

2015/16 ANNUAL REPORT
POWERING THE NT



2015/16 HIGHLIGHTS

RELIABILITY

ACHIEVED 390 DAYS WITHOUT
A SINGLE CONTINGENCY UNDER
FREQUENCY LOAD SHED EVENT IN
THE DARWIN-KATHERINE REGION

WHOLESALE PRICE

REDUCED IN ALL REGIONS

SAFE SYSTEMS OF WORK IMPLEMENTED

NEW CORPORATE HEADQUARTERS

TENDERS LET FOR NEW

REMOTE OPERATIONS CENTRE

CONSTRUCTION STARTS
ON MAJOR PROJECTS IN

ALICE SPRINGS AND TENNANT CREEK

POWER GENERATED

1,973 GWH

SALES

\$308.7 MILLION

EARNINGS BEFORE INTEREST, TAX,
DEPRECIATION AND AMORTISATION

\$59.2 MILLION



NET PROFIT AFTER TAX
\$16.7 MILLION

OPERATING COSTS
\$253.3 MILLION

DIVIDEND PAYABLE TO
NT GOVERNMENT
\$8.4 MILLION

FULL-TIME EQUIVALENT
EMPLOYEES AT 30 JUNE 2016
201

4.7
LOST TIME INJURY FREQUENCY RATE
(INDUSTRY AVERAGE 3.6)

**ASSET MANAGEMENT
SYSTEM AND PLAN**
COMPLETED

**RECOGNITION
OF SERVICE**
CELEBRATIONS

EMPLOYEE ENGAGEMENT
MEASURE INCREASED TO
71 PER CENT

**WOMEN LEADERS
FORUM**
ESTABLISHED

COMMENCED DEVELOPMENT OF
**RENEWABLES
STRATEGY**



ABOUT THIS REPORT

The 2015/16 annual report of Power Generation Corporation (trading as Territory Generation) summarises operations and achievements for the financial year. As per section 44 of the *Government Owned Corporations Act*, the report informs the Northern Territory Parliament, Northern Territorians and other stakeholders of:

- Territory Generation's primary services and responsibilities,
- Significant activities of the year, highlighting major projects, key achievements and outcomes,
- Financial management and performance in compliance with the Act.

The annual report is tabled in the Northern Territory Parliament as a reporting mechanism for Territory Generation's shareholding Minister, portfolio Minister and Northern Territory Parliament.

It provides a statement of the financial position of the Corporation, including the achievements, income and expenditure for the 2015/16 financial year.

This report also provides information for stakeholders, including Territorians who have an interest in the provision of electricity generation services in the Northern Territory.

This is Territory Generation's second annual report following the introduction of structural reforms to the Northern Territory electricity industry.

In May 2014, the Northern Territory Parliament passed a Bill to separate Power and Water Corporation into three separate government owned corporations: Power and Water Corporation, a Power Retail Corporation (Jacana Energy) and a Power Generation Corporation (Territory Generation).

CONTENTS

BUSINESS

02	2015/16 HIGHLIGHTS	10	CHIEF EXECUTIVE'S MESSAGE
04	PURPOSE + INTENDED AUDIENCE	12	ASSETS
05	CONTENTS	14	THE TERRITORY'S NEWEST POWER STATIONS
06	VISION + PURPOSE	16	BOARD PROFILES
07	VALUES	17	EXECUTIVE LEADERSHIP TEAM
08	LETTER TO THE SHAREHOLDER		
09	CHAIRPERSON'S MESSAGE		

PERFORMANCE

18	SAFETY	28	TOP EFFORT FROM KATHERINE OPERATIONS
20	PEOPLE	30	ENVIRONMENT
22	FINANCIAL PERFORMANCE	32	BUSINESS SERVICES
24	STRATEGIC APPROACH CENTRAL TO SUCCESS		
26	OPERATIONAL PERFORMANCE		

FINANCIAL STATEMENTS

35	DIRECTORS' REPORT	41	STATEMENT OF FINANCIAL POSITION
37	DIRECTORS' DECLARATION	42	STATEMENT OF CHANGES IN EQUITY
38	INDEPENDENT AUDIT OPINION	43	STATEMENT OF CASH FLOWS
40	STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	44	NOTES TO FINANCIAL STATEMENTS

VISION

TO BE THE TRUSTED AND RESPECTED EMPLOYER AND ELECTRICITY GENERATION BUSINESS OF CHOICE.

These words have been carefully chosen,
and for us they mean:

- Safety is universally recognised as our highest priority;
- We are known for being reliable, efficient and available when required;
- We are a commercial organisation that is highly efficient and sustainable;
- We exceed the expectations of our customers;
- We are competitive with other players in the market; and
- We are an employer of choice.

PURPOSE

TO SAFELY, EFFICIENTLY AND RELIABLY GENERATE ELECTRICITY TO SUSTAINABLY CONTRIBUTE TO THE LIFESTYLE AND DEVELOPMENT OF THE NORTHERN TERRITORY.



VALUES

Territory Generation has developed a set of Values that underpin the way we will work with each other and the way we will conduct our business.

FOCUS

We focus our efforts on delivering a safe, reliable and cost efficient operation that we are all proud to be part of.

