation

Directors' report
for the year ended 30 June 2018

Indemnification and insurance of directors and officers (Cont'd)

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.

Auditor's Independence declaration

The auditor's independence declaration is included in the Independent Audit Opinion included in this annual report.

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 28th day of September 2018

John Langoulant
Chair

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 2018, 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 2018 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* (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.

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
Unbilled Revenue	
Revenue from the sale of goods, as disclosed in Note 3(a) to the financial statements), includes estimates values for unbilled revenue from Power Networks, System Control, Electricity and Water totalling $44.183 million. 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.	My procedures included but were not limited to: ▪ 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; ▪ comparison of unbilled revenue to the actual subsequent billings; and

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Key Audit Matter	Audit scope response to the Key Audit Matter
The estimation of the unbilled revenue is a key audit matter as it requires significant management judgment to estimate customer consumption between the last invoice date and the end of the reporting period.	▪ analysing the trend 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.
Valuation of property, plant and equipment Property, plant and equipment, as disclosed in Note 12 to the Financial Statements, totals $3,026 million. 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.	My procedures included but were not limited to: ▪ 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; ▪ 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 the Accounting Standards; ▪ assessing the consistency of forecast cash flow used in total to the Board approved Statement of Corporate Intent; and ▪ performing a sensitivity analysis to test the key assumptions used in the estimate pertaining to key drivers such as growth rates and discount rates.
Provision for Onerous Contracts As disclosed in Note 18 to the financial statements, the Corporation has recorded a provision of $61.604 million to recognise the economic costs associated with some gas contracts outweigh the expected benefits to be derived based on current circumstances. The net present value calculation of contract is a key audit matter due as the calculation is complex and the valuation model is based on assumptions and estimates that are affected by future performance and market conditions.	My procedures included but were not limited to: ▪ assessing and challenging the appropriateness of cash flow projections resulting from management's assumptions; ▪ verifying the inputs used in the model; ▪ recalculating the outputs of the model;

Auditor-General

Key Audit Matter	Audit scope response to the Key Audit Matter

- assessing the integrity of the gas contract model used by the management based on the assumptions around the functionality of the model when compared to industry standards; and
- assessing the appropriateness of classification and adequacy of disclosures in the current financial year.

Classification and valuation of Capital Work in Progress

As disclosed in Note 12 to the financial statements, the Corporation has recorded Capital Work in Progress valued at $300.66 million.

The valuation of Capital Work in Progress is a key audit matter due to the judgements and assumptions involved in the valuation of Capital Work in Progress accrued at year end and the degree of judgement involved in the classification between operational and capital expenditure.

My procedures included but were not limited to:

- obtaining an understanding of the key controls associated with the monitoring of actual project expenditure against the approved budget expenditure for the Corporation's major projects;
- obtaining an understanding of the key controls associated with the estimation of the stage of completion used to determine the value of costs accrued at year-end;
- checking the review of capital work in progress performed by the Corporation at year-end; and
- for a sample of capital project expenditure;
  - tracing the recorded costs to the invoices and assessing whether the nature of the costs represent future benefits to the Corporation in accordance with accounting standards;
  - tracing accrued expenditure at year-end to any subsequent invoices received from contractors; and
  - examining progress reports related to major projects at year-end.

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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 2018, but does not include the financial report and my auditor's report thereon.

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

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

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 management either intends to liquidate the Corporation or to cease operations, or has 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.

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.

Auditor-General

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- 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.

Julie Crisp
Auditor-General for the Northern Territory

Darwin, Northern Territory

28 September 2018

Level 12 Northern Territory House 22 Mitchell Street Darwin 0800 Tel: 08 8999 7155

Power and Water Corporation

Directors' Declaration
for the year ended 30 June 2018

The Directors declare that:

(a) in the Director's opinion, the attached financial statements and notes of the Corporation and the consolidated entity are in accordance w *Government Owned Corporations Act 2014*, including compliance with Accounting Standards in Australia and giving a true and fair view financial position and performance of the Corporation and the consolidated entity;

(b) in the Director's opinion, there are reasonable grounds to believe that the Corporation and the consolidated entity will be able to pay its as and when they become due and payable; and

(c) in the Director's opinion, the financial statements and notes thereto are in accordance with the International Financial Reporting Standar issued by the International Accounting Standards Board, as stated in Note 2(a) to the financial statements.

Dated at Darwin this 28th day of September 2018

John Langoulant
Chair

Power and Water Corporation

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

		Consolidated		Corporation	
	Note	June 2018 $'000	June 2017 $'000	June 2018 $'000	June 2017 $'000
Continuing Operations					
Revenue from sale of goods	3 (a)	482,649	489,860	445,139	453,394
Revenue from rendering of services and government grants	3 (b)	144,435	150,597	74,523	76,082
Finance revenue	3 (c)	1,491	1,383	1,433	1,140
Other income	3 (d)	83,993	70,725	82,207	64,884
Inter-Group sales		-	-	11,813	11,870
		712,568	**712,565**	**615,115**	**607,370**
Energy and materials		(217,039)	(212,183)	(189,604)	(186,077)
Repairs and maintenance expense	3 (h)	(71,138)	(72,192)	(55,423)	(55,856)
Employee benefits expense	3 (g)	(98,233)	(94,537)	(85,395)	(82,039)
External service agreements		(40,177)	(39,116)	(27,093)	(25,196)
Impairment of non-current assets and onerous contract provisions	3 (j)	(20,316)	(54,867)	(20,316)	(54,867)
Net loss on disposal of property, plant and equipment, inc gifted streetlights		(22,308)	(15,975)	(19,571)	(2,092)
Other expenses	3 (i)	(63,132)	(54,387)	(53,454)	(49,128)
		(532,343)	**(543,257)**	**(450,856)**	**(455,255)**
Earnings before interest, tax, depreciation and amortisation		**180,225**	**169,308**	**164,259**	**152,114**
Depreciation and amortisation expenses	3 (f)	(164,421)	(166,357)	(107,022)	(103,966)
Finance costs	3 (e)	(47,254)	(45,898)	(46,981)	(45,698)
(Loss)/profit before tax		**(31,450)**	**(42,947)**	**10,256**	**2,451**
Income tax equivalent expense	4 (a)	(3,060)	(737)	(3,060)	(737)
(Loss)/profit for the year		**(34,510)**	**(43,684)**	**7,196**	**1,714**
Other comprehensive income, net of tax					
Items that will not be reclassified subsequently to profit or loss:					
Revaluation surplus	22	120,698	165,118	120,698	165,118
Other comprehensive income for the year, net of tax		**120,698**	**165,118**	**120,698**	**165,118**
Total comprehensive income for the year		**86,188**	**121,434**	**127,894**	**166,832**

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

Power and Water Corporation

Consolidated statement of financial position
for the year ended 30 June 2018

		Consolidated		Corporation	
	Note	June 2018 $'000	June 2017 $'000	June 2018 $'000	June 2017 $'000
Current assets					
Cash and cash equivalents	6	103,914	144,741	59,064	95,090
Trade and other receivables	7	85,908	77,605	92,868	87,851
Prepayments		6,399	2,198	6,146	1,955
Current tax assets	4 (c)	9,933	-	9,933	-
Intangible assets	13 (a), (b)	1,515	1,456	1,457	1,456
Inventories	8	24,704	24,471	18,325	19,445
Loans to subsidiaries	11	-	-	-	967
Total current assets		**232,373**	**250,471**	**187,793**	**206,764**
Non-current assets					
Trade and other receivables	7	4,422	-	4,422	-
Loans to subsidiaries	11	-	-	11,000	11,000
Investments	9	3	3	3	3
Property, plant and equipment	12	3,026,347	2,802,160	2,342,927	2,113,657
Intangible assets	13 (a), (b)	11,888	9,887	11,888	9,886
Deferred tax assets	4 (b)	61,830	47,517	61,830	47,517
Total non-current assets		**3,104,490**	**2,859,567**	**2,432,070**	**2,182,063**
Total assets		**3,336,863**	**3,110,038**	**2,619,863**	**2,388,827**
Current liabilities					
Trade and other payables	14	71,477	59,086	55,416	49,285
Borrowings	16	204,000	208,805	204,000	208,805
Current tax liabilities	4 (c)	-	26,959	-	26,959
Provisions	18	99,773	79,016	99,773	79,016
Unearned revenue	15	30,584	25,544	30,584	25,544
Government grants	19	73,329	78,927	-	-
Finance lease liabilities	17	1,057	942	12	12
Total current liabilities		**480,220**	**479,279**	**389,785**	**389,621**
Non-current liabilities					
Borrowings	16	980,000	939,000	980,000	939,000
Deferred tax liabilities	4 (b)	135,863	73,502	135,863	73,502
Provisions	18	6,974	7,346	6,974	7,346
Government grants	19	265,095	228,795	-	-
Finance lease liabilities	17	8,172	7,765	187	198
Total non-current liabilities		**1,396,104**	**1,256,408**	**1,123,024**	**1,020,046**
Total liabilities		**1,876,324**	**1,735,687**	**1,512,809**	**1,409,667**
Net assets		**1,460,539**	**1,374,351**	**1,107,054**	**979,160**
Equity					
Contributed equity	20	34,336	34,336	34,336	34,336
Retained earnings	21	486,099	515,398	614,124	604,835
Asset Revaluation Reserve	22	940,104	824,616	458,594	339,988
Total equity		**1,460,539**	**1,374,351**	**1,107,054**	**979,160**

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

Power and Water Corporation

Consolidated statement of changes in equity
for the year ended 30 June 2018

		Consolidated		Corporation	
	Note	June 2018 $'000	June 2017 $'000	June 2018 $'000	June 2017 $'000
Contributed equity					
Balance at beginning of year		34,336	34,336	34,336	34,336
Equity contributions from the Northern Territory Government		-	-	-	-
Transfer of assets and liabilities to new entities		-	-	-	-
Balance at end of year	20	**34,336**	**34,336**	**34,336**	**34,336**
Retained earnings					
Balance at beginning of year		515,398	544,575	604,835	603,120
Net (loss)/profit for the year		(34,509)	(43,684)	7,197	1,714
Retirements transferred from asset revaluation reserve		5,210	14,507	2,092	1
Balance at end of year	21	**486,099**	**515,398**	**614,124**	**604,835**
Asset revaluation reserve					
Balance at beginning of year		824,616	674,005	339,988	174,871
Increase in asset valuation		172,425	235,883	172,425	235,883
Less deferred tax effect recognised in deferred tax liabilities		(51,727)	(70,765)	(51,727)	(70,765)
Retirements transferred to retained earnings		(5,210)	(14,507)	(2,092)	(1)
Balance at end of year	22	**940,104**	**824,616**	**458,594**	**339,988**
Total equity		**1,460,539**	**1,374,350**	**1,107,054**	**979,159**
Total equity attributable to owners of the parent		**1,460,539**	**1,374,350**	**1,107,054**	**979,159**

