Indigenous Essential Services
Pty Ltd

Annual Report

2019-20

Essential Services Operator Conway Wirrapanda-Blanasi in Beswick.

PowerWater

Welcome

The purpose of this Annual Report is to provide a record of operations and highlights for the 2019-20 financial year for Indigenous Essential Services Pty Ltd, a not-for-profit subsidiary company of Power and Water Corporation.

Indigenous Essential Services Pty Ltd provides electricity, water and wastewater to 72 remote communities and 79 outstations located outside of Northern Territory commercial centres.

We are contracted to deliver services on behalf of the Northern Territory Government through the Department of Local Government, Housing and Community Development.

Under our Service Level Agreement, we provide essential services to these communities as well as maintain and replace the assets while our parent company Power and Water Corporation provide retail services on our behalf.

Indigenous Essential Services Pty Ltd

Water sampling in Elliot.

Acknowledgement of Country

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

Indigenous Essential Services Pty Ltd

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Executive summary

The role Indigenous Essential Services (IES) plays in the lives of thousands of Territorians living in remote communities is a challenging one at the best of times, given the diverse conditions, cultural sensitivities and specific community needs.

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

We saw our safety culture improve through more streamlined processes to ensure Essential Services Operators (ESOs) were well-equipped with knowledge and tools to carry out their duties.

In a notable achievement, we exceeded Aboriginal employment participation targets on our Remote Housing Program water infrastructure projects as a result of improved relationships with our contractors as well as a robust contract management framework.

We have also been proud to support the National Partnership for Remote Housing NT – Our Community Our Future Our Homes by establishing by services to additional lots prior to construction.

We also undertook a comprehensive approach to updating our water source planning for communities across the Territory, focusing on prolonging the life of precious water sources, improving our monitoring programs and planning capital works to augment supply in water-stressed communities.

In early 2020, the COVID-19 pandemic and travel restrictions to remote communities to protect vulnerable community members saw us faced with logistical and employee challenges.

Our teams worked closely with other government agencies to develop a remote travel procedure for operational teams and contractors to ensure ESOs could continue to deliver essential services.

We were also pleased to receive federal funding to expand on the success of our microgrids program to progress a renewable energy future for remote communities.

We are pleased to see the results of foundational work we have done over the years in terms of building relationships and planning and look forward to reporting on further achievements next year.

Indigenous Essential Services Pty Ltd

Essential Services Operator David Marshall in Ltyentye Apurte (Santa Teresa)

Our services

Over the financial year, we provided the following services:

Darwin Region (Top End)

- Water, wastewater and electricity supply services to 24 remote communities with a population of around 21,000 residents
- Sourcing 5.9 GL of drinking water and treating 2.2 GL of wastewater
- Electricity generation through a combination of diesel and solar in 10 remote communities with a total installed capacity of 42.11 MW.

Katherine Region

- Water, wastewater and electricity supply services to 19 remote communities with a population of around 7,000 residents
- Sourcing 2.0 GL of drinking water and treating 368.8 ML of wastewater
- Electricity generation through a combination of diesel and solar in four remote communities with a total installed capacity of 11.11 MW.

Southern Region

- Water, wastewater and electricity supply services to 23 remote communities with a population of around 7,500 residents in the Alice Springs region and a further six remote communities with a population of around 1,600 residents in the Barkly region
- Sourcing 1.8 GL of drinking water and treating 652.5 ML of wastewater
- Electricity generation through a combination of diesel and solar in nine remote communities with a total installed capacity of 19.98 MW, and at the Utopia outstation of the Arlparra community with an installed capacity of 454kW.

Remote communities' power, water suppy and sewerage services

Our stakeholders and how we engage with them

Our work impacts a wide range of external stakeholders.

Northern Territory Government departments and agencies

Key interest areas:

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

How we engaged:

- Executive meetings
- Relationship management
- Advocacy groups
- Steering committees and working groups
- Performance reporting
- Local authority community meetings

Australian Government departments and agencies

Key interest areas:

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

How we engaged:

- Executive meetings
- Relationship management
- Advocacy groups
- Steering committees and working groups
- Local authority community meetings

Power and Water Corporation (Our parent company)

Key interest areas:

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

How we engaged:

- Regular meetings

Land councils

Key interest areas:

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

How we engaged:

- Regular meetings

Our customers and communities

Key interest areas:

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

How we engaged:

- Customer Service Centre
- Printed collateral
- Website
- Social media
- Focus groups
- Broadcast media
- Schools engagement
- Local authority meetings
- Community signage

Our suppliers and contractors

Key interest areas:

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

How we engaged:

- Contract management meetings
- Site visits and audits
- Variation management
- Tenders and expressions of interest
- ESO training and competency management

Industry bodies, academic institutions and corporate partners

Key interest areas:

- Assets and infrastructure
- Collaboration opportunities
- Innovation and technology

How we engaged:

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

Our people

During the year, we continued our work to empower our Essential Services Operator (ESO) contractors and align processes, roles and responsibilities.

We reviewed our ESO manual and contract conditions, and also established an ESO Working Group to review the ESO competency management process.

The start of the 2020 calendar year brought severe weather affecting Top End communities as well as the COVID-19 pandemic.

Against this backdrop, our people showcased strength, resilience and the ability to adapt to rapidly-changing situations.

Water Demand Coordinator - Remote Cail Rayment in Warruwi.

Incident Management team support

Our people provided valuable insight about our remote community customers and assets to the Power and Water Incident Management team, which was stood up numerous times during the year to address severe weather events in the Top End, and again in March in response to the COVID-19 pandemic.

The liaison and support function was particularly important, especially in the instance of the Territory's coordinated pandemic response to protect those living in remote communities under the Commonwealth's *Biosecurity Act 2015.*

Under the act, travel to remote communities was restricted and limited to essential services workers as a precaution against the spread of COVID-19 to vulnerable communities.

A major part of the team's work was helping the Incident Management team develop a remote travel procedure for operational teams and contractors to ensure a coordinated response, as well as scenario planning for if ESOs could not carry out their essential duties.

Their foresight and commitment to keeping remote customers front of mind helped us ensure the delivery of services was disrupted as little as possible.

Aboriginal employment on capital program

During the year, we achieved a record average of 39% Aboriginal employment on our Remote Housing Program water infrastructure projects. This figure exceeded our headcount target by nearly 10%.

This strong outcome was the result of improved collaboration and relationships with our contractors as well as a robust contract management framework.

In helping us achieve our compliance targets, our contractors strengthened their efforts to provide local employment within the remote communities where IES projects were being delivered.

Additionally, we saw our improved reporting processes and procedures yield results, in line with our obligation to Power and Water as our parent corporation as well as our funding body.

The COVID-19 pandemic also saw many of those employed on site remain due to biosecurity measures restricting the entry of fly-in fly-out workers into remote communities.

Essential Services Operator Albert Gawaraidji with the diesel generator in Warruwi.

Essential Services Operator Conway Wirrapanda-Blanasi in Beswick.

Contractors working on the Ngukurr asbestos cement replacement project.

Review of ESO manual and contract conditions

Our team overseeing ESO contracts embarked on a review of the manual and contract conditions during the year to ensure clarity of roles and responsibilities.

They did this through consultation with each of the operational teams where every duty was reviewed and updated in line with new procedures and systems.

This body of work played a crucial role in addressing ambiguities and inconsistencies of roles. It also helped ensure the ESO manual and supporting documents reflected our most recent work instructions and could be used as a reference by ESOs.

ESO Working Group to review competency management processes

The team also established a cross-business ESO Working Group to review the competency management process for ESOs.

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

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

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

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

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

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

Our projects

Over the year, we continued to identify improvement opportunities and streamline remote planning processes to find and deliver synergies within the business.

In the water demand space, we continued to implement measures to manage demand growth and support the sustainable delivery of services. We planned and conducted programs to improve water education and efficiency in consultation with stakeholders and customers.

The Numbulwar gas chlorination facility.

A camel crossing in Papunya.

Remote Housing Program

Our teams are involved in delivering services to 72 remote Aboriginal communities through a number of Territory and Federal Government-funded housing programs, including the National Partnership for Remote Housing Northern Territory Program, the Australian Government Housing Program, the Northern Territory Government Housing Program and the Room to Breathe Program.

We develop the assets, deliver water intake facilities or headworks infrastructure and work together with the Department of Infrastructure, Planning and Logistics on an infill program, to establish services to residential lots.

Under our headworks program, we are working across 21 communities identified as being growth populations, to help support the population expansion and address overcrowding issues.

Over the financial year, we completed detailed design for 18 projects and sought land owners' consent for the construction of 12 projects. Our teams also prepared approximately $33 million worth of projects for construction and a further $13.5 million worth of projects for consultation with local land councils.

Meanwhile, under our infill program, we carried out about 400 engineering assessments to support the delivery of remote housing programs.

Due to community access limitations due to the pandemic, our teams continued to work where possible on establishing services to residential lots to enable the construction of new homes under the Department of Local Government, Housing and Community Development's 10-year $1.1 billion housing program to 2027.