We understand what is important to our success and we prioritise accordingly.
We deliver considered and timely outcomes.
We are competent in what we do and understand our roles.
We take responsibility and accountability to deliver on our agreed objectives.
We look for opportunities to improve everything we do.

INTEGRITY

We are open and honest with our words and actions “to do and say the right thing”.

We are trustworthy and honest.
We take responsibility for our words and our actions.
We do what we say we will do.
We do the right thing and comply with all legislation and procedures.
We challenge when our Values are not adhered to.

RESPECT

We show respect for our team mates, the environment, and the communities in which we work.

We are professional in our interactions, offering trust and support and treating people the same way as we would like to be treated.
We do not tolerate or ignore inappropriate comments or bullying.
We respect other cultures and treat people equally, regardless of gender, age, nationality or religion.
We treat our people, assets and finances respectfully, and comply with governing laws, regulations and company procedures.

SAFETY

We conduct our business and our roles with a strong focus on avoiding injury to our people or damage to assets and the environment.

We recognise safety is first in everything we do.
We take responsibility for ensuring our own safety and lookout for workmates and others we work with as well.
We do not walk past or ignore what is not safe.
We adhere to safe work practices, processes and procedures.
We ensure that safety is considered in our planning, our work and our actions.

At Territory Generation, safety is not negotiable. This means:

Everyone has an obligation to stop work that they believe may be unsafe.
We must always report every incident, near hit and injury.
We only operate equipment for which we are competent and authorised.
We never remove another person's Danger Tag or Personal Lock, without written authorisation.
No person may work if under the influence of alcohol or drugs.
We must always correctly wear compulsory Personal Protective Equipment.

TEAMWORK

We are one team, with aligned goals working together to achieve Territory Generation's Vision.

We listen and learn from alternate points of view, we work together to achieve the best outcome for the business, our employees, and the community.
We look for better ways to operate more efficiently and willingly share our ideas and information within Territory Generation.
We volunteer to help others as needed and we encourage each other to challenge the process to find a better way.

LETTER TO THE SHAREHOLDER

Treasurer

Parliament of the Northern Territory
Darwin NT 0800

Dear Treasurer

On behalf of the people and Board of Power Generation Corporation (trading as Territory Generation), it gives us great pleasure to present our second annual report, for the year ended 30 June 2016, in accordance with the provisions of section 44 of the *Government Owned Corporations Act*.

A stylized, handwritten signature in white ink, consisting of several loops and a long horizontal stroke extending to the right.

David De Silva
Chairman

A stylized, handwritten signature in white ink, featuring a large loop and a long, sweeping horizontal stroke that curves upwards at the end.

Tim Duignan
Chief Executive Officer

CHAIRPERSON'S MESSAGE



DURING THE 2015/16 FINANCIAL YEAR TERRITORY GENERATION HAS CARRIED OUT WORK TO IMPROVE OUR SAFETY SYSTEMS AND PROCESSES, INCREASED THE RELIABILITY AND EFFICIENCY OF OUR OPERATIONS, PUT DOWNWARD PRESSURE ON THE COST OF PRODUCING ELECTRICITY, AND DEVELOPED OUR WORKFORCE WITH A PARTICULAR FOCUS ON TRAINING AND DIVERSITY.

I am delighted with the progress that has been made as we enter an exciting new phase for the electricity industry in the Northern Territory.

As a result of the Northern Territory election, held on 27 August 2016, there has been a change in government. We look forward to working with the new government, the shareholding Minister and the portfolio Minister.

I would like to welcome Northern Territory businessman John Tourish to the Territory Generation Board. John was appointed by the Administrator of the Northern Territory as Territory Generation's fourth Board Member on 2 August 2016.

John's appointment is in some ways a homecoming for John, who began his career in the electricity generation industry. Since then John has had a successful career in the hospitality industry in NSW, Queensland and the Northern Territory.

John brings with him a wealth of leadership and experience, and on behalf of my fellow directors Jon Hubbard and Leanne Bond, I would like to congratulate him on his appointment.

During the reporting period the Board has had a strong focus on continuous improvement in the area of workplace health and safety, through its sub-committee, the People and Safety Committee.

The People and Safety Committee has provided guidance and leadership on the development, implementation and monitoring of initiatives, policies, practices and systems in relation to people and safety.

In particular, Territory Generation's Board is pleased with the improvements to the Corporation's permit to work policy and procedures, induction and training practices, and compliance and training management.

These fundamental business reforms will make Territory Generation a safer place to work for employees, contractors and visitors to our worksites.

During the financial year Territory Generation has made landmark investments in electricity generation infrastructure.

The Board recommended that the Northern Territory Government approve the investment of \$101 million in the expansion and upgrade of power generation facilities in Alice Springs and Tennant Creek.

The Northern Territory Government provided approval for the investment in early 2016. Once complete, the projects will give Alice Springs and Tennant Creek residents increased confidence in their power supply and create high efficiency power plants with improved environmental outcomes.

As part of this project, we are investing \$2.5 million in the latest technologies to support solar power in Alice Springs, which has very high penetration of solar generation.

Looking forward, we will increase our investment in renewable and alternative energy. We are on a journey towards a renewable future and we are looking at ways to integrate renewable energy across the Northern Territory.

Our primary concern, as highlighted by Territory Generation's Purpose statement, is to safely, efficiently and reliably generate electricity

to sustainably contribute to the lifestyle and development of the Northern Territory.