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

Power and Water Corporation

Consolidated statement of cash flows
for the year ended 30 June 2018

		Consolidated		Corporation	
			Restated		Restated
		June 2018	June 2017	June 2018	June 2017
	Note	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Receipts from customers		644,276	676,846	613,706	629,607
Payments to suppliers and employees		(565,442)	(550,012)	(488,206)	(463,263)
Income tax paid	4 (c)	(43,631)	(18,940)	(43,631)	(18,940)
Community Service Obligations received		31,312	30,608	31,312	30,608
Receipt of Government grants		97,574	89,022	-	-
Interest received		1,557	1,311	1,512	1,079
Interest paid		(48,241)	(45,960)	(47,970)	(45,762)
Net cash generated by operating activities	6 (b)	**117,405**	**182,875**	**66,723**	**133,329**
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		373	670	286	405
Payments for property, plant and equipment		(193,792)	(156,587)	(140,185)	(118,648)
Loans to controlled entity		-	-	-	(11,967)
Proceeds from repayment of loans to controlled entity		-	-	967	-
Net cash used in investing activities		**(193,419)**	**(155,917)**	**(138,932)**	**(130,210)**
Cash flows from financing activities					
Repayment of borrowings		(209,813)	(16,034)	(208,817)	(15,013)
Proceeds from borrowings		245,000	50,000	245,000	50,000
Dividends paid	5	-	-	-	-
Net cash provided by/(used in) financing activities		**35,187**	**33,966**	**36,183**	**34,987**
Net (decrease)/increase in cash and cash equivalents		**(40,827)**	**60,924**	**(36,026)**	**38,106**
Cash and cash equivalents at beginning of year		144,741	83,817	95,090	56,984
Cash and cash equivalents at end of year	6 (a)	**103,914**	**144,741**	**59,064**	**95,090**

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 2018

1 Corporate 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 2018 comprises the Corporation and its subsidiary, Indigenous Essential Services Pty Limited (IES Pty Ltd).

2 Statement of significant accounting policies

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

(a) Statement of compliance

These financial statements are general purpose financial statements, which have been prepared in accordance with Accounting Standards and Interpretations and the *Government Owned Corporations Act 2014*, and comply with other requirements of the law. The *Government Owned Corporations Act 2014* requires the financial statements of the Corporation and the consolidated entity to comply with the requirements of the *Corporations Act 2001*.

The financial statements comprise the financial statements of the Corporation and the consolidated financial statements of the consolidated entity. For the purposes of preparing the consolidated financial statements, the Corporation is a for-profit entity therefore any accounting policy difference arising from IES Pty Ltd (a non-profit entity) is adjusted on consolidation.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Corporation and the consolidated entity comply with International Financial Reporting Standards (IFRS).

The financial report was authorised for issue by the Directors on 28th September 2018.

(b) Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost except for certain property, plant and equipment and financial instruments that are measured at revalued amounts or fair values 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the consolidated entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and / or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 'Inventories' or value in use in AASB 136 'Impairment of Assets'.

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

(i) Level 1 inputs are quoted at market prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

(ii) Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

(iii) Level 3 inputs are unobservable inputs for the asset or liability.

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

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Corporation and its controlled entity as at 30 June each year (the consolidated entity). A list of controlled entities appears in Note 10 to the financial statements. Control is achieved when the Corporation:

(i) has power over the investee;

(ii) is exposed, or has rights, to variable returns from its involvement with the investee; and

(iii) has the ability to use its power to affect its returns.

The Corporation 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.

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:

(i) the size of the Corporation's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

(ii) potential voting rights held by the Corporation, other vote holders or other parties;

(iii) rights arising from other contractual arrangements; and

Power and Water Corporation

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

(c) Basis of consolidation (Cont'd)

(iv) any additional facts and circumstances that indicate that the Corporation has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a controlled entity begins when the Corporation obtains control over the controlled entity and ceases when the Corporation loses control of the controlled entity. Specifically, income and expenses of a controlled entity acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Corporation gains control until the date when the Corporation ceases to control the controlled entity.

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.

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 1004 Contributions for recognition and measurement of government grants. This accounting treatment is adjusted on consolidation to align to Note 2 (d) Revenue recognition, shown below.

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

(d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised (net of discounts and allowances) when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of goods to the customer. Sale of goods includes estimates for unbilled consumption of electricity and water as at reporting date. For further information on unbilled consumption, refer to Note 2 (v) below.

Rendering of services

The revenue from the rendering of services pertaining to waste services is recognised when the service is provided, having regard for the costs incurred in providing those services.

Community service obligation

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

Investment revenue

Distributions from investments are recognised as revenue when control of the right to receive consideration has been attained.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Contribution of assets

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

(i) developer or customer contributions of non-current assets are recognised as revenue and an asset, based on valuations, when the Corporation gains control of the contribution; and

(ii) developer or customer contributions of cash are recognised as revenue to the extent that the extensions or modifications are complete with the balance recognised as deferred income.

(e) Government grants

Government grants are assistance by the government in the form of transfers of resources to the consolidated entity in return for past or future compliance with certain conditions relating to the operating activities of the consolidated entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the consolidated entity other than the requirement to operate in certain regions or industry sectors.

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.

Government grants, where the primary condition is that the consolidated entity should purchase, construct or otherwise acquire non-current assets, are either presented by deducting the grant in arriving at the carrying amount of the asset resulting in reduced future depreciation charge, or the grant is recognised in the profit or loss over the life of a depreciable asset as a reduced depreciation expense. Other government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

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.

Power and Water Corporation

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

(e) Government grants (Cont'd)

Government assistance which does not have conditions attached specifically relating to the operating activities of the consolidated entity is recognised in accordance with the accounting policies above.

(f) Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amounts can be measured reliably and their receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as unearned revenue. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

(g) 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.

(h) Borrowing costs

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. Qualifying assets are assets that necessarily take a substantial period of time (greater than 24 months) to get ready for their 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.

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

(i) Income tax equivalents

Income tax equivalent payments are made pursuant to section 33(3) of the *Government Owned Corporations Act 2014* 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:

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

(ii) 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 2018

(i) Income tax equivalents (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:

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

(ii) 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.

Current and deferred tax

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 the current and deferred tax are also recognised in other comprehensive income. Income taxes relating to these items are recognised directly in other comprehensive income.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash in banks.

(k) Financial instruments

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

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

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

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

Impairment of financial assets

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

Receivables are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the consolidated entity's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past 90 days, as well as the observable changes in economic conditions that correlate with default on receivables.

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

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

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

Power and Water Corporation

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

(k) Financial instruments (Cont'd)

Derecognition of financial assets

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

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

Financial liabilities

Classification as debt or equity

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

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

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

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

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

Derecognition of financial liabilities

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

(l) Inventories

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

(m) Leased assets

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

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

Finance leases

Assets held under finance leases are initially recognised as assets of the consolidated entity at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's policy on borrowing costs.

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

Operating leases

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

(n) Property, plant and equipment

Freehold land, buildings, plant and infrastructure assets held for use in the production or supply of goods or services, or for administrative purposes, are stated in the 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.

Power and Water Corporation

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

(n) Property, plant and equipment (Cont'd)

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

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

Subsequent to initial recognition, 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.

Power and Water Corporation

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

(o) Intangible assets

Intangible assets acquired separately

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

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

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

	June 2018	June 2017
Purchased Software	1-21 years	1-21 years
Renewable Energy Certificates	indefinite	indefinite

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.

Banked gas

The Corporation has entered into a Take-or-Pay Gas Purchase Agreement that came into effect during the 2010-11 financial year. Banked gas paid for under the terms of the contract but not physically taken is recorded as an intangible asset. The residual value of the banked 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 Corporation 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.

(p) 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.

Superannuation plans

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

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

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

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

Power and Water Corporation

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

(p) Employee benefits (Cont'd)

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.

(q) Provisions

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

The amount recognised as a provision is the best estimate of the considerations required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding 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.

(r) 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 requirments of the GOC Act and Corporations Act. See Note 5 for further information.

(s) 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.

(t) Comparative figures

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

(u) Application of new and revised Accounting Standards

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

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 July 2017.

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

Standard or Interpretation	*Nature of Change to Accounting Policy*
AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	AASB 112 Income Taxes has been amended to clarify how the evaluation of if there will be sufficient future taxable profits to utilise against deductible temporary difference should be undertaken. As the consolidation entity already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments the application of these amendments has had no impact on the consolidated entity's financial statements.

Power and Water Corporation

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

(u) Application of new and revised Accounting Standards (Cont'd)

Standard or Interpretation	*Nature of Change to Accounting Policy*
AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107	AASB 107 Statement of Cash Flows has been amended to provide disclosures enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Corporation has liabilities arising from financing activities consisting of finance leases (note 17) and borrowings (note 16). A reconciliation between the opening and closing balances of these items is provided in note 17 (a). Consistent with the transition provisions of the amendments, the Corporation has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 17 (a), the application of these amendments has had no impact on the Corporation's financial statements.
AASB 2017-2 Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle	AASB 12 Disclosure of Interests in Other Entities has been amended so that summarised financial information of an entity's interest in a subsidiary, joint venture or an associate are not required to be disclosed if they are classified as held for sale. The application of these amendments has had no effect on the Corporation's financial statements as none of the Corporation's interests are classified, or included in a disposal group that is classified, as held for sale.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective are listed below. The consolidated entity does not intend to adopt any of theses 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 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers'. AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'. AASB 2015-8 'Amendments to Australian Accounting Standards - Effective date of AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 17 'Insurance Contracts'	1 January 2018	30 June 2019
AASB 2016-3 'Amendments to Australian Accounting Standards – Clarifications to AASB 15'	1 January 2018	30 June 2019
AASB 2016-5 'Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions'	1 January 2018	30 June 2019
AASB 2016-6 'Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts [AASB 4]'	1 January 2018	30 June 2019
AASB 2017-1 Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments	1 January 2018	30 June 2019
AASB 2017-1 Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments	1 January 2018	30 June 2019
Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	30 June 2019

AASB 9 – Financial instruments

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

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

Classification – Financial assets

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

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

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

Power and Water Corporation

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

(u) Application of new and revised Accounting Standards (Cont'd)

AASB 9 – Financial instruments (Cont'd)

It is anticipated that the new classification requirements will not have a material impact on the consolidated entity's accounting for trade receivables or loans to related parties.