Establishing water, sewer and electrical services ahead of the construction saw us reduce safety risks related to working in close proximity to live assets and enabled residents to move in soon after completion.

We were also pleased to work closely with accredited contractors and local businesses which understood our requirements, and helped us create and maintain local jobs.

Capital Program planning

Planning for and delivering services to 72 remote communities over many years has resulted in tailored approaches for each location, resulting in duplication and inconsistencies.

With the view of improving efficiencies and implementing more streamlined approaches, our remote operations teams embarked on a journey of integration.

This journey helped create the foundations upon which a framework to prioritise programs and projects based on risks, asset replacement requirements, condition of the assets and methodologies to assess project priorities was developed.

In a matter of months, our planning, operations, asset delivery, asset management and Enterprise Project Management teams prepared and presented a program of works outlining more than 80 business cases and eight programs for endorsement by our parent company Power and Water Corporation's Investment Review Committee.

This more coordinated and strategic approach will enhance our ability to deliver projects on schedule and within budget, delivering the best possible outcomes for our remote customers.

Water source planning

Every year, we prepare a Water Source Status Report for the Northern Territory Government in line with our obligation under the IES Agreement.

In December 2019, we undertook a complete overhaul of our community water source risk assessment methodology. Prior to this, we assessed water source risk by considering three primary risk indicators, including potential capacity or sustainable yield, water level trends and water demand.

Under our refreshed approach, we introduced substantial improvements such as removing borefield infrastructure considerations, greater consideration of mitigation options and the application of the Power and Water corporate risk framework to water source risk assessment.

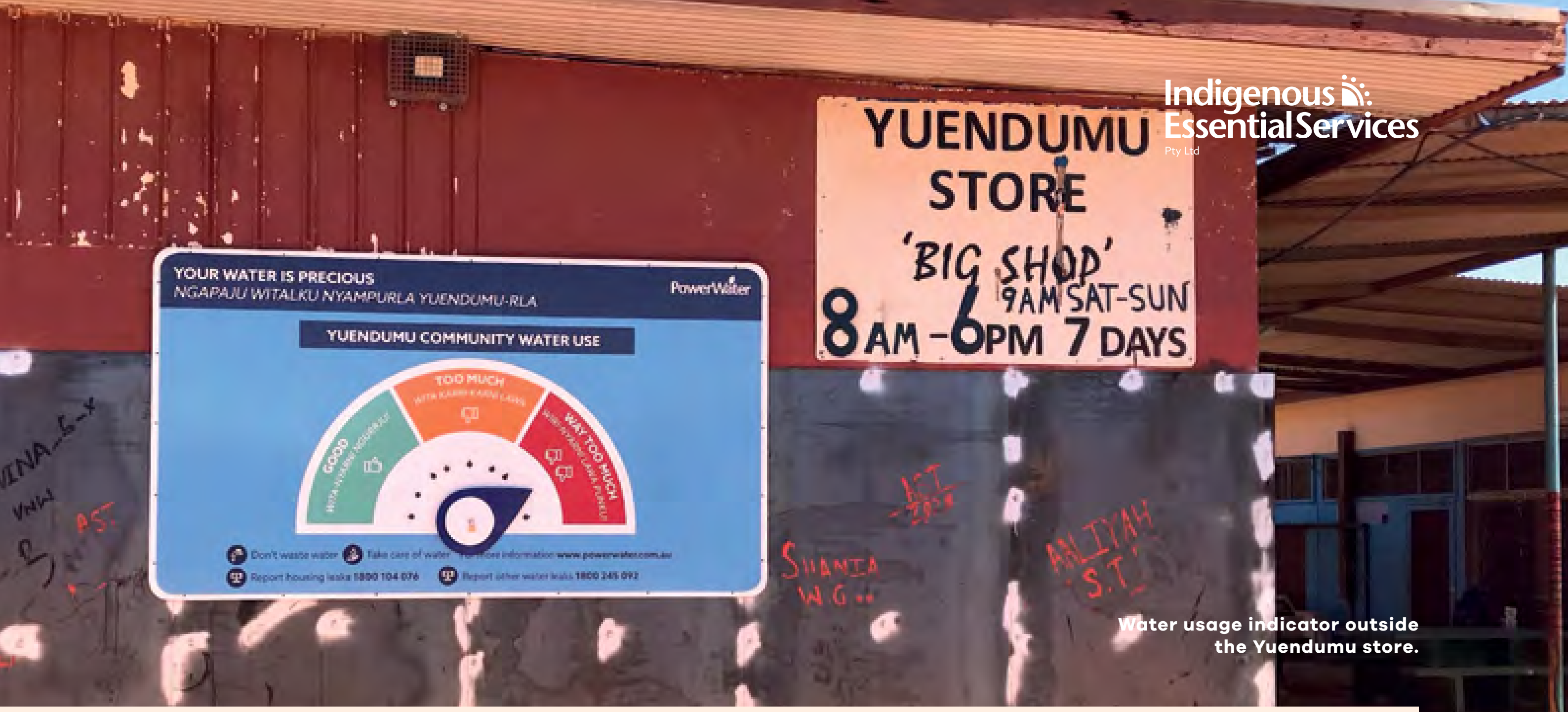
Most groundwater sources have a finite capacity. They are also unpredictable and generally not well understood. Given the extended dry conditions and other factors, our 2019 assessment identified many remote communities are extremely water stressed, with some at risk of running out of water.

Our Water Source Status Report has focused attention on this critical aspect of water security, and now serves as an important guide to prioritise a range of risk mitigation measures.

This has included a renewed focus on demand management programs, contingency supply planning, improved groundwater monitoring programs, water resource capacity reviews and a rolling capital program of drilling to augment supply and reduce water losses through infrastructure improvements in the highest risk communities.

Warruwi School principal Stuart Bramston with Water Demand Coordinator - Remote Cail Rayment.

Indigenous Essential Services Pty Ltd



Water usage indicator outside the Yuendumu store.

A focus on water security

One of the key priorities for our team is ensuring a continued supply of safe drinking water for all remote community customers.

With twenty-four communities identified as carrying an extreme or very high risk to source sustainability, our teams formulated a multi-pronged approach to optimise supply network efficiency, manage customer demand and educate the community while investigating new water sources.

Digital water meters were installed in Imanpa and Kintore - two Central Australian communities with water supply concerns - bringing the total number of fully-digitally metered remote communities to fifteen.

The use of digital water meters provides high resolution consumption data and enables more information to be shared with the customer, giving them more ownership over their water consumption. Digital meters have the additional benefit of quickly identifying unusual usage patterns and can differentiate between high usage and leaks.

Our team coordinated targeted leak checks in all extreme source risk communities while engaging key stakeholders such as local council offices, schools and health clinics to better understand their water use.

We also erected and continually updated 'Our Community Water Use' signage in extreme risk communities to help residents be more aware of their collective water use and rolled out water efficiency campaigns in seven languages across a variety of media.

These targeted approaches saw a 20 per cent reduction in overall demand in some extreme risk communities, which helped us extend the life of water supplies, defer capital spending and reduce operational costs.

In response to the pandemic which saw many families staying home, we also released *That's My Water!*, a water education program targeting school-aged children.

The school curriculum program, which offers student as well as parent or teacher workbooks, centres around a series of educational videos featuring Yolngu rapper and 2019 Young Australian of the Year Danzal Baker, better known as Baker Boy, as our water champion.

The videos were viewed more than 3,000 times across a variety of channels over a three-month period.

Solar array in Daly River.

Continuing to power a cleaner energy future

During the year, we continued to build on our knowledge and experience of isolated solar energy systems.

Notably, we secured a $1.2 million grant from the Australian Government to conduct a feasibility study into the future of microgrids to help propel the Northern Territory into a cleaner energy future.

The Regional and Remote Communities Reliability Fund – Microgrids 2019-20 funding will enable us to investigate methods of maintaining or improving microgrid reliability while delivering associated environmental and cost benefits.

This funding will help us build on lessons learned from our successful Solar Energy Transformation Program (SETuP) to further reduce operational costs while improving power supply reliability for our remote area customers.

The NT Microgrids Futures Project will see 20 isolated diesel and fringe-of-grid communities studied to produce detailed business cases as well as microgrid methodologies over the next two years.

These communities were shortlisted based on high levels of service interruptions, opportunities for reducing energy costs, high forecast demand growth, a range of different regional areas, conditions and community sizes as well as regulated and non-regulated fringe-of-grid scenarios.

We also commenced a new project to install a 970kWh battery energy storage system (BESS) in Titjikala.

The BESS will augment the community's existing 400kW solar array to deliver increased cost savings and environmental benefits from decarbonisation.

Once completed, the project will make Titjikala the second remote community where energy generation costs will be significantly reduced because of the use of solar and battery technology.

The addition of the BESS is projected to increase fuel savings from 18 per cent due to solar alone to 66 per cent.