The Board has been pleased with strong reliability and efficiency improvements in its primary market, the Darwin/Katherine electricity system. Territory Generation has worked with Power and Water's System Control to set a reliability record in this system.

Through system analysis of power generation and transmission, the Darwin/Katherine system is now much more resilient and better able to cater for moments when a generator goes offline with little or no notice.

Ultimately the work we have done has reduced the number and severity of power outages across the Darwin/Katherine region, giving businesses and residents increased confidence in their electricity supply.

On behalf of the Board, I would like to thank Territory Generation's executive management, leadership team and all employees for their continued commitment in the 2015/16 financial year.

I would like to also thank the Northern Territory Government for its support.

The Board and I look forward to working with Territory Generation management and all employees into the future.

David De Silva
Chairman

CHIEF EXECUTIVE'S MESSAGE

OVER THE PAST 12 MONTHS TERRITORY GENERATION HAS CONTINUED TO SET THE FOUNDATIONS FOR THE FUTURE DIRECTION FOR OUR BUSINESS.

As part of this intensive two-year process we have successfully implemented change programs in the areas of strategic planning, workplace health and safety, major projects and asset management, workforce development and recruitment, and business processes and systems.

We have made strong progress on these strategic initiatives.

Major capital projects are underway, we have moved to new corporate headquarters, preliminary work has started on a new Remote Operations Centre (ROC), we have transformed asset management, and introduced significant improvements to workplace safety.

Safety remains our number one priority and we have continued to review and develop the systems, policies and workplace procedures necessary for all Territory Generation employees and contractors to think and work safely every day.

Our Safe Systems of Work project was introduced during the year to improve the safety of the business; this involved a comprehensive review of three key elements of safe work - permit to work policy and procedures, induction and training practices, and compliance and training management.

Ultimately this means that our people are competent and confident in the tasks they are required to perform, and that they have the necessary skills, tools and support to work safely.

For the 12 months ended 30 June 2016, we recorded two lost time injuries, and achieved a Lost Time Injury Frequency Rate of 4.7. This compares with 3.3 for the previous year and to an industry average of 3.6 (Australian Energy Council).

Reflecting our continued growth, the Territory Generation workforce increased to 201 full-time equivalent employees at 30 June 2016, compared with 180 at the same time last year.

The growth is due to success in the development and implementation of standalone business systems and processes, which have replaced business services provided by Power and Water Corporation under transitional arrangements.

We have completed the first iteration of our Asset Management Plan and System, which provides a roadmap for maintaining, operating and renewal of our assets.

This undertaking aligns the task of keeping our machinery in top running order with budget and strategic planning cycles, and contributes to improved asset reliability and efficiency.

On the ground this translates into a comprehensive planned maintenance schedule to ensure reliable asset performance, where necessary planned outages are scheduled so that there is no impact on customers.

In addition we are taking a more commercial approach to ensuring we get the most out of our contracts relating to performance of assets and equipment.



We are already seeing the benefits of this increased focus on preventative maintenance with a new record of 390 days without a single contingency under frequency load shed in the Darwin-Katherine region (as at 28 September 2016), eclipsing the previous record of 278 days set last year.

We have also increased our efficiency where the amount of power sent out to meet demand has increased while the amount of energy used to generate that power has decreased, along with an associated decrease in greenhouse gas emissions.

However, we also experienced a nine-hour loss of power in Alice Springs in January, which underlined the need for our \$101 million Major Capital Works Program.

This program includes two main construction projects; a \$75 million generation capacity upgrade at Owen Springs Power Station, located in Alice Springs, and a \$26 million augmentation of the Tennant Creek Power Station.

The upgrades and renewal of our generation capacity will help ensure Territory Generation can continue to meet future electricity demand reliably and efficiently.

In our conversations with local stakeholders and interest groups, we heard clearly that the community would like to see more solar; and we recognise that solar and battery storage technologies will play an increasingly important part of future generation.

For now, the gas-fired reciprocating engine technologies we have selected represent the most cost effective and environmentally responsible solution to meet the current power demand. These technologies also provide us with flexibility to adapt to solar and explore storage as well as other technologies, to ensure we can capitalise on opportunities as these technologies evolve.

We have also moved to our new headquarters at the Darwin Corporate Park, Berrimah, which provides modern accommodation to meet our current requirements as well as ensure we are prepared for future growth. Benefits also include reduced travel times to our larger key operational sites, the Channel Island and Weddell power stations.

The move to the Berrimah headquarters has been a very positive experience for all our head office employees and provides “brick and mortar” evidence of our transformation journey into a new standalone wholesale electricity business.

The new location in Berrimah was an important part of our strategic plan and we have begun preparations for establishing the ROC, which will use a new high-speed data network to link all operational sites and monitor and remotely control the performance of our power generation facilities. Finally, I would like to recognise the extraordinary talents and resilience of our people, who continue to step up and meet the many challenges we face.

In February this year I attended two Recognition of Service events for Territory Generation employees in Darwin and Alice Springs.

I was extremely proud and humbled to see so many people who have spent so many years working to build the foundations of the Corporation that is Territory Generation today.

In particular, I thank Jean Luc Revel, and Clarry Cox for their loyalty and contribution to our business, having achieved the incredible service milestones of 47 and 45 years respectively.