Impairment – Financial assets

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

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

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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

It is anticipated that the consolidated entity will apply the simplified approach to recognise lifetime expected credit losses for its trade receivables, finance lease receivables and amounts due from customers under construction contracts as required or permitted by AASB 9. In relation to loans to related parties, assessments undertaken indicate that there has not been any change in the credit risk from initial recognition to 30 June 2018.

Management is currently undertaking an assessment of the application of the expected credit loss model of AASB 9 however it is anticipated it will not result in a significant increase to the amount of loss allowance recognised for these items.

Classificiation – Financial liabilities

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

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

- The remaining amount of change in the fair value is presented in profit or loss.

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

Transitioning to AASB 9

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

AASB 15 Revenue from Contracts with Customers

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

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

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

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

Revenue from the sale of goods and services

Revenue from the sale of goods and services

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

Power and Water Corporation

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

(u) Application of new and revised Accounting Standards (Cont'd)

AASB 15 Revenue from Contracts with Customers (Cont'd)

Under AASB 15, revenue from the sale of electricity and water will be recognised over time as the consolidated entity transfers control of the electricity or water to the customer who simultaneously receives and consumes the benefits of the electricity or water received which is consistent with current accounting practices. Similarly for the sale of standard control services to other third party retailers, revenue will be recognised as the consolidated entity provides standard control services to the other third party retailers whose customers simultaneously receives and consumes the electricity as the consolidated entity performs satisfying its performance obligations under the contract.

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

Revenue from the sale of electricity from pre-paid tokens is currently recognised at the point in time when the pre-paid tokens are sold to the contractor, who acts as agent on behalf of the consolidated entity. This accounting practice will differ under AASB 15, as the revenue will be recognised over time as the electricity is transferred to the customer who simultaneously receives and consumes the benefits of the electricity as the consolidated entity performs. The impact on retained earnings at 1 July 2018 as a result of the changes in accounting for electricity from pre-paid tokens is estimated to be insignificant. The impact of these changes on other items in the consolidated financial statements is an increase in unearned revenue.

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

Revenue from the sale of gas and transportation

Revenue from the sale of gas and transportation services is currently recognised as revenue as the customer receives and accepts the gas and the related risks and rewards of ownership transfer. Revenue is recognised as the gas is transferred provided that the revenue can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the gas.

For certain take-or-pay contracts, under the current standard any gas paid for but not taken delivery of by the customer is accounted for as an intangible asset (referred to as make-up gas in these financial statements) until such time as the customer takes delivery of that gas or forfeits its rights to the gas. Under AASB 15, for those contracts with make-up gas revenue from breakage will be recognised to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognised will not occur.

It is anticipated that the application of AASB 15 will not have a significant impact on the consolidated entity's revenue recognition profile in relation to revenue from the sale of gas.

Revenue from the rendering of services

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

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

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

Gifted assets and capital contributions from non-government entities

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

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

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

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

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

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

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

The anticipated impact on retained earnings at 1 July 2018 as a result of the changes in accounting for gifted assets is estimated to be an decrease of $5.9 million. The impact of these changes on other items in the consolidated financial statements is an increase in unearned revenue.

Power and Water Corporation

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

(u) Application of new and revised Accounting Standards (Cont'd)

AASB 15 Revenue from Contracts with Customers (Cont'd)

Transitioning to AASB 15

The consolidated entity plans to adopt AASB 15 using the cumulative-effect approach with the effect of initially applying this standard recognised at the date of initial application, i.e. 1 July 2018. As a result the consolidated entity will not apply the requirements of AASB 15 to the comparative period presented.

AASB 16 Leases

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

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

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

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

As at 30 June 2018, the consolidated entity has non-cancellable operating lease commitments of $6.5 million, see Note 26. Detailed assessments indicate that these arrangements will continue to meet the definition of a lease under AASB 16, and hence the consolidated entity will recognise a right-of-use asset and a corresponding lease liability in respect of all these leases unless they qualify for the low value or short-term leases recognition exemptions upon the application of AASB 16. Right-of-use assets and corresponding lease liabilities for an estimated $14.9 million will be recognised on the date of initial application for these arrangements.

In addition, the nature of expenses related to those leases will now change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use assets and interest expense on lease liabilities.

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

The consolidated entity undertook a detailed review of its arrangements that are not in the form a lease to identify those that may contain a lease under AASB 16, for which it concluded that there are 3 non-cancellable arrangements that meet the definition of a lease under AASB 16 and as such right-of-use assets and corresponding lease liabilities for an estimated $359.0 million will be recognised on the date of initial application for these arrangements.

Of these arrangements, the consolidated entity has sub-leased the underlying asset of one of these arrangements to a third party which it has been concluded that the sub-lease arrangement meets the classification requirements under AASB 16 of a finance lease; and hence the related right-of-use assets will be de-recognised and replaced with a finance lease receivable for an estimated $8.0 million. In addition the Corporation has entered in an arrangement with its subsidiary which meets the definition of a lease and the classification requirements of a finance lease under AASB 16 and hence the related item of property, plant and equipment will also be de-recognised and replaced with a finance lease receivable for an estimated $17.0 million which will be eliminated on consolidation.

Further, a fourth arrangement not in the legal form of a lease was identified which also meets the definition of a lease, with the consolidated entity as lessor in which the underlying asset is accounted for in property, plant and equipment with a current carrying value of $12.2 million. As such the item of property, plant and equipment will be de-recognised and replaced with a finance lease receivable for an estimated $5.6 million.

In relation to the consolidated entity's existing finance leases no significant impact is expected as an asset and related finance lease liability are already recognised for these lease arrangements in the consolidated financial statements.

Transitioning to AASB 16

The consolidated entity intends to adopt AASB 16 on 1 July 2019, using the modified (cumulative-effect) approach. Therefore the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

(v) 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.

Power and Water Corporation

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

(v) Critical accounting judgements and key sources of estimation uncertainty (Cont'd)

Critical accounting judgements

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:

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 2.8%. Refer to Note 18 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 Note 12.

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 118 'Revenue', revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. 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 (d) above.

Useful lives of property, plant and equipment

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

Capitalisation of expenses

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

(i) Borrowing costs

As decsribed in Note 2 (h) 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 Coporate 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 and increase in the profit recognised in the statement of profit or loss.

Power and Water Corporation

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

		Consolidated		Corporation	
		June 2018 $'000	June 2017 $'000	June 2018 $'000	June 2017 $'000
3	**Revenue and expenses**				
(a)	**Revenue from sale of goods**				
	Standard control services	173,791	180,875	173,791	180,875
	Gas	154,765	159,043	154,765	159,043
	Water	118,639	115,892	113,337	110,577
	Electricity	35,454	34,050	3,246	2,899
		482,649	**489,860**	**445,139**	**453,394**
(b)	**Revenue from rendering of services and government grants**				
	IES capital government grants	19,024	22,014	-	-
	IES recurrent government grants	47,849	49,437	-	-
	Services rendered	77,562	79,146	74,523	76,082
		144,435	**150,597**	**74,523**	**76,082**
(c)	**Investment income**				
	Bank deposits	1,486	1,383	928	1,050
	Loans to related party	-	-	500	90
	Other	5	-	5	-
		1,491	**1,383**	**1,433**	**1,140**
(d)	**Other income**				
	Community Service Obligations:				
	Uniform tariffs	6,727	6,645	6,727	6,645
	Gas CSO	18,700	18,000	18,700	18,000
	Pensioner Concessions Scheme	5,885	5,963	5,885	5,963
		31,312	30,608	31,312	30,608
	Developer, customer and other capital contributions:				
	Gifted assets	22,410	13,446	22,410	13,446
	Other	7,375	2,382	7,375	2,382
		29,785	15,828	29,785	15,828
	Recoverable works	6,641	5,203	5,347	3,350
	Temporary service provision	3,727	4,373	3,727	4,373
	Other revenue	12,528	14,713	12,036	10,725
		83,993	**70,725**	**82,207**	**64,884**
(e)	**Finance costs**				
	Interest Expense - Other	276	204	4	5
	Interest Expense - Government	54,758	55,076	54,757	55,076
		55,034	55,280	54,761	55,081
	Less: Capitalised finance costs	(7,780)	(9,382)	(7,780)	(9,383)
		47,254	**45,898**	**46,981**	**45,698**

The weighted average capitalisation rate on funds borrowed generally is 4.62% per annum (2017: 4.76%).

(f)	**Depreciation and amortisation expense**				
	Depreciation				
	Buildings	1,201	1,185	1,201	1,185
	Plant and equipment	3,595	3,757	3,355	3,543
	Infrastructure	152,415	152,207	96,146	90,952
	Finance leases	896	928	7	7
	Total depreciation	**158,107**	**158,077**	**100,709**	**95,687**
	Amortisation				
	Intangible assets	6,314	8,280	6,313	8,279
	Total amortisation	**6,314**	**8,280**	**6,313**	**8,279**
	Total depreciation and amortisation expense	**164,421**	**166,357**	**107,022**	**103,966**

Consolidated infrastructure depreciation includes assets held by IES Pty Ltd located on leased land, asset lives have therefore been adjusted to reflect the shorter life of the lease as per AASB 117 'Leases' with a consequential increased depreciation impact of $16.4 million.

(g)	**Employee benefits expense**				
	Personnel	127,422	131,964	110,554	115,028
	Superannuation expense	13,923	13,954	12,306	12,362
	Contract and apprentice labour	5,775	6,819	5,712	6,657
		147,120	152,737	128,572	134,047
	Less: capital and maintenance labour recovery	(48,887)	(58,200)	(43,177)	(52,008)
		98,233	**94,537**	**85,395**	**82,039**

Consolidated personnel expenses include superannuation costs of $13.9 million (2017: $13.9 million).

Power and Water Corporation

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

	Consolidated		Corporation	
	June 2018 $'000	June 2017 $'000	June 2018 $'000	June 2017 $'000
3 Revenue and expenses (Cont'd)				
(h) Repairs and maintenance expense				
Materials	45,144	43,159	31,854	29,713
Labour	25,994	29,033	23,569	26,143
	71,138	**72,192**	**55,423**	**55,856**
(i) Other expenses				
Impairment of trade receivables	(367)	1,501	337	1,510
Freight	1,513	1,221	369	349
Grants and subsidies	1,162	992	1,162	991
Information technology and communications expense	9,782	5,552	8,348	4,346
Insurance costs	2,802	2,829	2,768	2,786
Laboratory fees and environmental compliance	4,552	3,844	3,719	3,000
Motor vehicle	5,385	5,295	4,398	4,367
Other expenses	19,346	11,816	14,679	11,605
Property costs	15,344	17,374	14,971	16,967
Training	1,721	2,391	1,526	2,332
Travel and accommodation	1,892	1,572	1,177	875
	63,132	**54,387**	**53,454**	**49,128**

Throughout 2017-18 $10.3 million relating to 19 projects has been written from work-in-progress.