Remote gas chlorination facilities

During the year, we saw the completion and commissioning of gas chlorination facility upgrade works valued at $1.7 million in the communities of Numbulwar and Galiwin'ku.

These necessary works had been identified to address the existing inefficient potable water disinfection systems.

Each system required large quantities of sodium hypochlorite, a corrosive and unstable liquid stored in drums, presenting a safety risk to ESOs.

We decided to convert these disinfection systems to chlorine gas stored in pressure vessel. Although this solution required more advanced control and safety systems, it provided added benefits in terms of reduced re-stocking, from once every few days to just once or twice a year.

This project has delivered cost efficiencies, additional safety benefits and improved water quality for our customers.

Works underway at the Galiwin'ku gas chlorination facility.

Assets at the Numbulwar gas chlorination facility.

Indigenous Essential Services Pty Ltd

Financial Statements

For the Year Ended 30 June 2020

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Directors' report

The Directors present their report together with the financial report of the Indigenous Essential Services Pty Ltd (Company) for the year ended 30 June 2020 and the auditor's report thereon. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

Information about the Directors

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

Mr John Langoulant	Director since 26 June 2018 Appointed Chairman 31 August 2018
Ms Rowena McNally	Director since 26 June 2018
Ms Gaye McMath	Director since 1 September 2018

Company Secretary

Ms Lucia Ku	Appointed 30 November 2017, resigned 11 September 2020
Mr John Pease	Appointed 11 September 2020

Company particulars

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

Principal Registered Office and Principal Place of Business:	Level 2 Mitchell Centre 55 Mitchell Street Darwin NT 0800

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

Controlling entity

The Company's controlling entity is Power and Water Corporation, a government owned corporation pursuant to the *Government Owned Corporations Act 2001*. Power and Water Corporation provides all of the Company's services, including management and accounting services.

Principal activities

The Company's principal activities in the ordinary course of the financial year as a not-for-profit entity were the provision of electricity, water and sewerage services to 72 remote communities and 79 outstations.

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

Directors' report (cont'd)

Review of operations

During the year the Company reported a deficit of $27.8 million compared to a restated deficit of $3.6 million for the prior year. This increase in the reported deficit is primarily attributable to the higher depreciation charge of $67.5 million compared to the prior year of $45.1 million as a result of extensive capital additions and the revaluation exercise undertaken during the prior year.

Revenue of $139.9 million recognised in the current year was consistent with the amount recognised in the prior year of $143.7 million. Included in the current year was $96.3 million in grant funding (2019: $100.8 million).

Distillate consumption in the current year decreased by $1.5 million compared to the prior year, primarily due to the average fuel price in the current year being lower when compared to the prior year.

Other expenses in the current year were $11.9 million compared to $12.3 million in the prior year. The decrease of $0.4 million was primarily due to the loss on disposal of assets decreasing by $2.2 million to $1.4 million and professional fees decreasing by $1.1 million to $0.5 million, offset by Board approved write-offs totalling $4.1 million.

Adoption of new and revised accounting standards

The Company has adopted the new lease standard, AASB 16 Leases from 1 July 2019. The adoption of this standard has increased right-of-use assets and lease liabilities by $24.9 million, increased amortisation expense by $1.7 million, increased interest expense by $0.7 million and decreased operating lease payments by $1.9 million.

Coronavirus (COVID-19) pandemic

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

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

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

Change in state of affairs

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

Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature, in the opinion of the Directors of the Company, to significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Future developments

At the date of this report, there are no developments in the operations of the Company that, in the opinion of the Directors, are likely to significantly impact the Company during the 2019-20 financial year.

Directors' report (cont'd)

Environmental regulation

The Company's operations are subject to various environmental regulations under both Commonwealth and Northern Territory legislation. The Company regularly monitors compliance with environmental regulations. The Directors are not aware of any significant breaches during the period covered by this report.

Dividends

As a not-for-profit entity the Company did not declare or pay any dividends during the financial year (2019: nil).

Going concern

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

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

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

Indemnification and insurance of Directors and Officers

Indemnification

The Northern Territory Government has indemnified the Directors of the Company's controlling entity Power and Water Corporation, except where the liability is incurred or arises out of actual dishonesty on the part of the Director. The indemnity covers the full amount of any such liabilities, including costs and expenses.

Insurance premiums

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

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

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

John Langoulant
Chairman

Dated at Darwin this 6th day of October 2020

Lead auditor's declaration of independence

Auditor-General

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

As auditor for the audit of the financial statements of Indigenous Essential Services Pty Limited for the financial year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

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

Julie Crisp
Auditor-General for the Northern Territory

Darwin, Northern Territory

5 October 2020

Level 9 Northern Territory House 22 Mitchell Street Darwin 0800 Tel: 08 8999 7155

Independent audit report to the members

Auditor-General

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

Opinion

I have audited the financial report of Indigenous Essential Services Pty Limited (the Company), which comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

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

- giving a true and fair view of the Company's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the Company in accordance with auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

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

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

Material Uncertainty Related to Going Concern

I draw attention to Note 2(b) in the financial report, which indicates that the Company incurred a net deficit of $27.8 million during the year ended 30 June 2020 and, as of that date, the Company's current liabilities exceeded its current assets by $8.0 million. As stated in Note 2(b), these events or conditions, along with other matters as set forth in Note 2(b), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. My opinion is not modified in respect of this matter.

Other Information

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

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

Level 9 Northern Territory House 22 Mitchell Street Darwin 0800 Tel: 08 8999 7155

Independent audit report to the members (cont'd)

Auditor-General

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

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

Level 9 Northern Territory House 22 Mitchell Street Darwin 0800 Tel: 08 8999 7155

Independent audit report to the members (cont'd)

Auditor-General

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- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report however future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

Julie Crisp
Auditor-General for the Northern Territory

Darwin, Northern Territory

6 October 2020

Level 9 Northern Territory House 22 Mitchell Street Darwin 0800 Tel: 08 8999 7155

Directors' declaration

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position of the Company as at 30 June 2020 and its performance for the year then ended; and

(ii) complying with Australian Accounting Standards.

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

On behalf of the Directors

John Langoulant
Chairman

Dated at Darwin this 6th day of October 2020

Indigenous Essential Services Pty Ltd

Statement of profit or loss and other comprehensive income

	Note	2020 $	Restated 2019 $
Revenue from contracts with customers	5 (a)	43,198,962	42,411,961
Government grants	5 (b)	96,336,195	100,788,398
Interest revenue	5 (c)	373,392	458,360
Total revenue and income		139,908,549	143,658,719
Raw materials and consumables used	6 (a)	6,196,856	6,430,250
Electricity purchased		6,199,584	6,975,175
Distillate consumption		22,610,210	24,158,007
Contracted labour expenses	6 (b)	16,783,658	16,333,285
Repairs and maintenance		15,572,063	17,313,158
Corporate allocation costs	6 (c)	5,707,508	5,568,300
Agents - community contract fees		12,669,513	11,700,401
Other expenses	6 (d)	11,909,669	12,334,538
Depreciation and amortisation expenses	6 (e)	67,464,704	45,064,008
Finance costs	6 (f)	2,548,087	1,423,709
Total expenses		167,661,852	147,300,831
Deficit for the year		**(27,753,303)**	**(3,642,112)**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Net surplus on revaluation of assets	18	-	6,032,900
Adjustments to Opening Equity	26	-	(2,147,429)
Other comprehensive surplus for the year		-	3,885,471
Total comprehensive (deficit)/surplus for the year		**(27,753,303)**	**243,359**

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

Statement of financial position

	Note	2020 $	Restated 2019 $	Restated 2018 $
ASSETS				
Current assets				
Cash and cash equivalents	7 (a)	56,325,313	83,540,675	44,850,850
Trade and other receivables	8	276,183	226,949	269,802
Inventories	9	3,838,382	6,210,703	6,379,217
Intangible assets		28,269	77,868	57,918
Other assets		83,508	235,699	249,929
Total current assets		60,551,655	90,291,894	51,807,716
Non-current assets				
Property, plant and equipment	10	702,367,587	732,659,446	720,826,154
Right-of-use assets	11	40,540,805	14,792,527	8,172,468
Total non-current assets		742,908,392	747,451,973	728,998,622
Total assets		803,460,047	837,743,867	780,806,338
LIABILITIES				
Current liabilities				
Trade and other payables	12	12,545,674	27,372,380	23,291,999
Unearned revenue	13	54,024,988	72,177,640	42,559,579
Lease liabilities	14	2,019,326	405,299	459,713
Total current liabilities		68,589,988	99,955,319	66,311,291
Non-current liabilities				
Lease liabilities	14	40,635,363	15,800,549	8,897,836
Borrowings	15	25,000,000	25,000,000	11,000,000
Total non-current liabilities		65,635,363	40,800,549	19,897,836
Total liabilities		134,225,351	140,755,868	86,209,127
Net assets		669,234,696	696,987,999	694,597,211
EQUITY				
Contributed equity	16	10	10	10
Retained earnings	17	188,048,063	213,034,431	213,087,639
Asset revaluation reserve	18	481,186,623	483,953,558	481,509,562
Total equity		669,234,696	696,987,999	694,597,211