In the last two years there has been a lot of change in our business, and I thank all our people for their willingness to work hard with good humour and a strong focus on safety.

Across Australia and around the world power supply companies face great challenges and rapid change in terms of technology, customer expectations, and environmental protection.

Territory Generation has taken the first steps on this new and exciting journey, and I look forward to working with our talented team to develop solutions to the challenges facing the energy industry.

Tim Duignan
Chief Executive Officer

ASSETS

Territory Generation is the largest electricity producer in the Northern Territory. We own and operate the following power stations; Channel Island, Weddell, Katherine, Tennant Creek, Yulara, Kings Canyon, Ron Goodin, and Owen Springs.

The Darwin/Katherine interconnected system is linked by a 132kV transmission line from Darwin to Katherine and represents three quarters of the total Territory Generation capacity.

The system is supplied by the Channel Island, Weddell and Katherine power stations, as well as Power Purchase Agreements from the Landfill Management Services facility at Shoal Bay, and the EDL owned Pine Creek Power Station.

Territory Generation boasts decades of operational experience in some of Australia's most remote and isolated regions. Electricity for Alice Springs is produced at Territory Generation's Ron Goodin and Owen Springs power stations.

Territory Generation owns and operates power stations at Tennant Creek, Yulara and Kings Canyon. We also work closely with independent power producers to support renewable energy initiatives with 4.1 MW of solar generation procured under Power Purchase Agreement from Epuron in Alice Springs.

POWER STATION LOCATIONS:



DARWIN REGION

	ENGINE	TOTAL CAPACITY (MW)	DESCRIPTION
Channel Island	8 turbine sets (gas or diesel) and 1 heat recovery steam turbine	310	Channel Island Power Station (CIPS) is the largest power station in the Northern Territory and the main source of electricity for the Darwin/Katherine Interconnected system. The first units were commissioned at CIPS in 1986, and Channel Island now has 310MW of installed capacity. CIPS is a natural gas-fired station, with diesel fuel back-up capability.
Weddell	3 turbine sets (gas)	129	The Weddell Power Station connects to the Darwin/Katherine grid and consists of two open cycle gas turbines commissioned in 2008, with a third commissioned in 2014.
Katherine	4 turbine sets (gas or diesel)	34.7	The Katherine Power Station has been operational since 1987. The station contains four open cycle gas turbines.

ALICE SPRINGS REGION

	ENGINE	TOTAL CAPACITY (MW)	DESCRIPTION
Ron Goodin	8 reciprocating sets (2 diesel only, 6 gas or diesel) and 1 turbine (gas or diesel)	42.5	The Ron Goodin Power Station was commissioned in 1973 and remains a major source of electricity in the Alice Springs area.
Owen Springs	3 reciprocating sets (gas or diesel) and 1 turbine (gas or diesel)	37	The Owen Springs Power Station uses the latest dual fuel reciprocating technology. With the majority of the capacity commissioned in 2011, Owen Springs Power Station services the Alice Springs Community.

OTHER REGIONS

	ENGINE	TOTAL CAPACITY (MW)	DESCRIPTION
Tennant Creek	11 reciprocating sets (5 gas, 6 diesel) and 1 turbine (gas or diesel)	16.5	The Tennant Creek Power Station services the Tennant Creek township, and surrounding communities as far as Ali Curung, 150km south of Tennant Creek.
Yulara	10 reciprocating sets (4 gas, 5 diesel, and 1 gas or diesel)	11.2	The Yulara Power Station services the Ayers Rock Resort and the Yulara township.
Kings Canyon	3 reciprocating sets (diesel), 1 solar set	1.3	The Kings Canyon Power Station is the only commercial source of electricity in the Kings Canyon area, servicing the Kings Canyon Resort and domestic customers.

THE TERRITORY'S NEWEST POWER STATIONS

TERRITORY GENERATION IS INVESTING \$75 MILLION TO REPLACE POWER SUPPLY FACILITIES IN ALICE SPRINGS AND \$26 MILLION AT TENNANT CREEK. THE PROJECTS WILL REPLACE AGEING GENERATORS, GIVE ALICE SPRINGS AND TENNANT CREEK RESIDENTS INCREASED CONFIDENCE IN THEIR POWER SUPPLY, AND DRIVE DOWN THE COST OF PRODUCING ELECTRICITY BY USING HIGH-EFFICIENCY POWER GENERATORS WITH REDUCED NOISE AND CARBON EMISSIONS.

OWEN SPRINGS

Alice Springs' oldest power station is Ron Goodin Power Station. Ageing equipment at Ron Goodin Power Station will be retired once the expansion of the Owen Springs Power Station, located 26 kilometres outside of Alice Springs, is commissioned. More efficient, low emission gas-fired technology will boost the station's capacity to 77MW. The expansion includes 10 gas engines and associated mechanical, electrical, controls and civil works. The new equipment will better service the community's current and future power demand, improving the reliability of electricity supply. Ron Goodin Power Station will be decommissioned and the site rehabilitated to a state suitable for redevelopment.

As part of the expansion of Owen Springs Power Station, we are investing \$2.5 million in the latest technologies to support solar power in Alice Springs. We are on a journey towards a renewable future and we are looking at ways to integrate renewable energy across the Northern Territory.