(j) Impairment of non-current assets and onerous contract provisions

	Consolidated June 2018 $'000	Consolidated June 2017 $'000	Corporation June 2018 $'000	Corporation June 2017 $'000
Impairment of make up gas	32,161	16,007	32,161	16,007
Onerous contract	19,542	42,063	19,542	42,063
Revaluation increase	(31,889)	(31,009)	(31,889)	(31,009)
Revaluation decrease	502	27,806	502	27,806
	20,316	**54,867**	**20,316**	**54,867**

As at 30 June 2018 Water Services and Power Network assets were revalued resulting in a revaluation uplift of $10.2 million and $21.7 million reflected in the profit and loss respectively as a reversal of impairment charges previously taken to the prior year income statements. The revaluation on gas assets resulted in a devaluation of $0.5 million reflected in the profit and loss.

Power and Water Corporation

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

	Consolidated		Corporation	
	June 2018 $'000	**June 2017 $'000**	**June 2018 $'000**	**June 2017 $'000**
4 Income tax equivalent expense				
The major components of income tax expense are:				
(a) Income tax recognised in profit or loss				
Current income tax				
Current income tax charge	10,301	26,146	10,301	26,146
Deferred income tax				
Over from prior years	(17)	-	(17)	-
Relating to origination and reversal of temporary differences	(7,224)	(25,409)	(7,224)	(25,409)
Income tax expense reported in profit or loss	**3,060**	**737**	**3,060**	**737**
Numerical reconciliation between tax expense and pre-tax net profit				
Profit/(loss) before income tax from continuing operations	(31,450)	(42,947)	10,256	2,451
At the consolidated entities' statutory income tax rate of 30% (2017: 30%)	(9,435)	(12,884)	3,077	735
Over provision from prior years	(19)	-	(19)	-
Expenditure not allowable for income tax purposes	12,513	13,621	2	2
Income tax expense on pre-tax profit	**3,060**	**737**	**3,060**	**737**
(b) Deferred income tax				
Deferred income tax at 30 June relates to the following:				
Deferred tax liabilities				
Property, plant and equipment	135,805	73,422	135,805	73,422
Prepayments	58	80	58	80
Gross deferred income tax liabilities	**135,863**	**73,502**	**135,863**	**73,502**
Movements:				
Opening balance at 1 July	73,502	9,042	73,502	9,042
Over/(under) provision from prior years	3,545	-	3,545	-
Credited/(charged) to profit or loss	7,089	(6,305)	7,089	(6,305)
DTL on revaluation recognised directly against ARR	51,727	70,765	51,727	70,765
Closing balance at 30 June	**135,863**	**73,502**	**135,863**	**73,502**
Deferred tax assets				
Employee provisions	13,628	13,608	13,628	13,608
Allowance for doubtful debts	1,652	2,401	1,652	2,401
Obsolete stock provision	565	477	565	477
Provision for onerous contract	18,482	12,618	18,482	12,618
Renewable energy provision	12	11	12	11
Make up gas impairment	26,898	17,250	26,898	17,250
Accrued expenses	593	1,150	593	1,150
Gross deferred income tax assets	**61,830**	**47,515**	**61,830**	**47,515**
Movements:				
Opening balance at 1 July	47,517	28,412	47,517	28,412
Credited/(charged) to profit or loss	14,313	19,105	14,313	19,105
Closing balance at 30 June	**61,830**	**47,517**	**61,830**	**47,517**
Net deferred tax assets and deferred tax liabilities	**(74,033)**	**(25,985)**	**(74,033)**	**(25,985)**
Deferred tax expense	**(7,224)**	**(25,410)**	**(7,224)**	**(25,410)**

Power and Water Corporation

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

	Consolidated		Corporation	
	June 2018 $'000	June 2017 $'000	June 2018 $'000	June 2017 $'000
4 Income tax equivalent expense (Cont'd)				
(c) Income tax (receivable)/payable				
Opening balance at 1 July	26,959	19,752	26,959	19,752
Under/(over) provision from prior years	(3,562)	-	(3,562)	-
Income tax paid	(43,631)	(18,940)	(43,631)	(18,940)
Current year income tax expense	10,301	26,147	10,301	26,147
Closing balance at 30 June	**(9,933)**	**26,959**	**(9,933)**	**26,959**

5 Dividends

Declared during the year:				
Dividends on ordinary shares:	-	-	-	-
	-	**-**	**-**	**-**

Subsequent to 30 June 2018 the Board resolved to declare a dividend of $9.0 million. No dividend was declared or paid in the year ending 30 June 2018 (30 June 2017: $nil).

6 Cash and cash equivalents

(a) Reconciliation of cash

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	**103,914**	**144,741**	**59,064**	**95,090**

(b) Reconciliation of net profit after tax to net cash flows from operations

Net (loss)/profit	(34,510)	(43,684)	7,196	1,714
Adjustments for:				
Depreciation and amortisation	164,421	166,357	107,022	103,966
Impairment writedown	20,316	54,867	20,316	54,867
Contributed assets provided free of charge	(22,410)	(13,446)	(22,410)	(13,446)
Write-off of WIP	10,273	-	10,273	-
Net loss on disposal of property, plant and equipment, inc gifted streelights	22,308	15,975	19,571	2,092
Changes in assets and liabilities:				
(Increase)/decrease in inventories	(234)	1,288	1,120	1,458
(Increase)/decrease in trade and other receivables	(12,726)	14,363	(9,440)	12,712
(Increase)/decrease in current intangible assets	(58)	(203)	(1)	(203)
(Increase)/decrease in prepayments	(4,200)	186	(4,187)	62
Decrease in net deferred tax payable	(3,678)	(25,410)	(3,678)	(25,410)
(Decrease)/increase in current tax liabilities	(36,893)	7,206	(36,893)	7,206
(Decrease)/increase in trade and other payables	(21,790)	(18,495)	(28,050)	(17,692)
Increase in government grants	30,702	17,851	-	-
Increase/(decrease) in provisions (ex dividend)	844	(2,407)	844	(2,407)
Increase in unearned revenue	5,041	8,427	5,040	8,410
Net cash flows from operating activities	**117,405**	**182,875**	**66,723**	**133,329**

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

During the financial year the consolidated entity acquired property, plant and equipment with an aggregate fair value of $22.4 million (2017: $13.4 million) by means of gifts. These acquisitions are not reflected in the statement of cash flows. See Note 2 (d) for further discussion on contributed assets.

Power and Water Corporation

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

	Consolidated		Corporation	
	June 2018	June 2017	June 2018	June 2017
	$'000	$'000	$'000	$'000
7 Trade and other receivables				
Current				
Service receivables				
Service receivables	23,640	24,436	23,494	23,313
Allowance for doubtful debts	(5,509)	(6,262)	(5,509)	(5,557)
	18,131	18,174	17,985	17,756
Unbilled consumption	35,480	34,639	35,480	34,638
	53,611	**52,813**	**53,465**	**52,394**
Other receivables				
Receivables to controlled entities	-	-	7,230	13,165
Allowance for doubtful debts	-	-	-	(2,447)
	-	-	7,230	10,718
Other receivables	32,297	24,792	32,173	24,739
	32,297	**24,792**	**39,404**	**35,457**
	85,908	**77,605**	**92,868**	**87,851**
Non Current				
Other receivables				
Other receivables	4,422	-	4,422	-
	4,422	**-**	**4,422**	**-**

(a) Service receivables

Receivables at are non-interest bearing. The consolidated entity has undertaken a review of the collectability of all receivables that are over 90 days outstanding and has recognised a provision for doubtful debts for all receivables that are considered not recoverable.

Receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the consolidated entity has not recognised a provision for doubtful debts because there has not been a significant change on credit quality and the amounts are still considered recoverable.

The consolidated entity does not offset the risk of these overdue balances with collateral or financial instruments due to the historical success of recovering these amounts. The average age of these receivables is 30 days (2017: 27 days).

There was one customer, Department of Defence, that had a receivables owing totalling 7% of the balance of receivables. The receivable was in relation to the work undertaken for the rectification of the Katherine Water Treatment Plant. The ageing of the Department of Defence was in current at 30 June 2018.

Ageing of past due but not impaired service receivables:

31 - 60 days	2,259	2,113	2,259	2,113
61 - 90 days	410	870	410	870
91 + days	2,212	3,482	2,212	3,482
	4,881	**6,465**	**4,881**	**6,465**

Power and Water Corporation

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

	Consolidated		Corporation	
	June 2018 $'000	June 2017 $'000	June 2018 $'000	June 2017 $'000
7 Trade and other receivables (Cont'd)				
Ageing of impaired service receivables:				
Current	80	53	79	53
0 - 30 days	69	81	69	81
31 - 60 days	151	110	151	110
61 - 90 days	33	22	33	22
91 + days	5,177	5,996	5,177	5,291
	5,509	**6,262**	**5,510**	**5,557**
Movement in the allowance for doubtful debts:				
Balance at beginning of year	(6,262)	(4,868)	(5,557)	(4,057)
Impairment losses recognised on receivables	(335)	(1,510)	(335)	(1,510)
Amounts written off as uncollectible	1,227	356	522	250
Written off debts subsequently collected	(139)	(240)	(139)	(240)
Balance at end of year	**(5,509)**	**(6,262)**	**(5,509)**	**(5,557)**
8 Inventories				
Materials and stores	16,864	17,340	16,864	17,340
Fuel stocks	6,939	5,544	560	518
Gas stocks	772	1,319	772	1,319
Tokens	129	268	129	268
	24,704	**24,471**	**18,324**	**19,445**

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 $116.5 million and $138.6 million (2017: $116.6 million and $137.9 million respectively). The cost of inventories recognised as an expense for the Corporation and the consolidated entity includes $0.3 million (2017: $0.5 million) in respect of write-downs of inventory to net realisable value.

9 Investments

2,500 $1 unlisted units, in Amadeus Gas Trust beneficially held by the Corporation	**3**	**3**	**3**	**3**

The Corporation also holds 5 (2017: 5) ordinary shares of $1 each in NT Gas Pty Limited.