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

Indigenous Essential Services Pty Ltd

Statement of changes in equity

		Asset revaluation reserve $	Retained earnings $	Contributed equity $	Total $
30 June 2019					
Balance at 1 July 2018		481,509,562	215,235,068	10	696,744,640
Correction of prior period errors	26	-	(2,147,429)	-	(2,147,429)
Restated opening balance		481,509,562	213,087,639	10	694,597,211
Deficit for the year		-	(3,642,112)	-	(3,642,112)
Asset revaluation		6,032,900	-	-	6,032,900
Assets retired		(3,588,904)	3,588,904	-	-
Balance at 30 June 2019		**483,953,558**	**213,034,431**	**10**	**696,987,999**
30 June 2020					
Balance at 1 July 2019		483,953,558	213,034,431	10	696,987,999
Deficit for the year		-	(27,753,303)	-	(27,753,303)
Assets retired		(2,766,935)	2,766,935	-	-
Balance at 30 June 2020		**481,186,623**	**188,048,063**	**10**	**669,234,696**

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

Statement of cash flows

	Note	2020 $	Restated 2019 $
Cash flows from operating activities			
Receipts from customers		41,556,178	42,368,728
Receipt of government grants - operational		58,665,000	51,571,330
Payments to suppliers		(105,524,126)	(89,622,508)
Interest received		409,495	458,960
Interest paid		(2,548,087)	(1,402,873)
Net cash provided by operating activities	7 (b)	(7,441,540)	3,373,637
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		26	43,450
Receipt from government grants - capital		22,114,172	75,543,846
Purchase of property, plant and equipment		(40,001,390)	(53,725,472)
Net cash generated by/(used in) investing activities		(17,887,192)	21,861,824
Cash flows used in financing activities			
Proceeds from loan from parent entity		-	14,000,000
Repayment of lease liabilities		(1,886,630)	(545,636)
Net cash generated by/(used in) financing activities		(1,886,630)	13,454,364
Net (decrease)/increase in cash and cash equivalents		(27,215,362)	38,689,825
Cash and cash equivalents at beginning of year		83,540,675	44,850,850
Cash and cash equivalents at end of year	7 (a)	56,325,313	83,540,675

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

Indigenous Essential Services Pty Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2020

1. General information

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

2. Significant accounting policies

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

(a) Statement of compliance

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

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

The financial statements were authorised for issue by the Directors on 6 October 2020.

(b) Basis of preparation

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

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

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

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

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

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

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

Going concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The Company has achieved a net deficit for the year ended 30 June 2020 of $27.8 million compared to a net deficit of $3.6 million for the year ended 30 June 2019. The Company's net working capital at 30 June 2020 and 2019 were deficits of $8.0 million and $9.7 million respectively. Current liabilities, excluding unearned revenue, contract and lease liabilities at 30 June 2020 and 2019 include $12.5 million and $27.4 million of trade and other payables respectively.

2. Significant accounting policies (cont'd)

Assets are fundamental to the essential services provided by the Company and as such the Company's performance is significantly impacted by its capital delivery program and the associated depreciation on assets. Accordingly, the Company is economically dependent on the Northern Territory Government to fund its future capital expenditure as well as a significant portion of its operating expenses. The Company's cash balance as at 30 June 2020 decreased by $27.2 million to $56.3 million due primarily to expenditure on capital programs that funding was received for in prior periods.

As a result of these matters, there is a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to realise its assets and discharge its liabilities in the normal course of business. To ensure that the Company is able to pay its debts as and when they fall due, a letter of financial support dated 6 October 2020 was received from the parent entity, Power and Water Corporation, which guarantees support should the Company not be able to pay its debts as and when they fall due and is valid for the period from date of signing to such time as the Company ceases to be a wholly owned subsidiary of Power and Water Corporation.

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

(c) Revenue recognition

The Company recognises revenue from three major sources being the provision of electricity, water and sewerage services to 72 remote communities and 79 outstations. The Company also receives operational recurrent grant funding from the Northern Territory Government to supplement the revenue that the Company generates through the sales of electricity, water and sewerage services to remote communities.

In addition to the major sources of revenue discussed above, the Company also recognises revenue from a number of other minor sources including capital contributions received from customers towards the construction or acquisition of new or upgrades to existing infrastructure assets owned by the Company.

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

Sale of water, electricity and sewerage services

The Company sells water and sewerage services either as an individual service offering or as a bundled package to a large number of customers. Each contract entered into may consist of one, two or three separate performance obligations because the promises to transfer water, sewerage services and/or electricity are distinct and separately identifiable goods and services that are not dependent on each other for complete satisfaction of the Company's performance obligations under the contract.

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

Revenue from the sale of water and electricity is recognised over time as the Company transfers the electricity and water to the customer who simultaneously receives and consumes the benefits provided by the Company. The amount of revenue recognised is determined using an input method to measure progress towards complete satisfaction of each of the performance obligations. A receivable is recognised (in the form of an unbilled revenue estimate) as the Company transfers the water and/or electricity to the customer. Customers are generally billed on a quarterly basis with consideration payable when invoiced, except customers who have pre-paid meters installed. These customers access electricity through the purchase of tokens, which are sold by contractors.

2. Significant accounting policies (cont'd)

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

Operational grant funding (Recurrent grants)

The Company receives operational grant funding from the Northern Territory Government to supplement the revenue generated through sales of electricity, water and sewerage services to the remote communities. The amount of funding provided is essentially the shortfall of the total costs incurred (excluding depreciation, lease costs and generation costs incurred from purchasing energy from Territory Generation) less any revenue received from the sale of water supply, electricity and sewerage services.

The contract is a variable contract because the volume of water and/or electricity to be transferred to the beneficiaries of the contract is unknown at the date of the initial contract; however for sewerage services the transaction price is fixed based on the number of installed sanitary fittings. The transaction price for water, sewerage services and electricity is subject to an annual price adjustment or escalation as determined by the regulators and agreed by the Company and the customer.

Consideration is received in advance by the customer and is recognised as a contract liability with revenue recognised over time as the Company satisfies its performance obligations and transfers the electricity, water and sewerage services to the beneficiaries of the contract who simultaneously received and use/consume the benefits of the goods and services provided.

Contract balances

Contract assets

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

Trade receivables

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

Contract liabilities

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

d) Interest revenue

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

2. Significant accounting policies (cont'd)

(e) Government grants - capital

The Company receives capital grant funding from both the Northern Territory and Commonwealth Governments. The Company receives consideration (usually in the form of cash) to construct or acquire non-financial assets (usually infrastructure assets) for its own use for the principal purpose of furthering the Company's objectives. The contract does not establish rights and obligations for the transfer of the underlying asset to the transferor or other parties (i.e. beneficiaries).

Capital grant accounting only applies when the non-financial asset to be constructed or acquired by the entity is permitted to be recognised by another Standard. This means that for capital grants relating to a recognisable asset, a liability would need to be recognised and income would be subsequently recognised either at a point in time (commonly for acquisition grants) or over time (commonly for construction grants).

The Company has adopted a single method of measuring progress, i.e. input based method for each obligation satisfied over time which it has applied to all similar obligations and in similar circumstances. At the end of each reporting period, the Company remeasures its progress towards complete satisfaction of each obligation that is satisfied over time, and recognises income over time on that basis.

(f) Goods and services tax

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

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

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

(f) Borrowing costs

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

(g) Income tax

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

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

(h) Cash and cash equivalents

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

(i) Financial instruments

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

2. Significant accounting policies (cont'd)

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

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

(i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

(i) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

(ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

For the years ended 30 June 2019 and 2020, the Company did not have any financial assets at FVTPL or FVTOCI.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected useful life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

2. Significant accounting policies (cont'd)

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "Interest revenue" line item (note 5(c)).

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost, lease receivables, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company recognises lifetime expected credit losses (ECL) for trade receivables, contract assets and lease receivables. The ECL on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtor, general economic conditions and an assessment of both current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

2. Significant accounting policies (cont'd)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

(i) An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

(ii) Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;

(iii) Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

(iv) An actual or expected significant deterioration in the operating results of the debtor;

(v) Significant increases in credit risk on other financial instruments of the same debtor;

(vi) An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) The financial instrument has a low risk of default,

(ii) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(iii) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of

'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

(i) When there is a breach of financial covenants by the debtor; or

(ii) Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

2. Significant accounting policies (cont'd)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event (see (ii) above);
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

2. Significant accounting policies (cont'd)

Derecognition of financial assets

The Company derecognises a financial asset only 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 entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

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

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, are measured in accordance with the specific accounting policies set out below.