TENNANT CREEK

The ageing plant at Tennant Creek Power Station will also be upgraded, and the new facilities will provide reliable power using a combination of gas and diesel engines.

PROJECT BENEFITS

- more efficient power generation
- increased reliability and stability
- \$75 million investment in Alice Springs; \$26 million in Tennant Creek
- 49 jobs in Alice Springs; 27 jobs in Tennant Creek during construction
- downward pressure on power prices
- better environmental outcomes
- stimulation of the local economy
- introduction of technology to enable integration of, and future investment in, renewable energy
- reduced maintenance and operating costs
- reduced noise and emissions

LOCAL CONTRIBUTION

Territory Generation and prime contractor, Clarke Energy have liaised with local suppliers and contractors in Alice Springs and Tennant Creek and provided information on local contract packages. The Department of Business and Industry Capability Network were briefed on these projects and have provided support for local contractors.





BOARD PROFILES

DAVID DE SILVA

LLB



NON-EXECUTIVE DIRECTOR AND CHAIR

David received his Bachelor of Law Degree from the University of Adelaide in 1987. He completed an Associateship with Justice Millhouse in the Supreme Court of South Australia in 1989, completed his Articles of Clerkship with Poveys and then worked as a litigation lawyer with Cridlands in Darwin. Since 1993, Mr De Silva has been a partner of De Silva Hebron, a legal firm which has now been in business in Darwin for more than 20 years.

In addition to service on the below Boards, David is on the Committee of the Carbine Club NT (President), volunteers at and is a member of several community organisations and clubs.

Current directorships:

- Crime Stoppers (NT) Ltd (Chair)
- Darwin Waterfront Corporation
- Tennis NT Inc
- Territory Equities Pty Ltd
- Darwin Performing Arts Centre Ltd (Chair)

JON HUBBARD

BCOM, CA, GAICD



INDEPENDENT NON-EXECUTIVE DIRECTOR

Jon is a former partner at PricewaterhouseCoopers and a former director of CS Energy. He has extensive experience in the energy, utility and resources sectors, as well as a strong accounting and finance background. During his advisory career, Jon has specialised in providing advice to the energy industry in the areas of corporate strategy, industry reform, mergers and acquisitions, regulation, climate change and renewable energy.

Current directorships:

- Infocus Wealth Management Ltd
- Australian Energy Market Operator Ltd

LEEANNE BOND

BE (CHEM), MBA, FAICD, FIEAUST, RPEQ



INDEPENDENT NON-EXECUTIVE DIRECTOR AND DEPUTY CHAIR

Leeanne is an experienced company director and holds board roles in the energy and water sectors. Leeanne is a former director of Tarong Energy Corporation and Seqwater and former chair of Brisbane Water. Leeanne has a background in chemical engineering and over 25 years senior management experience across a broad range of industrial sectors including energy, minerals, infrastructure, and water resources. From 1996 to 2006, Leeanne played a key role in establishing and growing WorleyParsons in Queensland in senior positions including as General Manager (Queensland, PNG & NT).

Current directorships:

- Snowy Hydro Ltd
- Liquefied Natural Gas Ltd
- JKTech Pty Ltd
- Engineers Australia

JOHN TOURISH

BEENG (MECH) MBO (MHU)



INDEPENDENT NON-EXECUTIVE DIRECTOR

John began his career in the electricity generation industry in NSW as a Mechanical Engineer. John has owned and operated businesses in the hospitality industry in NSW and Queensland. John has operated hospitality businesses and a logistics company in the Northern Territory since November 2005 and currently employs more than 100 people. He lives in East Arnhem Land and operates The Walkabout Lodge in Nhulunbuy and The Precinct Tavern in Darwin.

Current directorships:

- Australian Hotels Association (NT)
- Northern Territory Business Advisory Council
- East Arnhem Regional Economic Committee
- Director of Several Private Equity Companies

EXECUTIVE LEADERSHIP TEAM

TIM DUIGNAN

BBUS MARKETING,
ASS DIP (ELEC ENG)
FIE AUST



CHIEF EXECUTIVE OFFICER

With more than 30 years' experience in the electricity generation, retail, transmission and distribution sectors of the energy industry, Tim brings a wealth of knowledge to the role. He commenced his career as an apprentice electrical fitter mechanic in the distribution sector, and has held senior executive management roles in both privately and publicly owned enterprises across all sectors of the electricity industry and has worked in Australia and throughout South and Southeast Asia. Tim has also previously held various board positions in both domestic and international businesses.

GRANT CHORVAT

BE (HONS),
FIE AUST, CPENG,
GAICD, MAIPM



CHIEF OPERATIONS OFFICER

Grant is an electrical engineer with extensive experience in process automation, technology and maintenance management. Grant has more than 20 years in leadership and management roles in a range of industries. Prior to joining Territory Generation, Grant managed the Tamar Valley Power Station and Bass Strait Islands facility for Hydro Tasmania, reporting to the Chief Operations Officer.

ROBERT ROSS

MAICD



GENERAL MANAGER, BUSINESS SERVICES AND COMPANY SECRETARY

Robert commenced his career as an apprentice electrician and has worked in a range of executive positions within Power and Water Corporation and Territory Generation over the past 38 years. He has undertaken a range of operational courses and has a Diploma in Frontline Management. He has been a long-term representative on national and Northern Territory skills, training and advisory panels.