10 Investment in subsidiaries

	Consolidated		Corporation	
	June 2018 $	June 2017 $	June 2018 $	June 2017 $
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 2018	Equity Interest June 2017
BGP Tenure Holdings Pty Limited	Australia	50%	50%
Indigenous Essential Services Pty Limited	Australia	100%	100%

Power and Water Corporation

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

10 Investment in subsidiaries (Cont'd)

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 2018 owned 100% (2017: 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-wholly owned subsidiaries that have material non-controlling interests

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 2018 (2017: $Nil).

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

	Corporation	
	June 2018 $	June 2017 $
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 2018 (2017: Nil).

Power and Water Corporation

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

10 Investment in subsidiaries (Cont'd)

Financial support

The financial statements for IES Pty Ltd has 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 2018 of $9.3 million and a net loss of $47.2 million for the year ended 30 June 2017. IES Pty Ltd's net working capital at 30 June 2018 was a deficit of $15.1 million and a deficit of $13.3 million at 30 June 2017. Current liabilities, excluding unearned revenue and finance lease liabilities at 30 June 2018 and 2017 include $23.3 million and $23.0 million of trade and other payables respectively.

IES Pty Ltd's performance has been impacted by the completion of several major projects and the capitalisation of the associated assets resulting in the recognition of capital grant revenue. 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 2018 decreased by $4.7 million from $49.6 million to $44.9 million due to cash outflows for the repayment of borrowings and purchase of 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 2018 $'000	June 2017 $'000	June 2018 $'000	June 2017 $'000
11 Loans to subsidiaries				
Current	-	-	-	967
Non-current	-	-	11,000	11,000
	-	**-**	**11,000**	**11,967**

The Corporation provided an advance of $0.97 million to IES Pty Ltd in 2016-17 which was repaid in full during 2017-18.

During the year ended 30 June 2017, the Corporation provided a loan of $7.5 million on 29 March 2017 and a loan of $3.5 million on 29 June 2017, to its subsidiary, IES Pty Ltd. The loans are interest only fixed term loans for five years ending 29 March 2022 and 29 June 2022. Interest of 4.55% per annum is charged on the outstanding balance. The loan was provided to provide capital assistance on 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. Phase one of the solar project was completed during 2017-18, with Phase two commencing in late 2017-18 and is anticipated to be completed in 2018-19.

Power and Water Corporation

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

	Consolidated June 2018 $'000	Consolidated June 2017 $'000	Corporation June 2018 $'000	Corporation June 2017 $'000
12 Property, plant and equipment				
Carrying amounts of:				
Land at fair value	82,672	82,208	82,672	82,208
Buildings at fair value	23,672	20,268	20,231	20,268
Infrastructure at fair value	2,591,245	2,385,334	1,985,404	1,754,874
Plant and Equipment at fair value	17,819	19,220	16,024	17,185
Finance Leased Land at cost	10,273	9,639	239	246
Capital Work in Progress at cost	300,666	285,491	238,357	238,876
	3,026,347	**2,802,160**	**2,342,927**	**2,113,657**

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	Finance Leased Land at Cost $'000	Work in Progress at cost $'000	Total Property, Plant and Equipment $'000
Year ended 30 June 2018							
Consolidated							
Opening Balance	82,208	20,268	2,385,334	19,220	9,639	285,491	2,802,160
Transfer/Adjustments	-	(396)	(41)	(1,548)	-	(3,863)	(5,848)
Additions	464	-	13,123	-	1,530	198,242	213,359
Depreciation	-	(1,201)	(152,414)	(3,596)	(896)	-	(158,107)
Transfers from WIP	-	2,079	167,034	3,743	-	(179,204)	(6,348)
Disposals	-	(519)	(22,161)	-	-	-	(22,680)
Revaluation	-	-	203,811	-	-	-	203,811
Closing balance	**82,672**	**20,231**	**2,594,686**	**17,819**	**10,273**	**300,666**	**3,026,347**
Corporation							
Opening Balance	82,208	20,268	1,754,874	17,185	246	238,876	2,113,657
Transfer/Adjustments	-	(396)	(247)	(1,344)	-	(3,863)	(5,849)
Additions	464	-	13,123	-	-	144,635	158,222
Depreciation	-	(1,201)	(96,146)	(3,355)	(7)	-	(100,709)
Transfers from WIP	-	2,079	129,327	3,537	-	(141,291)	(6,348)
Disposals	-	(519)	(19,338)	-	-	-	(19,857)
Revaluation	-	-	203,811	-	-	-	203,811
Impairment - specific assets	-						
Closing balance	**82,672**	**20,231**	**1,985,404**	**16,024**	**239**	**238,357**	**2,342,927**
Year ended 30 June 2017							
Consolidated							
Opening Balance	82,208	21,057	2,194,609	20,264	8,341	239,111	2,565,590
Transfer/Adjustments	-	-	(1,977)	-	-	28,961	26,984
Additions	-	-	(4,283)	7	2,226	133,124	131,074
Depreciation	-	(1,185)	(152,207)	(3,757)	(928)	-	(158,077)
Transfers from WIP	-	396	112,551	2,706	-	(115,705)	(52)
Disposals	-	-	(2,444)	-	-	-	(2,444)
Revaluation	-	-	239,085	-	-	-	239,085
Closing balance	**82,208**	**20,268**	**2,385,334**	**19,220**	**9,639**	**285,491**	**2,802,160**
Corporation							
Opening Balance	82,208	21,057	1,510,240	18,036	253	208,918	1,840,712
Transfer/Adjustments	-	-	(1,977)	-	-	28,961	26,984
Additions	-	-	9,901	7	-	95,151	105,059
Depreciation	-	(1,185)	(90,952)	(3,543)	(7)	-	(95,687)
Transfers from WIP	-	396	91,021	2,685	-	(94,154)	(52)
Disposals	-	-	(2,444)	-	-	-	(2,444)
Revaluation	-	-	239,085	-	-	-	239,085
Closing balance	**82,208**	**20,268**	**1,754,874**	**17,185**	**246**	**238,876**	**2,113,657**

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 13.
Work in progress at cost - Transfer/Ajdustments totalling $21.1 million includes $10.3 million of work in progress that no longer met the definition of capital expenditure and was subsequently recognised in the profit and loss.

Historical Cost Basis

If the Consolidated Entity's freehold land and buildings been measured on a historical cost basis, the carrying amount would have been as follows:

	Consolidated June 2018 $'000	Consolidated June 2017 $'000	Corporation June 2018 $'000	Corporation June 2017 $'000
Land	17,516	17,052	17,516	17,052
Buildings	40,693	41,747	40,693	41,747
Infrastructure	1,860,628	1,785,028	1,553,201	1,503,515
	1,918,837	**1,843,827**	**1,611,410**	**1,562,314**

Power and Water Corporation

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

12 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 2018	June 2017
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

A review of a portion of property, plant and equipment and the remaining useful lives was undertaken during 2017-18. This year's review has identified a number of assets that require a life adjustment in order to align with its replacement lifecycle and the Corporation's future capital replacement program. The main indicator of the asset life adjustments required was an assessment of the Corporation's future capital spend against assets reaching their end of life. These re-life adjustments have now been processed and have the effect of reducing current year depreciation expense for the consolidated entity $29.1 million. The re-life adjustment is anticipated to decrease depreciation by $29.1 million in 2018-19. The impact in 2019-20 to 2023-24 on depreciation is anticipated to be an increase of $11.6 million per year.

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

Property Plant and Equipment situated on finance leased land	June 2018	June 2017
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 finance leased assets and capital works in progress)

The following valuation techniques are used for the Corporation (1):

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 (2)	Income approach
Plant and equipment (3)	Non-specialised plant and equipment	Historical cost

(1) Excludes the assets of IES Pty Ltd in which assets are measured using the Depreciated 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 (eg. 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 2018

12 Property, plant and equipment (Cont'd)

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 2018 ("Valuation Date") was performed by the Corporation.

In relation to IES Pty Ltd, independent valuers, GHD, were engaged to undertake a review of the asset base and factors that formed a material part of the asset valuation calculations for the financial year ending 30 June 2018. Following this review, GHD's opinion was that none of these factors have materially changed and therefore there is no impact to the value of the asset base as at 30 June 2018. The significant factors include the transportation factor, foreign exchange rates, CPI Index, Reserve Bank cash rates and the construction cost factor.

There has been no changes to the valuation techniques during the year ended 30 June 2018.

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
Fair value as at 30 June 2018			
Freehold land	82,672	-	82,672
Buildings	-	23,672	23,672
Infractructure	-	2,591,245	2,591,245
Plant and equipment	-	17,819	17,819
Finance leased assets	-	10,273	10,273
Work in progress	-	300,666	300,666
Total	**82,672**	**2,943,675**	**3,026,347**
Fair value as at 30 June 2017			
Freehold land	82,208	-	82,208
Buildings	-	20,268	20,268
Infractructure	-	2,385,334	2,385,334
Plant and equipment	-	19,220	19,220
Finance leased assets	-	9,639	9,639
Work in progress	-	285,491	285,491
Total	**82,208**	**2,719,952**	**2,802,160**

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.

Power and Water Corporation

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

12 Property, plant and equipment (Cont'd)

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 - Infrastrucuture Assets	Income Approach	WACC rate, taking into account the long term view of the market cost of capital, of 6.50% (2017: 6.50%) supportable by key assumptions in the beta range being based on analysis of observed 5-year monthly asset betas of guideline listed companies and gearing range being based on industry research of 5-year average debt to EV 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 (2017: 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 amount 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 6.50% (2017: 6.50%) supportable by key assumptions in the beta range being based on analysis of observed 5-year monthly asset betas of guideline listed companies and gearing range being based on industry research of 5-year average debt to EV 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 2.5% 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 amount 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 both years ended 30 June 2018 or 2017.