(i) Financial liabilities measured subsequently to amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

(ii) Derecognition of financial liabilities

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

2. Significant accounting policies (cont'd)

When the Company exchanges with the existing lender one debt instrument into another one with substantially different terms, such an exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

(j) Inventories

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

(k) Infrastructure, plant and equipment

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

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

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

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

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

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

2. Significant accounting policies (cont'd)

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

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

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

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

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

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

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

Infrastructure, plant and equipment	2020	2019
Infrastructure	8 to 60 years	8 to 60 years
Plant and equipment	3 to 35 years	3 to 35 years

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

Infrastructure, plant and equipment situated on leased land	2020	2019
Infrastructure	8 to 40 years	8 to 40 years
Plant and equipment	1 to 40 years	1 to 40 years

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

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

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

2. Significant accounting policies (cont'd)

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

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

Assets held under lease 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.

(l) Intangible assets

Intangible assets acquired separately

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

Renewable Energy Certificates

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

Derecognition of intangible assets

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

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

Infrastructure, plant and equipment	2020	2019
Intangible assets	2 to 4 years	2 to 4 years

(m) Impairment of tangible and intangible assets

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

2. Significant accounting policies (cont'd)

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

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

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

(n) Leases

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

AASB 16 was adopted on 1 July 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 July 2019, see Note 3. The following policies apply subsequent to the date of initial application, 1 July 2019.

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

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

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

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

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

2. Significant accounting policies (cont'd)

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

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

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

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

Policies applicable prior to 1 July 2019

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.

<u>The Company as lessee</u>

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

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

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

3. Application of new and revised Accounting Standards

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

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these financial statements.

Impact of initial application of AASB 16 Leases

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

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

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

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

Transition method and practical expedients utilised

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

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

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

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

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

3. Application of new and revised Accounting Standards (cont'd)

Impact on Lessee Accounting

Former operating leases

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

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

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

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

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

Former finance leases

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

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

Financial impact of the initial application of AASB 16

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

	Adjustments	30 June 2019 as originally presented $	AASB 16 $	1 July 2019 $
Assets				
Property, plant and equipment	(a)	747,451,973	(14,792,527)	732,659,446
Right-of-use asset	(b)	-	39,682,872	39,682,872
Net impact on total assets			24,890,345	
Liabilities				
Lease liabilities - current	(c)	405,299	1,294,082	1,699,381
Lease liabilities - non-current	(c)	15,800,549	23,596,263	39,396,812
Net impact on total liabilities			24,890,345	

(a) Property, plant and equipment was adjusted to reclassify leases previously classified as finance type to right-of-use assets. The adjustment reduced the cost of property, plant and equipment by $21,266,292 and accumulated amortisation by $3,622,858 for a net adjustment of $17,643,434.

3. Application of new and revised Accounting Standards (cont'd)

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

	$
Adjustment noted in (b) - finance type leases	14,792,527
Operating type leases	24,890,345
Right-of-use assets	39,682,872

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

		$
Operational expenditure commitments	Previously Note 18	5,406,013
Operating lease arrangements	Previously Note 19	651,668
Minimum operating lease commitment at 30 June 2019		6,057,681
Commitments not disclosed in the prior year		30,256,073
Less: commitments assessed not to contain a lease under AASB 16		(6,057,681)
Undiscounted lease payments		30,256,073
Less: effect of discounting using the incremental borrowing rate as at the date of initial application		(5,365,728)
Lease liabilities for leases classified as operating type under AASB 117		24,890,345
Plus: leases previously classified as finance type under AASB 117		16,205,848
Lease liability as at 1 July 2019		41,096,193

(b) Standards and Interpretations in issue not yet effective

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective are listed below. The Company 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 17 Insurance Contracts	1 January 2021	30 June 2021
Amendments to AASB 3 'Definition of a business'	1 January 2020	30 June 2021
Amendments to AASB 101 and AASB 108 'Definition of material'	1 January 2020	30 June 2021
Conceptual Framework 'Amendments to References to the Conceptual Framework in IFRS Standards'	1 January 2020	30 June 2021

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

(a) Critical judgements in applying accounting policies

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

(b) Key sources of estimation uncertainty

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

Useful lives of infrastructure, plant and equipment

As described in Note 2 (k), the Company reviews the estimated useful lives of infrastructure, plant and equipment at the end of each reporting period and estimated useful lives 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.

Fair value measurements and valuation processes

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

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

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

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

Unbilled revenue

As per accounting standard AASB 15 'Revenue from Contracts with Customers', revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Therefore the company estimates the amount of electricity and water consumed at reporting date but that is yet to be billed.

4. Critical accounting judgements and key sources of estimation uncertainty (cont'd)

Coronavirus (COVID-19) pandemic

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

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

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

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

  There is a wide range of possible outcomes from the COVID-19 pandemic, however this is not expected to result in a high degree of uncertainty in respect of future replacement costs.

  All assets are located in remote locations providing essential services. Travel restrictions to remote communities as a result of the COVID-19 pandemic have limited the ability of contractors to complete site preparation and design works, which has led to delays in capital expenditure. These restrictions have not affected essential maintenance.

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

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

- *Expected credit losses*

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

- *Net realisable value of inventory*

  Inventory will continue to be used for power generation in remote communities and a provision for obsolescence is not expected under the current circumstances.

5. Revenue

	June 2020 $	June 2019 $
(a) Revenue from contracts with customers		
Revenue from contracts with customers	43,198,962	42,411,961
	43,198,962	**42,411,961**

(a) Disaggregation of revenue from contracts with customers

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

	Electricity $	Water $	Sewerage $	Other revenue $	Total $
	For the year ended 30 June 2020				
Revenue from external customers	33,431,812	5,482,457	3,100,330	1,184,363	43,198,962
Timing of revenue recognition					
- Over time	33,431,812	5,482,457	3,100,330	-	42,014,599
- At a point in time	-	-	-	1,184,363	1,184,363
	33,431,812	5,482,457	3,100,330	1,184,363	43,198,962
	For the year ended 30 June 2019				
Revenue from external customers	32,045,853	5,546,350	3,070,194	1,749,564	42,411,961
Timing of revenue recognition					
- Over time	32,045,853	5,546,350	3,070,194	-	40,662,397
- At a point in time	-	-	-	1,749,564	1,749,564
	32,045,853	5,546,350	3,070,194	1,749,564	42,411,961

5. Revenue (cont'd)

	June 2020 $	June 2019 $
(a) Revenue from contracts with customers (cont'd)		
Receivables*	265,536	180,199
Contract liabilities (current)	54,024,988	72,177,640

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

The receivables primarily relate to the Company's rights to consideration for work completed but not billed at the reporting date on electricity and water contracts.

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

(i) Waste removal (sewerage) contracts for which revenue is recognised over time as the Company satisfies its performance obligations

(ii) Capital contributions for the purpose of constructing infrastructure assets that will be owned by the Company for which the revenue will be recognised at a point in time on completion of the construction of the infrastructure asset and connected to the network system

(iii) Capital contributions (recoverable works) for the purpose of constructing infrastructure assets that will be owned by the customer, which revenue is recognised over time as the asset is being constructed (as the asset is constructed on the customers premises).

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

Revenue recognised that was included in the contract liability balance at the beginning of the period	384,078	25,115
Increases due to cash received, excluding amounts recognised as revenue during the period	8,000	540,378

Transaction price allocated to the remaining performance obligations

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

Capital contributions	255,0340	631,112

For sales of electricity, water and sewerage services, the Company is unable to disclose information relating to unsatisfied (or partially unsatisfied) performance obligations as at the reporting date because all contracts are for an indefinite period and/or the volume of goods and/or services to be provided were unknown at the initial date of the contract and as at the end of the reporting period.

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

(b) Government grants and other contributions		
Capital grant	39,929,636	44,019,812
Recurrent grant	56,235,459	55,894,276
Other capital contributions	171,100	874,310
	96,336,195	100,788,398
(c) Interest revenue		
Interest earned on bank deposits	373,392	458,360
	373,392	458,360

6. Expenses

			2020 $	Restated 2019 $
(a)	**Raw materials and consumables used**			
	Gas purchased from parent entity		1,876,070	2,456,390
	Network charges from parent entity		1,079,144	1,413,511
	Generation costs for Minor Centres		2,837,576	2,142,268
	Other materials and consumables		404,066	418,081
			6,196,856	6,430,250
(b)	**Contracted labour expenses**			
			16,783,658	16,333,285

Contracted labour expenses relate to staff and contractors who are employed or contracted by the Company's parent entity, Power and Water Corporation.

(c)	**Corporate allocation costs**			
			5,707,508	5,568,300

Corporate allocation costs represent costs incurred by the Company's parent entity on the Company's behalf which would have otherwise not been incurred by the Company's parent entity and which are oncharged to the Company as approved by the Boards of both the parent entity and the Company.

The value of these costs reflects the underlying agreement between the Company and its funding body in relation to the allocation of revenue available to pay for these costs.