ANDREW KNEEBONE

MBA, MAICD



GENERAL MANAGER, COMMERCIAL AND STRATEGY

Andrew is an experienced executive manager and Board Director across a range of utility organisations. Andrew has held a diverse range of senior executive roles, including CEO, in the Victorian, Tasmanian and Western Australian water sectors over the past 20 years. Andrew's experience encompasses customer service, operations and maintenance, finance, regulatory affairs, strategy, and governance. Andrew was the industry lead in preparing and implementing independent economic regulation to the Tasmanian Water sector.

STEVE BARTLETT

BCOM, CA, GAICD



CHIEF FINANCIAL OFFICER

Steve is a Chartered Accountant with more than 25 years of experience across public practice, the resources industry, and the power generation industry. Steve supplements his technical accounting base with extensive commercial experience in heavy industry, covering business analysis and modelling, contractor management, supply chain management, strategic contracts negotiation and development, and business process improvement.

SCOTT PIPER

BBUS



GENERAL MANAGER, PEOPLE AND SAFETY

Scott has significant experience in people related disciplines working in the Northern Territory Government and in particular government owned corporations. He has 8 years' experience in the Energy sector and is responsible for leading Territory Generation's Safety, Human Resources, Employee Relations and Training teams. Scott holds a Bachelor of Business and is in the process of finalising his Bachelor of Laws.

REBECCA MILLS

BE (Hons) BEC, MIE
AUST



GENERAL MANAGER, MAJOR PROJECTS

Rebecca holds Bachelor degrees in Mechanical Engineering and Economics. Through various roles in Power and Water Corporation and Territory Generation, she has gained extensive experience in project development and delivery, business analytics, strategy, commercial contracts and the development of the wholesale energy market.



SAFETY

SAFETY CONTINUES TO BE TERRITORY GENERATION'S NUMBER ONE PRIORITY.

In the 12 months to 30 June 2016, Territory Generation has implemented a range of initiatives which have helped to improve the Corporation's safety culture.

These initiatives encourage a safe working environment and a positive safety culture, where everyone is healthy, engaged and committed to a workplace free of accidents and injuries.

While Territory Generation has made significant progress in improving our safety performance, we recognised that further opportunities exist to improve our safety culture and embed safety in everything we do.

Our Lost Time Injury Frequency Rate (LTIFR) for the period was 4.7, compared with 3.3 for the previous year. During the 12 months to 30 June 2016 we recorded two Lost Time Injuries (LTI). The first involved an employee slipping while walking up stairs and sustaining a shoulder injury that subsequently required surgery. The second LTI involved an apprentice injuring his arm when a conduit bender he was using slipped, causing him to overbalance and strike his arm on a metal workbench. Both employees have returned to work.

Considerable focus continues on developing a sustainable positive safety culture within Territory Generation. Safety initiatives aligned with the strategic needs of the business will assist with driving cultural transformation, fostering capable safety leadership and providing efficient processes and structures.

One of the key initiatives is the development and implementation of a behavioural based safety program.

SAFETY CULTURE ASSESSMENT

A Safety Culture Assessment was conducted throughout the business during February/March and the results provided an insight into the attitudes and perceptions of the workforce.

The survey achieved an excellent response rate of 75 per cent and the results have been shared across the business, along with a roadmap for further improving our safety culture.

SAFE SYSTEMS OF WORK PROJECT

Territory Generation has completed a comprehensive safety review and based on the findings and recommendations of the review, Territory Generation established a dedicated Safe Systems of Work Team to improve and simplify workplace safety processes.

During the reporting period the project team has focused on three key elements:

- Permit to Work (PTW). A new simplified Permit to Work system has been developed and will be progressively rolled out across the business. It is expected the associated training and education will be completed by December 2016. As part of this work all existing PTW policies and procedures were reviewed to identify gaps and prepare new procedures.
- Induction and training practices.
- Compliance and training management. A new training management system is being implemented across the business that will replace multiple systems and assist with streamlining and simplifying processes to ensure employees and contractors are competent and authorised to perform specific tasks.

FAIR AND JUST CULTURE PROCEDURE

Territory Generation has finalised a new Fair and Just Culture Procedure following organisational- wide consultation in the 2015-2016 reporting period.

The procedure outlines a management process following incident investigations primarily where the contributing factors involve human error.

This provides Territory Generation employees with a transparent framework that supports our Values and helps achieve a workplace free of incidents and injuries.

The procedure helps create a positive culture and a safer workplace by supporting learning, reinforcing positive behaviours, preventing incident recurrence and fostering accountability and responsibility.

INCIDENT INVESTIGATION

During the reporting period Territory Generation introduced the Incident Cause Analysis Method (ICAM) incident investigation methodology. ICAM helps prevent incident recurrence, reduce risk and improve health and safety performance.

Twenty-two senior managers and coordinators have been trained as ICAM Lead Investigators. Further training and coaching programs in the effective use of the ICAM process are planned to support all personnel involved in incident investigations.

TAKE 5

Territory Generation is progressively rolling out the Take 5 personal pre-task risk assessment process to supplement the current Job Safety Environmental Analysis (JSEA) task-based risk assessment process.

Take 5 is a simple five step process which is used to identify and control on-the-job personal hazards and is based on the theory of "engaging the mind before the hands" or "think before you act".