Power and Water Corporation

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

13 (a) Intangibles

	Other Intangible Assets $'000	Renewable Energy Certificates $'000	Make up Gas $'000	Total $'000
Year ended 30 June 2018				
Consolidated				
At cost	87,317	1,515	97,311	186,143
Accumulated amortisation	(83,080)	-	-	(83,080)
Accumulated impairment	-	-	(89,660)	(89,660)
Written down value	**4,237**	**1,515**	**7,651**	**13,403**
Corporation				
At cost	87,231	1,456	97,312	185,999
Accumulated amortisation	(82,993)	-	-	(82,993)
Accumulated impairment	-	-	(89,661)	(89,661)
Written down value	**4,238**	**1,456**	**7,651**	**13,345**
Year ended 30 June 2017				
Consolidated				
At cost	81,023	1,456	63,131	145,610
Accumulated amortisation	(76,767)	-	-	(76,767)
Accumulated impairment	-	-	(57,500)	(57,500)
Written down value	**4,256**	**1,456**	**5,631**	**11,343**
Corporation				
At cost	80,935	1,456	63,131	145,522
Accumulated amortisation	(76,680)	-	-	(76,680)
Accumulated impairment	-	-	(57,500)	(57,500)
Written down value	**4,255**	**1,456**	**5,631**	**11,342**
Movement in carrying amounts				
Year ended 30 June 2018				
Consolidated				
Opening balance	4,256	1,456	5,631	11,343
Transfer/Adjustments	(54)	-	-	(54)
Additions	-	59	34,180	34,239
Amortisation	(6,313)	-	-	(6,313)
Transfer from WIP	6,348	-	-	6,348
Impairment - specific assets	-	-	(32,160)	(32,160)
Closing balance	**4,237**	**1,515**	**7,651**	**13,403**
Corporation				
Opening balance	4,255	1,456	5,631	11,342
Transfer/Adjustments	(52)	-	-	(52)
Additions	-	-	34,180	34,180
Amortisation	(6,313)	-	-	(6,313)
Transfer from WIP	6,348	-	-	6,348
Impairment - specific assets	-	-	(32,160)	(32,160)
Closing balance	**4,238**	**1,456**	**7,651**	**13,345**
Year ended 30 June 2017				
Consolidated				
Opening balance	12,484	1,253	-	13,737
Additions	-	2,217	21,637	23,854
Amortisation	(8,280)	-	-	(8,280)
Transfer from WIP	52	-	-	52
Disposals	-	(2,014)	-	(2,014)
Impairment - specific assets	-	-	(16,006)	(16,006)
Closing balance	**4,256**	**1,456**	**5,631**	**11,343**
Corporation				
Opening balance	12,482	1,253	-	13,735
Additions	-	2,217	21,637	23,854
Amortisation	(8,279)	-	-	(8,279)
Transfer from WIP	52	-	-	52
Disposals	-	(2,014)	-	(2,014)
Impairment - specific assets	-	-	(16,006)	(16,006)
Closing balance	**4,255**	**1,456**	**5,631**	**11,342**

Power and Water Corporation

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for the year ended 30 June 2018

	Consolidated		Corporation	
	June 2018 $'000	June 2017 $'000	June 2018 $'000	June 2017 $'000
13 (b) Intangible Assets				
Current				
Renewable energy certificates	1,515	1,456	1,457	1,456
	1,515	**1,456**	**1,457**	**1,456**
Non-current				
Other intangible assets	4,238	4,256	4,238	4,255
Make up gas	7,650	5,631	7,650	5,631
	11,888	**9,887**	**11,888**	**9,886**
Total	**13,403**	**11,343**	**13,345**	**11,342**

Impairment losses recognised in 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 sold in future financial years. These payments are classified as intangible assets and disclosed under 'Make up Gas'. The net present value of the cash flows of the Gas Supply Unit under AASB 136 'Impairment of Assets' framework does not however support the continued recognition of this asset. The cash flows which are assessed under AASB 136 are the same as that used in arriving at the onerous contract provision of $61.6 million under AASB 137, albiet they are discounted at a "commercial" discount rate of 7.4%. Therefore the Corporation has written down the value by $32.2 million to $7.7 million as at 30 June 2018 in accordance with the requirements of Australian Accounting Standards. The remaining balance of $7.7 million represents that portion of the banked gas that has been sold to third parties however not taken as at 30 June 2018.

14 Trade and other payables

Service creditors	42,349	29,042	30,670	23,065
Other creditors and accruals	29,128	30,044	24,746	26,220
	71,477	**59,086**	**55,416**	**49,285**

The policy of the consolidated entity is to settle trade payables within 30 days. The consolidated entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

15 Unearned revenue

Recoverable work projects	14,192	11,117	14,192	11,117
Customer payments in advance	6,688	5,577	6,688	5,577
Banked gas arising from sales to third parties	8,582	6,722	8,582	6,722
Other	1,122	2,128	1,122	2,128
	30,584	**25,544**	**30,584**	**25,544**

16 Interest bearing borrowings

Government loans - current	204,000	208,805	204,000	208,805
	204,000	**208,805**	**204,000**	**208,805**
Government loans - non-current	980,000	939,000	980,000	939,000
	980,000	**939,000**	**980,000**	**939,000**

The government loans represent loans provided to the consolidated entity from its parent entity, the Northern Territory Government and all are unsecured. The portion recognised as current liabilities represents borrowings payable within one year, being $204.0 million (2017: $208.8 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 4.6% (2017: 4.8%)

17 Finance lease liabilities

Leasing arrangements

IES Pty Ltd leased land for its existing infrastructure assets on Indigenous land in 62 communities throughout the Northern Territory. IES Pty Ltd holds 111 leases for land with lease terms vary between 12 and 40 years with most of them providing the Company with lease extension options between 15 and 40 years. The present value discount factor used for the minimum lease payments is between 2.5% and 5.07%. Leases added in 2018 have been calculated using a present value discount factor of 3.2% being the Northern Territory Government's weighted average 10 year fixed borrowing rate for 2017-18.

Power and Water Corporation

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

17 Finance lease liabilities (Cont'd)

17 (a) *Finance lease liabilities*

	Consolidated			
	Minimum Lease Payments		Present Value of the minimum lease payments	
	June 2018 $'000	June 2017 $'000	June 2018 $'000	June 2017 $'000
Not later than one year	1,274	1,120	1,057	942
1 to 5 years	4,836	4,512	3,600	3,442
Later than 5 years	9,929	9,275	4,572	4,323
	16,039	14,907	9,229	8,707
less: future finance charges	(6,810)	(6,200)	-	-
Total present value of minimum lease payments	**9,229**	**8,707**	**9,229**	**8,707**

Note: the above information is presented at a consolidated entity level only and not at a Corporation level as the portion of finance lease liabilities that relate to the Corporation is immaterial at $0.2 million.

Provided for in the financial statements as:				
Current	1,057	942	1,057	942
Non-current	8,172	7,765	8,172	7,765
	9,229	**8,707**	**9,229**	**8,707**

Fair value

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

17 (b) *Reconciliation of liabilities arising from financing activities*

The table below details changes in the Corporation'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 Corporations's statement of cash flows as cash flows from financing activities.

	Finance lease liabilities	Borrowings	Total financing activities
Consolidated			
Opening balance	8,707	1,147,805	1,156,512
Financing cash flows	(1,008)	36,195	35,187
Non-cash changes			
New finance leases	1,461	-	1,461
Other changes	69	-	69
Closing balance	9,229	1,184,000	1,193,229

**Borrowings are included in Note 16*

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

	Consolidated		Corporation	
	June 2018 $'000	June 2017 $'000	June 2018 $'000	June 2017 $'000
18 Provisions				
Current				
Employee benefits (i)	37,625	36,213	37,625	36,213
Other provisions:				
Employee related provisions	505	704	505	704
Renewable Energy Certificates	39	36	39	36
Onerous contracts	61,604	42,063	61,604	42,063
	99,773	**79,016**	**99,773**	**79,016**
Non-current				
Employee benefits	6,974	7,346	6,974	7,346
	6,974	**7,346**	**6,974**	**7,346**

(i) The provision for employee benefits represents annual leave and long service leave entitlements accrued and compensation claims made by employees (if any).

Power and Water Corporation

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for the year ended 30 June 2018

	Consolidated June 2018 $'000	Consolidated June 2017 $'000	Corporation June 2018 $'000	Corporation June 2017 $'000
18 Provisions (Cont'd)				
Other provisions				
Employee related provisions				
Carrying amount at beginning of year	704	730	704	730
Provisions made during the year	8,637	9,941	8,637	9,941
Payments made during the year	(8,836)	(9,967)	(8,836)	(9,967)
Carrying amount at end of year	**505**	**704**	**505**	**704**

The employee related provisions represents accrued fringe benefits tax and payroll taxes.

	Consolidated June 2018 $'000	Consolidated June 2017 $'000	Corporation June 2018 $'000	Corporation June 2017 $'000
Renewable Energy Certificates				
Carrying amount at beginning of year	36	-	36	-
Provisions made during the year	3	36	3	36
Carrying amount at end of year	**39**	**36**	**39**	**36**

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.

	Consolidated June 2018 $'000	Consolidated June 2017 $'000	Corporation June 2018 $'000	Corporation June 2017 $'000
Onerous contracts				
Carrying amount at beginning of year	42,063	-	42,063	-
Provisions made during the year	19,541	42,063	19,541	42,063
Carrying amount at end of year	**61,604**	**42,063**	**61,604**	**42,063**

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 Corporation 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 Corporation's ability to sell the gas at a price higher than the cost of gas and transport.

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 as required under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets", have concluded thatat the date of this report that there exists an onerous contract which has been quantified at $61.6 million as at 30 June 2018 ($42.1 million at 30 June 2017) with the year on year movement recognised as an impairment expense in the statement of profit or loss and other comprehensive income. This results from the estimated cash inflows from future gas sales, being lower than the unavoidable costs of gas purchase and associated transportation agreements.

The sources of estimation uncertainty in the onerous contract provision that have a significant risk of resulting in a material adjustment to this provision include the underlying assumption that all gas purchased is on sold, the outcome of current contract negotiations with Territory Generation, renewables penetration, the east coast gas market outlook, the forward Henry Hub 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 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. As a sensitivity a change of 10% in the average assumed sales price, or sales volume, would result in an overall NPV change of +/- $350 million.

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for the year ended 30 June 2018

	Consolidated		Corporation	
	June 2018 $'000	June 2017 $'000	June 2018 $'000	June 2017 $'000

19 Government grants

Operational grants held by the Corporation's subsidiary, IES Pty Ltd relate to funding received from the Northern Territory's Department of Local Government and Community Services for the provision of power, water and sewerage services to remote Indigenous communities.

Capital grants held by the Corporation's subsidiary, IES Pty Ltd, relate to funding received from the Northern Territory's Department of Local Government and Community Services for the development of power, water and sewerage infrastructure in remote Indigenous communities.

	Consolidated June 2018 $'000	Consolidated June 2017 $'000	Corporation June 2018 $'000	Corporation June 2017 $'000
Operational grants	13,850	14,455	-	-
Capital grants	324,574	293,267	-	-
	338,424	**307,722**	**-**	**-**
Provided for in the financial statements as:				
Current	73,329	78,927	-	-
Non-current	265,095	228,795	-	-
	338,424	**307,722**	**-**	**-**

20 Contributed equity

	Consolidated June 2018 $'000	Consolidated June 2017 $'000	Corporation June 2018 $'000	Corporation June 2017 $'000
Share capital				
1 Share (2017: 1 Share)	-	-	-	-
Equity contribution	40,000	40,000	40,000	40,000
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	**34,336**	**34,336**	**34,336**	**34,336**
Contributed equity at beginning of year	34,336	34,336	34,336	34,336
Total contributed equity	**34,336**	**34,336**	**34,336**	**34,336**

The *Government Owned Corporations Act 2014* 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.