(d)	**Other expenses**			
	External service level arrangements		2,700,561	2,376,422
	Net loss on disposal of property, plant and equipment		1,446,410	3,589,113
	Freight		1,126,936	1,134,509
	Motor vehicle expenses		818,051	994,912
	IT and communication		1,449,284	1,458,077
	Travel and accommodation		508,536	756,395
	Other		3,859,891	2,025,110
			11,909,669	12,334,538
(e)	**Depreciation and amortisation expenses**			
	Depreciation	10	64,877,511	44,290,132
	Amortisation	11	2,587,193	773,876
			67,464,704	45,064,008
(f)	**Finance costs**			
	Interest on loans from parent entity		1,046,558	656,763
	Interest on leases		1,501,529	766,946
			2,548,087	1,423,709

7. Cash and cash equivalents

	2020 $	Restated 2019 $
(a) Reconciliation of cash		
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash assets	56,325,313	83,540,675
The weighted average interest rate on cash assets for 2020 is 0.7% (2019: 1.5%)		
(b) Reconciliation of the deficit for the year to net cash flows from operations		
Deficit for the year	(27,753,303)	(3,642,112)
Adjustments for:		
Depreciation and amortisation expenses	67,464,704	45,064,008
Net loss on disposal of property, plant and equipment	1,446,410	3,589,113
Board approved write offs	4,140,402	-
Contributed Assets Provided Free of Charge	(171,100)	-
Government grant - capital	(39,929,636)	(44,019,812)
Changes in assets and liabilities		
Decrease/(increase) in inventories	2,372,321	168,514
Decrease in trade and other receivables	(49,234)	42,853
(Increase)/decrease in other assets	152,191	14,230
(Increase)/decrease in intangible assets	49,599	(19,950)
Increase/(decrease) in trade and other payables	(14,826,706)	4,080,381
(Decrease)/increase in unearned revenue	(337,188)	(1,903,588)
Net cash (used in)/provided by operating activities	(7,441,540)	3,373,637

(c) Reconciliation of liabilities arising from financing activities

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

Movement	Lease liabilities	Borrowings
Opening balance - 1 July 2019	16,205,848	25,000,000
Financing cash flows	(1,886,630)	-
Non-cash changes		
Effect of adoption of AASB 16 - lease liabilities	24,890,345	-
New finance leases and remeasurements	3,445,126	-
Closing balance - 30 June 2020	42,654,689	25,000,000

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

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

8. Trade and other receivables

	2020 $	Restated 2019 $
Current		
Receivables	67,357	125,034
Less: provision for doubtful debts	-	-
	67,357	125,034
Accrued revenue other	198,179	55,165
Interest receivable	10,647	46,750
	276,183	226,949

Receivables at 30 June 2020 are non-interest bearing. The Company measures the loss allowance for receivables at an amount equal to lifetime estimated credit losses (ECL). The ECL on receivables are estimates using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Company has undertaken a review of all receivables at year end and concluded that a loss allowance will not be recognised because amounts that are 90 days and over represent less than 1% of the total balance outstanding at year end.

9. Inventories

	2020 $	Restated 2019 $
Distillate stocks	3,838,382	6,210,703
	3,838,382	6,210,703

The cost of distillate recognised as an expense during the current year in respect of continuing operations was $22,610,210 (2019: $24,158,007). The cost of inventories recognised as an expense by the Company is $nil (2019: $nil) in respect of write-downs of inventory to net realisable value.

10. Property, plant and equipment

	2020 $	Restated 2019 $
Carrying amounts of:		
Infrastructure at fair value	635,957,890	663,657,016
Plant and Equipment at fair value	788,761	1,446,683
	636,746,651	665,103,699
Intangible Assets at cost	218,159	161,173
Capital Work in Progress at cost	65,402,777	67,394,574
	702,367,587	732,659,446

10. Property, plant and equipment (cont'd)

	Infrastructure at fair value $	Plant and Equipment at fair value $	Intangible Assets at cost $	Capital Work in Progress at cost $	Total Property, Plant and Equipment $
June 2020					
Fair value	1,462,512,875	1,644,386	1,083,958	65,402,777	1,530,643,996
Accumulated depreciation	(826,554,985)	(855,625)	(865,799)	-	(828,276,409)
Written down value	635,957,890	788,761	218,159	65,402,777	702,367,587
June 2019					
Fair value	1,429,554,771	2,479,459	980,452	67,394,574	1,500,409,256
Accumulated depreciation	(765,897,755)	(1,032,776)	(819,279)	-	(767,749,810)
Written down value	663,657,016	1,446,683	161,173	67,394,574	732,659,446

Movement	Infrastructure at fair value $	Plant and Equipment at fair value $	Intangible Assets at cost $	Work in Progress at cost $	Total Property, Plant and Equipment $
June 2020					
Opening balance	663,657,016	1,446,683	161,173	67,394,574	732,659,446
Additions	-	-	-	36,032,087	36,032,087
Disposals	(1,446,435)	-	-	-	(1,446,435)
Depreciation	(64,711,703)	(119,287)	(46,521)	-	(64,877,511)
Transfer from WIP	37,853,953	85,844	84,087	(38,023,884)	-
Adjustments	605,059	(624,479)	19,420	-	-
Closing balance	635,957,890	788,761	218,159	65,402,777	702,367,587
June 2019					
Opening balance	656,679,212	1,795,089	1,616	62,350,237	720,826,154
Additions	-	-	-	53,723,087	53,723,087
Disposals	(3,632,563)	-	-	-	(3,632,563)
Depreciation	(43,392,839)	(164,681)	(732,612)	-	(44,290,132)
Transfer from WIP	48,670,204	8,546	-	(48,678,750)	-
Adjustments	(699,898)	(192,271)	892,169	-	-
Revaluation	6,032,900	-	-	-	6,032,900
Closing balance	663,657,016	1,446,683	161,173	67,394,574	732,659,446

10. Property, plant and equipment (cont'd)

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

The following valuation techniques are used:

<table>
<tr><th colspan="2">Asset class</th><th>Valuation policy</th></tr>
<tr><td rowspan="3">Infrastructure systems</td><td>Water and sewerage</td><td>Current replacement cost approach</td></tr>
<tr><td>Electricity generation</td><td>Current replacement cost approach</td></tr>
<tr><td>Electricity distribution and transmission</td><td>Current replacement cost approach</td></tr>
<tr><td>Plant and equipment*</td><td>Non-specialised plant and equipment</td><td>Historical cost</td></tr>
</table>

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

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

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

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

<u>As at 30 June 2020</u>

The Company's assets are stated at the revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. A desktop review of the factors that formed a material part of the asset valuation calculations for the financial year ending 30 June 2020 was undertaken. The result of this review 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 2020. The significant factors include the transportation factor, CPI Index, Reserve Bank cash rates and the construction cost factor.

<u>As at 30 June 2019</u>

The Company's assets are stated at the revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Independent valuers, GHD who have valuation experience for similar utility assets in Australia, were engaged to undertake a valuation of the Company's assets. The asset valuation was based on establishing a modern equivalent asset building block taking into account adjustment factors, service capability and in-service age of the assets as at the nominated date for the valuation of 30 June 2019. Assets installed this financial year or assets under construction at 30 June 2019 were not included in the valuation. The valuation has resulted in the Company's assets being written up by $6.0 million which was recognised in full as an increase in the asset revaluation reserve.

10. Property, plant and equipment (cont'd)

Ownership of many Aboriginal land sites, particularly in remote areas, still remain with Traditional Owners. Accordingly, the NT Government (NTG) determined in 2011 that all NTG infrastructure (including existing and new infrastructure) located on Aboriginal land will be secured by long-term land tenure and that the lease periods will be 40 years which represents the use and economic life of infrastructure assets. Over 400 leases have been signed since 2011 most with a 40-year life. However, where land survey documents were not available at the time leases were signed, a 12-year life was applied, with a period extension clause enabling the lessee, to extend to a 40-year term upon survey and subdivision of the relevant land. In all cases, the extension clause has been optioned as soon as survey documents are obtained. At the commencement of these leases being signed, the Company took the decision that infrastructure assets on leased land would have a depreciation life ending in line with the 40-year lease life. This would also be the case for 12-year leases as it was known these would be extended. As Cabinet has now approved the lease template and the default date is now a 40-year lease term upon survey of the land, a change of estimate has been applied to the fixed assets on leased land to reflect the lives of the affected assets to be the lesser of their assessed economic life as per fair value or 40 years.

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

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

	Level 3 $	Fair Value as at 30 June 2020 $
Plant and equipment (including infrastructure assets)	636,746,651	636,746,651

	Level 3 $	Fair Value as at 30 June 2020 $
Freehold land	-	-
Buildings	-	-
Plant and equipment (including infrastructure assets)	665,103,699	665,103,699

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

Impairment losses recognised in the year

There were no impairment losses recognised in respect of the Company's assets as at 30 June 2020 or 30 June 2019.