It is designed to help employees stop and think through the job task or activity to identify the hazards and check that controls are in place to ensure that the job can be completed safely.

Training of all personnel in the process is now underway and the Territory Generation Take 5 Handbook will document the Take 5 process.

PEOPLE

IN ANOTHER YEAR OF GREAT CHANGE THE TERRITORY GENERATION WORKFORCE HAS AGAIN PROVED TO BE ADAPTABLE, RESILIENT, OPEN TO NEW IDEAS AND READY TO TAKE ON NEW TASKS AND NEW WAYS OF WORKING.

Rapid structural and cultural change presents many workplace challenges and throughout 2015/16 the commitment and capability of our people has proved to be Territory Generation's greatest asset.

Throughout the year we have worked together to embed our Corporate Values - Focus, Integrity, Respect, Safety and Teamwork – into our business processes, practices and procedures and this will be a continual focus for our business.

We remain committed to providing our employees and contractors with a safe and supportive work environment that also provides professional development opportunities so that Territory Generation is seen as an employer of choice.

At June 30 2016 Territory Generation's full-time equivalent workforce was 201, compared with 180 at the same time last year.

The growth has occurred after we implemented standalone business systems and processes, which have replaced business services provided by Power and Water Corporation under transitional arrangements.

EMPLOYEE ENGAGEMENT SURVEY

During the year Territory Generation held its second Employee Engagement Survey, which provided an opportunity for the Territory Generation leadership team to gain valuable feedback on workforce attitudes and perceptions on a range of matters.

The survey revealed employee engagement within the business has increased from 66 per cent in 2015 to 71 per cent; which is an excellent result given the extensive structural and cultural change occurring within the business.

RECOGNITION OF SERVICE

Territory Generation held two Recognition of Service events during February, one in Darwin and another in Alice Springs. These two events celebrated the contributions of employees who have reached more than five years of service.

In particular, two employees stand out for their remarkable contribution to power generation in the Northern Territory. Jean Luc Revel and Clarry Cox have achieved service milestones of 47 and 45 years respectively.

DIVERSITY

Territory Generation's Workplace Diversity Strategy is supported by recruitment and development activities to increase the representation of Aboriginal and Torres Strait Islanders and women in non-traditional and leadership roles.

During the year Territory Generation supported the establishment of a Women's Leaders Forum to provide a sustainable pathway with development opportunities, mentoring and support for current and future women leaders in Territory Generation.

GENERATION CONSULTATION COMMITTEE

Territory Generation is undergoing a period of rapid transformation involving significant and ongoing structural and cultural change.

In recognition of the value of open communication and two-way feedback during such dynamic change, Territory Generation has established a Generation Consultation Committee, comprising equal representation of management and employees.

The committee meets every six weeks to provide opportunity to discuss workplace issues, impacts of change, and to share information about proposed new changes.

The committee seeks to support a "one-team" approach to managing change successfully, and provides opportunity for front-line feedback and access to valuable workforce operational ideas and experience.

LEARNING AND DEVELOPMENT

Territory Generation is focused on providing our people with learning and development opportunities so that they are able to reach their full potential. During the year we have enhanced our people's skills and development through delivering a range of training courses, workshops and conferences in the following areas: Instrumentation and Control; Negotiation Skills; Incident Management Response Training; First Aid; Vehicle Loading and Crane Operation; Electrical Skills; Mechanical Maintenance; Dogging; and Australian Institute of Company Directors courses.

During the reporting period Territory Generation took on four new apprentices, bringing the total number of apprentices in the business to 12. The apprentices are studying Certificate III in Mechanical and Electrical Engineering, which on completion provides them with nationally recognised workplace training.

In the same period, two former apprentices took up offers of full-time work with Territory Generation.

In addition, Territory Generation has engaged two Indigenous trainees, working in Business Services in Darwin and in Alice Springs.





FINANCIAL PERFORMANCE

IN LINE WITH PROJECTED PERFORMANCE, TERRITORY GENERATION'S SECOND YEAR OF OPERATION HAS DELIVERED ANOTHER SOLID FINANCIAL RESULT.

For the 12 months ended 30 June 2016, revenue from the sale of electricity was \$306.6 million, compared with \$342.8 million the previous year.

The decrease in revenue is primarily due to a review of wholesale pricing, implemented from 1 July 2015. This decrease was partially offset by greater electricity sent-outs associated with increased demand due to extended periods of higher Top End temperatures from February through to June.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was \$59.2 million (2014/15: \$85.3 million). Net profit after tax was \$16.7 million (2014/15: \$36.0 million). The dividend payable to the Northern Territory Government will be \$8.4 million.

COSTS

Purchase of fuel (gas and diesel), water and other supplies necessary for operation of generation assets represent the principal operating costs for Territory Generation.

During 2015/16 Territory Generation's operating costs were \$253.3 million (2014/15: \$265.6 million), and slightly higher than budgeted due to increased demand associated extended hot and dry weather in the wet season.

Capital expenditure for the 12 months to 30 June 2016 was \$58.6 million, compared with \$18.1 million the previous year. The increase is due to continued work on the Channel Island and Katherine Power Stations life extension works, and the commencement of major project construction works associated with generation capacity upgrades at Owen Springs and Tennant Creek.