As a result of structural separation as at 1 July 2014 the Corporation transferred identifiable assets and liabilities to Jacana Energy and Territory Generation with this transfer being accounted for as a distribution from equity. The net effect was a $324.0 million reduction in the net asset position of the Corporation.

21 Retained earnings

	Consolidated June 2018 $'000	Consolidated June 2017 $'000	Corporation June 2018 $'000	Corporation June 2017 $'000
Retained earnings at beginning of year	515,398	544,575	604,835	603,120
Net (loss)/profit for the year	(34,509)	(43,684)	7,197	1,714
Retirements moved from asset revaluation reserve	5,210	14,507	2,092	1
Dividend declared for the year	-	-	-	-
Recognise revaluation position on disposal of assets	-	-	-	-
Retained earnings at end of the year	**486,099**	**515,398**	**614,124**	**604,835**

22 Asset revaluation reserve

	Consolidated June 2018 $'000	Consolidated June 2017 $'000	Corporation June 2018 $'000	Corporation June 2017 $'000
Balance at beginning of year	824,616	674,005	339,988	174,871
Increase in asset valuation	172,425	235,883	172,425	235,883
Less deferred tax effect recognised in deferred tax liabilities	(51,727)	(70,765)	(51,727)	(70,765)
Revaluation surplus	120,698	165,118	120,698	165,118
Retirements transferred to retained earnings	(5,210)	(14,507)	(2,092)	(1)
Asset revaluation reserve at end of the year	**940,104**	**824,616**	**458,594**	**339,988**

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
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23 Risk management objectives

(a) Financial risk management objectives and policies

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 2017.

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 2014 (GOC Act)*.

In accordance with the GOC Act the Corporation's objectives are to:

(i) operate at least as efficiently as a comparable business; and

(ii) to maximise the sustainable return to the Northern Territory Government on its investment in the Corporation and 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:

	Consolidated			Corporation		
Loan term	Fixed and Variable Rate Loans $'000	Average Interest Rate %	Increase in annual interest expense if interest rates rise by 1.00% $'000	Fixed and Variable Rate Loans $'000	Average Interest Rate %	Increase in annual interest expense if interest rates rise by 1.00% $'000
2018						
<1 to 2 years	204,000	5.48%	1,565	204,000	5.48%	1,565
2 to 5 years	980,000	4.50%	806	980,000	4.50%	806
5+ years	-	0.00%	-	-	0.00%	-
	1,184,000		**2,371**	**1,184,000**		**2,371**
2017						
<1 to 2 years	412,805	5.31%	1,421	412,805	5.31%	1,421
2 to 5 years	735,000	4.44%	504	735,000	4.44%	504
5+ years	-	0.00%	-	-	0.00%	-
	1,147,805		**1,925**	**1,147,805**		**1,925**

Power and Water Corporation

Notes to the financial statements
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23 Risk management objectives (Cont'd)

(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.

(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 (2017: $nil).

(g) Commodity price risk

The consolidated entity's exposure to commodity price risk is minimal.

(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 16, cash and cash equivalents and equity attributable to the equity holder of the Corporation, comprising issued capital and retained earnings as disclosed in Notes 20 and 21 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.

Gearing ratio

The gearing ratio at the end of the reporting period was as follows:

	Corporation	
	June 2018 $'000	June 2017 $'000
Debt	1,184,000	1,147,805
Cash and cash equivalents	(59,063)	(95,090)
Net debt	1,124,937	1,052,715
Equity	1,107,054	979,160
Net debt to equity ratio	102%	108%

Debt is defined as long-term and short-term borrowings as described in Note 16. Equity includes all capital and reserves of the Corporation that are managed as capital.

(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 continuous development and improvement in its guidelines, standards, methodologies and systems.

Power and Water Corporation

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24 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 $1,193.1 million (2017: $1,163.1 million).

Consolidated entity	Level 2 $'000	Fair value as at 30 June 2018 $'000	Level 2 $'000	Fair value as at 30 June 2017 $'000
Financial Liabilities				
Borrowings	1,193.1	1,193.1	1,163.1	1,163.1

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:

					Fixed and floating interest maturing in:			
Consolidated	Weighted average interest rate %	Floating interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	1 year or less $'000	1 to 5 years $'000	more than 5 years $'000	Total $'000
2018								
Financial Assets								
Cash assets	1.50%	103,914	-	-	103,914	-	-	103,914
Receivables		-	-	85,908	85,908	-	-	85,908
Investments		-	-	2	-	-	2	2
		103,914	**-**	**85,910**	**189,822**	**-**	**2**	**189,825**
Financial Liabilities								
Payables		-	-	71,477	71,477	-	-	71,477
Government loans	4.62%	-	1,322,013	-	293,992	1,028,021	-	1,322,013
Finance lease liability	4.12%	-	9,229	-	1,057	3,600	4,572	9,229
		-	**1,331,242**	**71,477**	**366,526**	**1,031,621**	**4,572**	**1,402,719**
2017								
Financial Assets								
Cash assets	1.52%	144,741	-	-	144,741	-	-	144,741
Receivables		-	-	77,605	77,605	-	-	77,605
Investments		-	-	3	-	-	3	3
		144,741	**-**	**77,608**	**222,346**	**-**	**3**	**222,349**
Financial Liabilities								
Payables		-	-	59,086	59,086	-	-	59,086
Government loans	4.76%	-	1,147,805	-	208,805	939,000	-	1,147,805
Finance lease liability	5.07%	-	8,707	-	942	3,442	4,323	8,707
		-	**1,156,512**	**59,086**	**268,833**	**942,442**	**4,323**	**1,215,598**

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Notes to the financial statements
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24 Financial instruments (Cont'd)

Corporation	Weighted average interest rate %	Floating interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	Fixed and floating interest maturing in: 1 year or less $'000	1 to 5 years $'000	more than 5 years $'000	Total $'000
2018								
Financial Assets								
Cash assets	1.52%	59,064	-	-	59,064	-	-	59,064
Receivables		-	-	92,868	92,868	-	-	92,868
Investments		-	-	3	-	-	3	3
		59,064	**-**	**92,871**	**151,932**	**-**	**3**	**151,935**
Financial Liabilities								
Payables		-	-	55,416	55,416	-	-	55,416
Government loans	4.76%	-	1,322,013	-	293,992	1,028,021	-	1,322,013
Finance lease liability	5.07%	-	199	-	12	41	146	199
		-	**1,322,212**	**55,416**	**349,420**	**1,028,062**	**146**	**1,377,628**
2017								
Financial Assets								
Cash assets	1.52%	95,090	-	-	95,090	-	-	95,090
Receivables		-	-	87,851	87,851	-	-	87,851
Investments		-	-	3	-	-	3	3
		95,090	**-**	**87,854**	**182,941**	**-**	**3**	**182,944**
Financial Liabilities								
Payables		-	-	49,285	49,285	-	-	49,285
Government loans	4.76%	-	1,147,805	-	208,805	939,000	-	1,147,805
Finance lease liability	5.07%	-	211	-	12	43	155	210
		-	**1,148,016**	**49,285**	**258,102**	**939,043**	**155**	**1,197,300**

Power and Water Corporation

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	Consolidated		Corporation	
	June 2018 $'000	**June 2017 $'000**	**June 2018 $'000**	**June 2017 $'000**
25 Commitments				
Capital expenditure commitments				
Contracted but not provided for and payable within one year:	**43,686**	**49,044**	**22,021**	**39,615**
Lease and hire expenditure commitments (non-cancellable)				
Contracted but not provided for:				
Property, Plant and Equipment	**18,614**	**21,554**	**15,520**	**17,332**
Purchase expenditure commitments (non-cancellable)				
Contracted but not provided for:				
Gas purchase	3,384,675	3,514,827	3,384,675	3,514,827
Gas transportation	1,104,487	1,208,739	1,104,487	1,208,739
	4,489,162	**4,723,566**	**4,489,162**	**4,723,566**
Payable:				
Within one year	280,793	270,572	256,034	256,921
One year or later and no later than five years	1,255,197	1,180,096	1,255,197	1,180,096
Later than five years	3,015,472	3,343,496	3,015,472	3,343,496
	4,551,462	**4,794,164**	**4,526,703**	**4,780,513**

The consolidated entity has non-cancellable purchase, lease 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:

	Consolidated June 2018	Consolidated June 2017	Corporation June 2018	Corporation June 2017
Within one year	18,398	33,239	18,398	33,239
After one year but not more than five years	17,406	23,254	17,406	23,254
	35,804	**56,493**	**35,804**	**56,493**

26 Operating lease arrangements

Operating leases relate primarily to leases of motor vehicles and property.

	Consolidated June 2018	Consolidated June 2017	Corporation June 2018	Corporation June 2017
Payments recognised as an expense				
Minimum lease payments:				
- Motor vehicles	3,614	5,655	2,970	5,032
- Property leases	2,765	3,704	2,762	3,661
- Other	145	141	145	141
	6,524	**9,500**	**5,877**	**8,834**

27 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.

There are no other contingent liabilities or assets for the year ended 30 June 2018.

Power and Water Corporation

Notes to the Financial Statements
for the year ended 30 June 2018

28 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 2018 owned 100% (2017: 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 2017-18 and 2016-17 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 2018	369,014	91,417	50,168	1,185,142
	June 2017	395,126	91,809	46,111	1,178,641

(1) As at 30 June 2018, the revenue received by the Corporation for services provided under the TSA from Jacana Energy was $3.6 million (2017: $3.9 million) and the total revenue from Territory Generation was $0.1 million (2017: $0.5 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 (e), 3 (b) and 19 for further details.

(2) For the year ended 30 June 2018, purchases from the Northern Territory Government includes interest paid on borrowings of $1,184. millior (2017: $55.08 million) refer to Note 3 (e).

(3) As at 30 June 2018, the amounts owed by related parties relate to amounts outstanding for the provision of electricity, water and standard control services.

(4) For the year ended 30 June 2018, the amount owed to the Northern Territory Government includes borrowings of $1,184.0 million (2017: $1,147.81 million) refer to Note 16.

As disclosed in Note 11 Loans to controlled entities, the Corporation provided a interest only fixed loan to its subsidiary, IES Pty Ltd 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 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.