11. Right-of-use assets

	2020 $	2019 $
Carrying amounts of:		
Land	16,794,844	14,792,527
Gas transport pipelines	17,673,760	-
Solar power	6,072,201	-
	40,540,805	**14,792,527**

Movement in carrying amounts	Land $	Gas transport pipelines $	Solar Power $	Right-of-use assets $
Year ended 30 June 2020				
Opening Balance	14,792,527	-	-	14,792,527
Additions	2,881,698	18,894,941	6,558,832	28,335,471
Depreciation	(879,381)	(1,221,181)	(486,631)	(2,587,193)
Closing balance	**16,794,844**	**17,673,760**	**6,072,201**	**40,540,805**
Year ended 30 June 2019 - Restated				
Opening Balance	8,172,468	-	-	8,172,468
Additions	7,393,935	-	-	7,393,935
Depreciation	(773,876)	-	-	(773,876)
Closing balance	**14,792,527**	**-**	**-**	**14,792,527**

The Company leases several assets including land, a gas transport pipeline and the output of two solar power plants. The most common lease term is 40 years for land assets and 20 years for other assets.

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

12. Trade and other payables

	2020 $	2019 $
Payable to controlling entity	4,221,058	11,806,296
Trade payables	5,203,927	6,933,807
Other payables and accruals	3,120,689	8,632,277
	12,545,674	27,372,380

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

Trade and other payables has decreased since the prior year due to lower activity around the end of the financial year primarily as a result of remote travel restrictions in place to contain the COVID-19 pandemic.

13. Unearned revenue

		2020 $	2019 $
Government grants - capital	(1)	47,404,281	65,219,745
Other - capital contributions	(2)	250,673	2,641,324
Contract liabilities arising from contracts with customers:			
Recurrent grant funding	(3)	6,115,000	3,685,459
Capital contributions - no ongoing performance obligations	(4)	15,060	346,600
Capital contributions - ongoing performance obligations	(5)	239,974	284,512
		54,024,988	72,177,640
Represented by:			
Current		54,024,988	72,177,640
Non-current		-	-
		54,024,988	72,177,640

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

(2) The Company receives capital contributions from customers where the consideration to acquire the capital contributions is significantly less than fair value principally to enable it to further its objectives. Revenue is recognised over time as asset to which the capital contribution was provided is constructed.

(3) The Company receives operational grant funding (Government grants - recurrent) from the Northern Territory Government to supplement the shortfall in revenue that the Company generates through sales of electricity, water and sewerage services to remote communities across the Northern Territory. The Company receives operational grant funding is received in advance which is recognised as a contract liability. Revenue is recognised over time as the Company fulfils its performance obligations under the contract by transferring the electricity, water and/or sewerage services to the beneficiaries of grant funding who simultaneously receives and uses/consumes those goods and/or services.

(4) Capital contributions with no ongoing performance obligations are contributions provided by customers towards the construction of new or upgrades to existing infrastructure assets for the purpose of enabling them to be connected to the network system. The Company retains control and ownership of these assets. Capital contributions are billed and paid for upfront prior to any work commencing and are recognised as a contract liability until construction of the asset is completed and the customer is connected to the network system, at which time the capital contribution is transferred from contract liabilities to revenue.

(5) Capital contributions with ongoing performance obligations are provided by customers to be used towards the construction of new or upgrades to existing infrastructure assets for the purpose of receiving ongoing goods and/or services under the contract with the customer. A contract liability is recognised upon receipt of the capital contributions. Revenue is recognised over the life of the contract with the customer once the asset is constructed and the Company commences transferring electricity, water and/or sewerage services to the customer who simultaneously receives and uses/consumes the benefits.

13. Unearned revenue (cont'd)

	2020 $	2019 $
Reconciliation of capital grants		
Opening balance as at 1 July	65,219,745	33,698,096
Capital grants received	22,114,172	69,574,894
Transferred from recurrent grant funding	-	5,966,567
Less: Capital Grant income recognised during the year	(39,929,636)	(44,019,812)
Closing balance as at 30 June	47,404,281	65,219,745

Reconciliation of unearned revenue arising from contracts with customers - assets to be acquired or constructed and controlled by the Company

	AASB 15		
	Capital contributions - developers	Capital contributions - network users	Total
Opening balance as at 1 July	346,600	284,512	631,112
Capital contributions received	-	8,000	8,000
Less: capital contributions transferred to revenue	(331,540)	(52,538)	(384,078)
Closing balance as at 30 June	15,060	239,974	255,034

14. Leases

Refer to note 6(f) for details of the interest expense on lease liabilities and note 11 for details of the associated right-of-use assets.

The Company leases several assets including land, a gas transport pipeline and the output of two solar power plants. The most common lease term is 40 years for land assets and 20 years for other assets.

The present value discount factor used for the minimum lease payments was 4.72% at the inception of the leases in 2013. Leases added in 2020 have been calculated using a present value discount factor of 2.71% (2019: 3%).

	2020 $	Restated 2019 $	2020 $	Restated 2019 $
	Minimum lease payments		Present value of the minimum lease payments	
Not later than one year	3,471,265	1,172,245	2,019,326	405,299
1 to 5 years	13,197,652	5,367,169	8,028,050	2,131,154
Later than 5 years	46,098,528	26,603,435	32,607,313	13,669,395
	62,767,445	33,142,849	42,654,689	16,205,848
Less: future finance charges	(20,112,756)	(16,937,001)	-	-
	42,654,689	16,205,848	42,654,689	16,205,848
Represented by:				
Current			2,019,326	405,299
Non-current			40,635,363	15,800,549
			42,654,689	16,205,848
Total cash outflows for leases				
Principal repayments on leases			1,886,630	545,636
Interest repayments on leases			1,501,529	766,946
			3,388,159	1,312,582

Future cash outflows to which the consolidated entity is potentially exposed may arise from variable lease payments that are linked to a consumer price index (CPI). Should CPI increase by 1.4%, lease payments would increase by $0.8 million. This potential cash outflow is not reflected in the measurement of lease liabilities.

Fair value

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

15. Borrowings

	2020 $	Restated 2019 $
Non-current		
Loan from parent entity - unsecured	25,000,000	25,000,000
	25,000,000	25,000,000

On the 18 March 2019, the Company received a loan for $14.0 million from its parent entity, Power and Water Corporation, taking the total loans received since the 2017-18 year to $25.0 million ($7.5 million received on 29 March 2017 and $3.5 million on 29 June 2017). The purpose for each of the three loans was to provide capital assistance towards the Arena Solar Project where the Company is building a number of solar farms which will enable it to reduce its cost of electricity production in the communities it services.

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

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

16. Contributed equity

Issued and paid-up share capital		
10 ordinary shares of $1 fully paid (2019: 10)	10	10
	10	10

Changes to the then Corporations law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

17. Retained earnings

	2020 $	Restated 2019 $
Retained earnings at beginning of year	213,034,431	215,235,068
Correction of prior period errors	-	(2,147,429)
Assets retired transferred from asset revaluation reserve	2,766,935	3,588,904
Net surplus/(deficit) for the year	(27,753,303)	(3,642,112)
Retained earnings at end of the year	188,048,063	213,034,431

18. Asset revaluation reserve

Balance at beginning of year	483,953,558	481,509,562
Asset revaluation	-	6,032,900
Assets retired transferred to retained earnings	(2,766,935)	(3,588,904)
Balance at end of year	481,186,623	483,953,558

The asset revaluation reserve arises on the revaluation of property, plant and equipment (assets). When revalued assets are sold, the portion of the asset revaluation reserve that relates to those assets is transferred directly to retained earnings.

19. Commitments

	2020 $	2019 $
Capital expenditure commitments		
Contracted but not provided for and payable: within one year	13,611,682	9,257,173
	13,611,682	9,257,173

Capital works continue to be undertaken for various programs required in remote communities in respect of tank and water main replacements, drilling, reticulation and headworks.

20. Financial instruments

(a) Financial risk management objectives and policies

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

The Company's overall strategy remains unchanged from 30 June 2019.

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

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

(b) Market risk

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

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

A purchaser / provider agreement between the Company and the Northern Territory Government for the provision of water supply, sewerage and electrical services to remote Aboriginal communities in the Northern Territory has been established for a period of two years from 18 March 2019 to 18 March 2021 with the possibility to extend it by one more year by agreement in writing between both parties.

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

Source of Income	2020		2019	
	$	%	$	%
Grant funding	96,336,195	68.9%	100,788,398	70.2%
Revenue from contracts with customers	43,198,962	30.9%	42,411,961	29.5%
Interest	373,392	0.2%	458,360	0.3%
Total revenue	**139,908,549**	**100%**	**143,658,719**	**100%**

20. Financial instruments (cont'd)

(c) Credit risk management

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

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

(d) Liquidity risk management

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

(e) Commodity price risk

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

(f) Interest rate risk

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

(g) Fair values

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

(h) Capital risk management

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

The capital structure of the Company consists of primarily revalued non-current assets and equity attributable to the equity holder of the Company, comprising contributed capital and retained earnings as disclosed in Notes 16 and 17 respectively.

The Company's overall strategy remains unchanged from prior years. Operating cash flows are used to maintain and expand the Company's assets. The Company is not subject to any externally imposed capital requirements.