Power and Water Corporation

Notes to the Financial Statements
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28 Related party transactions (Cont'd)

To ensure that IES Pty Ltd is able to pay its debts as and when they fall due, a letter of financial support dated 28 October 2015 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 for the period 28 October 2015 to such time as IES Pty Ltd ceases to be a wholly owned subsidiary of the Corporation.

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.

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 2018 $	June 2017 $	June 2018 $	June 2017 $
Expense transactions with key management personnel	26,385	45,539	26,385	43,689

For the year ended 30 June 2018, the consolidated entity has made allowance for doubtful debts relating to amounts owed by related parties of $nil (2017: $nil).

An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the consolidated entity recognises an allowance for the impairment loss.

Loans to related parties

The Corporation provided an interest only fixed loan to its subsidiary IES Pty Ltd in 2016-17 for 5 years ending in 2012-22. Interest rate of 4.55% is charged on the outstanding balance. Refer to Note 11 Loans to controlled entities for further details.

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 Salary & Fees $	Post employment benefits Superann-uation $	Total $
Non-executive directors				
Mr John Langoulant (Chairperson)	June 2018	128,912	10,926	139,838
(Term commenced June 2017)	June 2017	-	-	-
Mr Alan Tregilgas (Chairperson)	June 2018	-	-	-
(Term commenced April 2015; ended November 2016)	June 2017	36,672	3,484	40,156
Mr Ken Clarke (Deputy Chairperson)	June 2018	69,362	6,539	75,901
(Term commenced December 2013; ended August 2018)	June 2017	80,057	7,542	87,599
Mr Richard Griffiths	June 2018	26,357	2,466	28,823
(Term commenced January 2014; ended December 2017)	June 2017	52,314	4,932	57,246
Emeritus Prof MaryAnn Bin-Sallik	June 2018	39,935	3,794	43,729
(Term commenced April 2014; ended April 2018)	June 2017	52,314	4,932	57,246

Power and Water Corporation

Notes to the Financial Statements
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28 Related party transactions (Cont'd)

		Short-term employee benefits Salary & Fees $	Post employment benefits Superannuation $	Total $
Mr Mervyn Davies	June 2018	51,569	4,876	56,445
(Term recommenced April 2014)	June 2017	52,314	4,932	57,246
Ms Helen Stanton	June 2018	40,342	3,873	44,215
(Term commenced April 2014)	June 2017	52,314	4,932	57,246
Mr Ian Kowalick	June 2018	51,671	4,876	56,547
(Term commenced July 2015)	June 2017	52,314	4,932	57,246
Ms Rowena McNally	June 2018	11,687	1,072	12,759
(Term commenced April 2018)	June 2017	-	-	-
Mr David Bartholomew	June 2018	10,227	939	11,166
(Term commenced April 2018)	June 2017	-	-	-
Ms Teresa Dyson	June 2018	11,687	1,072	12,759
(Term commenced April 2018)	June 2017	-	-	-
Total non-executive directors	**June 2018**	**441,749**	**40,433**	**482,182**
	June 2017	**378,299**	**35,686**	**413,985**

No termination benefits were paid to non-executive directors during the year.

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 2018 $	June 2017 $	June 2018 $	June 2017 $
Short-term employee benefits	2,915,793	2,533,579	2,915,793	2,533,579
Other long-term benefits	136,601	86,404	136,601	86,404
Total compensation of key management personnel (excluding non-executive directors)	**3,052,394**	**2,619,983**	**3,052,394**	**2,619,983**

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.

29 Auditor's remuneration

Audit of the financial statements	304,556	317,705	246,356	262,210
	304,556	**317,705**	**246,356**	**262,210**

The auditor of the Corporation and the consolidated entity is the Auditor-General for the Northern Territory.

Power and Water Corporation

Notes to the Financial Statements
for the year ended 30 June 2018

30 Events after the reporting period

Subsequent to the year end the Director's declared a final dividend of $9.0 million, payable on 1 December 2018.

A draft decision for consultation was issued by the Australian Energy Regulator (AER) on 10 July 2018 on the factors relating to the rate of return achievable within the regulated network. Additionally, the AER issued its draft determination relating to its findings and opinions on the Power and Water Corporation submission on 27 September 2018. While in isolation both of these will potentially affect future forecasted cash flows and therefore asset valuations, as these are still draft at the date of this report and will need to be considered together with all other relevant inputs to the valuation model, it is unknown what impact, if any, the final determination will have on the fixed asset valuations for the infrastructure assets of Power networks under the income approach.

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.

31 Restatement of comparatives

Reclassification of account in statement of cash flows

Unallocated receipts from customers

Receipts from customers that remain unallocated to customer accounts due to timing have been reclassifed in the statement of cash flows from payments to suppliers and employees to receipts from customers to better reflect the nature of the transactions.

Power and Water Corporation

Notes to the Financial Statements

31 Restatement of comparatives

(a) Statement of cash flows

	Consolidation			Corporation		
	Restated June 2017 $'000	Original June 2017 $'000	Variance $'000	Restated June 2017 $'000	Original June 2017 $'000	Variance $'000
Cash flows from operating activities						
Receipts from customers	676,846	665,739	11,107	629,607	620,536	9,071
Payments to suppliers and employees	(550,012)	(538,905)	(11,107)	(463,263)	(454,192)	(9,071)
Income tax paid	(18,940)	(18,940)	-	(18,940)	(18,940)	-
Community Service Obligations received	30,608	30,608	-	30,608	30,608	-
Receipt of Government grants	89,022	89,022	-	-	-	-
Interest received	1,311	1,311	-	1,079	1,079	-
Interest paid	(45,960)	(45,960)	-	(45,762)	(45,762)	-
Net cash generated by operating activities	**182,875**	**182,875**	**-**	**133,329**	**133,329**	**-**
Cash flows from investing activities						
Proceeds from sale of property, plant and equipment	670	670	-	405	405	-
Payments for property, plant and equipment	(156,587)	(156,587)	-	(118,648)	(118,648)	-
Loans to controlled entity	-	-	-	(11,967)	(11,967)	-
Net cash used in investing activities	**(155,917)**	**(155,917)**	**-**	**(130,210)**	**(130,210)**	**-**
Cash flows from financing activities						
Repayment of borrowings	(16,034)	(16,034)	-	(15,013)	(15,013)	-
Proceeds from borrowings	50,000	50,000	-	50,000	50,000	-
Net cash provided by/(used in) financing activities	**33,966**	**33,966**	**-**	**34,987**	**34,987**	**-**
Net (decrease)/increase in cash and cash equivalents	**60,924**	**60,924**	**-**	**38,106**	**38,106**	**-**
Cash and cash equivalents at beginning of year	83,817	83,817	-	56,984	56,984	-
Cash and cash equivalents at end of year	**144,741**	**144,741**	**-**	**95,090**	**95,090**	**-**

Attachment 1 – legislative obligations

Power and Water, as a government owned corporation providing essential services in the Northern Territory, is subject to a range of legislative instruments that guides and determines the way it operates and delivers its services.

Licences
Generation Licence
Network Licence
Retail Licence
System Control Licence
Water Supply Services Licence
Sewerage Supply Services Licence

Codes
Network Access Code
System Control Technical Code
Network Technical Code and Network Planning Criteria
Electricity Ring-fencing Code
Electricity Standards of Service Code
Energy Loss Factors Code
Guaranteed Service Level Code
Electricity Retail Supply Code
Water Services Connection Code
Water Metering Code
Trade Waste Code

Legislation
Government Owned Corporations Act
Power and Water Corporation Act
Electricity Reform Act
Electricity Reform (Administration) Regulations
Electricity Reform (Safety and Technical) Regulations
Electricity Reform (System Control and Market Operator Functions Code) Regulations
Water Supply and Sewerage Services Act
Water Supply and Sewerage Services Regulations
Utilities Commission Act
Utilities Commission Regulations

Guidelines
Electricity Ring-Fencing Guidelines
Electricity Standards of Service Code Feeder Category Guidelines
Credit Support Guidelines
Compliance Framework and Reporting Guidelines

Orders
Electricity Pricing Order
Water and Sewerage Pricing Order

Attachment 2 – definition of 2017-18 key performance indicators

1 **Health and safety index:** Reflects a composite measure of health and safety indicators focusing on employee, contractor and organisational safety performance, effectiveness and verification.

2 **Employee engagement:** The level of favourable engagement for all employees based on the number of survey respondents measured annually.

3 **Organisation culture index:** The targeted improvement is an aggregate increase in constructive style behaviours each year, expressed as a percentage averaged over the four constructive styles. An organisational culture survey has been carried out to set the baseline and will be updated every two years.

4 **Aboriginal employment:** Number of employees identifying as Aboriginal and/or Torres Strait Islander (ongoing and fixed term, excluding contractors).

5 **Return on capital employed:** EBIT/Capital Employed where EBIT = Taxed earnings before interest and tax adjusted for non-cash impairments and depreciation calculated using Depreciated Replacement Cost for asset valuations; and Capital Employed = Equity adjusted for assets also at Depreciated Replacement Cost + Borrowings.

6 **Debt to Equity ratio:** (Term debt + current debt)/equity.

7 **Funds from operations to interest times:** EBITDA on a statutory basis less gifted assets and non-cash impairments less tax paid/interest expense.

8 **Liquidity - Quick ratio:** (Current assets – inventories)/ current liabilities excluding short term debt.

9 **Statutory net profit after tax:** In line with Statutory Accounts.

10 **Operating cost efficiency:** Operating costs excluding depreciation, amortisation, impairments, interest, tax and gas costs / Revenue excluding gas revenue.

11 **Operating cost ratio:** Current year Opex /2015-16 base level Opex. Measure of adoption of efficiencies to maintain total Opex at the same level as total Opex in the 2015-16 base year by absorbing inflation impacts. Opex excludes depreciation, amortisation, impairments, interest, tax and gas costs.

12 **System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI):** Reflects distribution reliability targets approved by the Utilities Commission in the Electricity Industry Performance Code. Represented as the rolling twelve month average for the Northern Territory.

13 **Water demand per household:** Rolling twelve month average for Darwin households.

14 **Water mains breaks:** Number of breaks per 100km of water mains Darwin and Alice Springs.

15 **Sewerage chokes and blockages:** Number of chokes and blockages per 100km of sewer mains Darwin and Alice Springs.

16 **Wastewater treatment plant discharges:** All wastewater treatment plants are licensed or have a current licence submission.

17 **Customer satisfaction index:** Percentage of customers that rate their overall satisfaction with the Corporation's services. Covers major centres (including Darwin rural) based on a random sample of total customer population.

18 **Complaints resolved:** Average number of business days taken to resolve customer complaints.

POWER AND WATER CORPORATION

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