21. Related party transactions

The immediate parent and controlling entity of the Company is Power and Water Corporation, a government owned corporation pursuant to the *Government Owned Corporations Act 2001*. Power and Water Corporation is wholly owned by the Northern Territory Government.

Trading transactions

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year end refer to Note 8 and Note 12):

Related party		Revenue from related parties $	Purchases from related parties $	Amounts owed by related parties $	Amounts owed to related parties $
Power and Water Corporation	2020	-	28,980,622	-	29,911,845
	2019	-	28,867,179	-	36,829,884
Northern Territory Government*	2020	103,910,522	5,229,911	71,996	53,519,281
	2019	98,779,269	5,099,929	108,099	73,672,500

** Excludes Power and Water Corporation*

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

The Company receives operational and capital grants from the Northern Territory Government enabling it to provide electricity, water and sewerage services to remote Aboriginal communities. Capital grants are recognised as revenue when the project is completed and the asset capitalised. The Company also receives recoverable works funds for specific projects undertaken on behalf of the Northern Territory Government and unrelated third parties.

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

Loans from related parties

The Company's parent entity, Power and Water Corporation has provided one interest-only fixed loan for $14.0 million in 2018-19 and two interest-only loans totalling $11.0 million in 2016-17 to the Company at annual interest rates of 3.88% in 2018-19 and 4.55% in 2016-17. Refer to Note 15 for further details.

Compensation of Directors

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

Directors do not receive any compensation for their directorship. No Director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving Directors' interest subsisting at year-end.

21. Related party transactions (cont'd)

Compensation of key management personnel

The Company did not have any employees as at or during the years ended 30 June 2020 or 2019.

Other related party transactions

In addition, the Company purchased labour in the amount of $16.8 million (2019: $16.3 million) and accounting, computing, human resources, secretarial services and utility services for its operations from Power and Water Corporation for which a management fee of $5.7 million (2019: $5.6 million) was charged and paid.

22. Economic dependency

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

	2020 %	2019 %
Revenue derived from government funding	69%	70%
Revenue from provision of utility services	31%	30%
	100%	100%

23. Auditor's Remuneration

	2020 $	2019 $
Audit of the financial statements	60,000	60,000
	60,000	60,000

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

24. Events after the reporting period

In the interval between the end of the financial year and the date of this report, there have been no transactions or events of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

25. Contingent liabilities and contingent assets

The Company may be responsible for remediation works and removal of infrastructure assets as a result of the failed under bore of the Aspley Straight. The ultimate outcome and cost cannot be determined with an acceptable degree of reliability at this time.

There was one event during the financial year which the Company has begun remediation works. Depending on the notification from a third party, the Company may be responsible for further rectification and remediation works in relation to this event. The ultimate outcome and cost cannot be determined with an acceptable degree of reliability at this time.

26. Restatement of comparatives

(a) During the year ended 30 June 2020, material errors were identified in the accounting treatment of two matters during the previous year ended 30 June 2019.

Incorrect lease template historically used

The template that has been used to recognise the Right Of Use (ROU) assets, lease liabilities, interest and depreciation expenses in respect of IES's right to use land under Section 19 of the Aboriginal Land Rights (Northern Territory) Act 1976, commonly referred to as a S19 lease, was incorrect.

Incorrect weighting has been given to the split between interest and principal in each individual year. The accounting standards require repayments early in the lease term be weighted towards interest and the later repayments represent a higher principal repayment against the lease liability. The template used since inception calculated this the opposite way around and gave early favour to the principal component instead of the interest. In addition, the old template did not calculate depreciation correctly and the depreciation expense in prior years has been too high.

Incorrect interpretation of capital funding agreements

i) Recent capital funding agreements between Indigenous Essential Services Pty Limited (IES) and the Department of Local Government, Housing and Community Development (Housing) have not specifically referred to grant funding, and were interpreted as Engineering, Procurement and Construction (EPC) infrastructure contracts to be treated under AASB 15 - Revenue.

As a result of this interpretation, the previous accounting treatment in IES was that Housing would transfer cash to IES in order to construct the asset, which IES would recognise as unearned revenue for an EPC contract. Housing would then own the Capital Work in Progress (CWIP) during the construction phase and would provide IES with a gifted asset on completion, at which point IES would recognise the revenue for the value of the gifted asset.

It has been determined that all capital funding agreements for IES should more appropriately be treated under AASB 1058 – Income of Not-for-Profit Entities, on the basis that Housing have provided IES with a financial asset (cash) in order to construct a non-financial asset (e.g. sewerage system). This circumstance is covered in AASB 1058 para 15 and the agreements fall in scope when applying substance over legal form, rather than the commercial interpretation of an EPC infrastructure contract under AASB 15.

The projects associated with the Headworks and Rolling Capital Programs have been set up as capital in nature, so the costs are correctly transferred to CWIP. However, the associated revenue that was released from Unearned Revenue in the prior year was also de-recognised in the prior year in order to transfer the CWIP to Housing. This treatment has subsequently been determined to be incorrect in accordance with the accounting advice above.

ii) The Infill Housing Program was originally interpreted as a Recoverable Works program, which means that Housing was expected to own the asset on completion because the agreement does not make it clear who the final owner would be. Therefore work orders (WO) for the projects associated with the Infill Housing Program were set up as operational WO on inception in the year ended 30 June 2018 instead of capital expenditure and the costs were written off to profit or loss.

IES has subsequently clarified with Housing that IES will be responsible for the ongoing maintenance of these assets and IES will therefore take ownership on completion so these costs should have historically been capitalised as CWIP. The prior year revenue has been correctly recognised under the accounting standards when spent; this treatment is the same under AASB 15 or AASB 1058.

26. Restatement of comparatives (cont'd)

(b) Statement of profit or loss and other comprehensive income

	Original 2019 $	Correction $	Restated 2019 $
Revenue from contracts with customers	42,411,961		42,411,961
Government grants	99,173,903	1,614,495	100,788,398
Interest revenue	458,360		458,360
Total revenue and income	142,044,224	1,614,495	143,658,719
Raw materials and consumables used	6,430,250		6,430,250
Electricity	6,975,175		6,975,175
Distillate consumption	24,158,007		24,158,007
Direct personnel costs	16,949,935	(616,650)	16,333,285
Repairs and maintenance	17,313,158		17,313,158
Corporate allocation costs	5,568,300		5,568,300
Agents - community contract fees	11,700,401		11,700,401
Other expenses	13,286,884	(952,346)	12,334,538
Depreciation and amortisation expenses	45,242,194	(178,186)	45,064,008
Finance costs	970,771	452,938	1,423,709
Total expenses	148,595,075	(1,294,244)	147,300,831
Deficit for the year	**(6,550,851)**	**2,908,739**	**(3,642,112)**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Net surplus on revaluation of assets	6,032,900		6,032,900
Adjustments to Opening Equity	-	(2,147,429)	(2,147,429)
Other comprehensive deficit for the year	6,032,900	(2,147,429)	3,885,471
Total comprehensive deficit for the year	**(517,951)**	**761,310**	**243,359**

26. Restatement of comparatives (cont'd)

(c) Statement of financial position

	Original 2019 $	Correction $	Restated 2019 $
ASSETS			
Non-current assets			
Property, plant and equipment	729,434,651	3,224,795	732,659,446
Right-of-use assets	15,763,670	(971,143)	14,792,527
Total non-current assets	745,198,321	2,253,652	747,451,973
Total assets	835,490,215	2,253,652	837,743,867
LIABILITIES			
Current liabilities			
Lease liabilities	1,070,032	(664,733)	405,299
Total current liabilities	100,620,052	(664,733)	99,955,319
Non-current liabilities			
Lease liabilities	13,643,474	2,157,075	15,800,549
Total non-current liabilities	38,643,474	2,157,075	40,800,549
Total liabilities	139,263,526	1,492,342	140,755,868
Net assets	696,226,689	761,310	696,987,999
EQUITY			
Retained earnings	212,273,121	761,310	213,034,431
Total equity	696,226,689	761,310	696,987,999

	2018 $	Correction $	2018 $
ASSETS			
Non-current assets			
Property, plant and equipment	720,784,850	41,304	720,826,154
Right-of-use assets	10,033,718	(1,861,250)	8,172,468
Total non-current assets	730,818,568	(1,819,946)	728,998,622
Total assets	782,626,284	(1,819,946)	780,806,338
LIABILITIES			
Current liabilities			
Lease liabilities	1,045,152	(585,439)	459,713
Total current liabilities	66,896,730	(585,439)	66,311,291
Non-current liabilities			
Lease liabilities	7,984,914	912,922	8,897,836
Total non-current liabilities	18,984,914	912,922	19,897,836
Total liabilities	85,881,644	327,483	86,209,127
Net assets	696,744,640	(2,147,429)	694,597,211
EQUITY			
Retained earnings	215,235,068	(2,147,429)	213,087,639
Total equity	696,744,640	(2,147,429)	694,597,211

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