DIVIDEND

The Northern Territory Government is the sole shareholder of Territory Generation. All dividends are paid to the Northern Territory Government.

The Territory Generation Board recommends a dividend amount, in consultation with the shareholding Minister, and taking into consideration financial performance, capital structure, capital investment commitments and capacity to pay in accordance with prudent financial management.

In respect of the 12 months to 30 June 2016, the dividend to be paid by Territory Generation to the Northern Territory Government is \$8.4 million (2014/15: \$18 million).

NEW FINANCIAL SUPPORT SYSTEM

The 2015/16 financial year was the first full year of operation of Territory Generation's new financial accounting system to support successful entry into a competitive market.

This includes the new Integrated Enterprise Resource Planning software system, which performs key functions and services previously provided by Power and Water Corporation under a Transitional Services Agreement.

WHOLESALE PRICING

Territory Generation conducted a wholesale pricing review for the Darwin-Katherine region prior to 2015/16 and through operational efficiencies was able to reduce wholesale pricing while maintaining an appropriate return on equity.

Territory Generation's revised wholesale pricing schedule was released to our retail customers just prior to the start of the 2015/16 financial year.

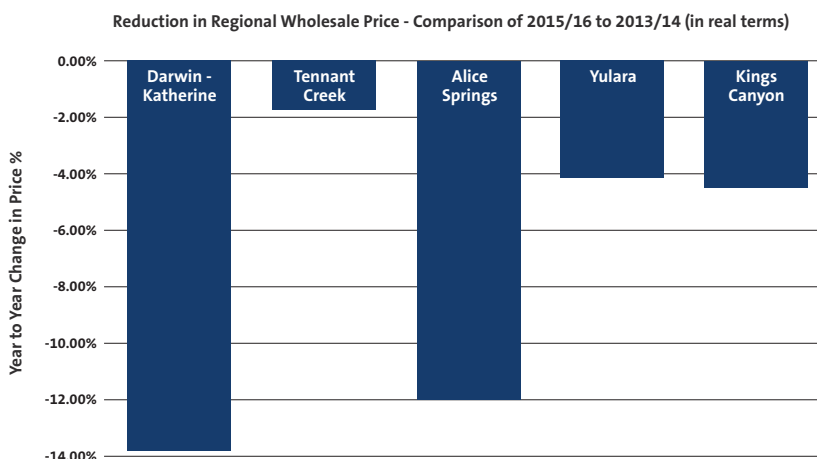
The schedule is based on information captured and analysed through Territory Generation's Enterprise Resource Planning software, which identifies the cost, performance, efficiency and output of individual generation assets.

POWER PURCHASE AGREEMENTS

Territory Generation has Power Purchase Agreements in place where electricity produced by privately owned companies is purchased by Territory Generation.

Agreements are in place with independent producers at Brewer Power Station, Pine Creek Power Station, Uterne Solar, and the Landfill Management Services facility at Shoal Bay.

During 2015/16 Territory Generation purchased a total of 227 MWh through these agreements (2014/15: 333 MWh).







STRATEGIC APPROACH CENTRAL TO SUCCESS

DEVELOPING A STRATEGIC APPROACH ALIGNED WITH KEY BUSINESS PROCESSES HAS BEEN CRITICAL FOR TERRITORY GENERATION'S PREPARATION FOR ENTRY INTO A COMPETITIVE ELECTRICITY MARKET.

Development of Territory Generation's new standardised Strategic Planning Process was managed by General Manager Commercial and Strategy Andrew Kneebone, and involved comprehensive consultation with all parts of the business.

The aim of the consultation was to identify the critical activities that need to be reflected in the overall business strategy, to identify short and long term business and performance goals, and set out clear strategic direction to achieve those goals.

The new Strategic Planning Process is an ongoing activity that supports the development of Territory Generation's annual Statement of Corporate Intent (SCI) while also taking a longer view of business performance.

The SCI defines the contract between government and Territory Generation and sets out specific targets for what the business intends to achieve in the coming year.

The new Strategic Planning Process is also responsible for creating Territory Generation's rolling Five-Year Plan, which includes business performance targets and effectively extends the SCI over a five year period.

Andrew said a good example of how strategic planning plays a crucial improvement role in day-to-day business was the work done to understand relationships between planned maintenance schedules, budget cycles and demand forecasts.

"Strategic planning allows Territory Generation to look at when we need to have generation units offline for maintenance, and to align this activity with budgets and anticipated changes in customer demand," Andrew said.

"This ensures that we have the budget and resources to do the work and that the work is always scheduled to minimise disruption, which means our assets are in top operating condition and available to meet demand peaks."

In addition to the SCI and Five Year Plan, strategic planning also examines what work needs to be done now to prepare for ten, twenty and even fifty years ahead.

Andrew said within thirty-five years the entire generation fleet would be replaced by new technologies, likely to be an integrated mix of solar and other renewables, and including battery storage and hybrid gas plants.

"The electricity industry has been very stable for more than eighty years, but now we are going through a period of rapid and unprecedented change from both a technological and consumer expectation point of view," Andrew said.

"Our Growth Strategy looks at how we establish a business model that can cope with that change and be part of an integrated system with a mix of generation technologies."

OPERATIONAL PERFORMANCE

TERRITORY GENERATION IS THE LARGEST ELECTRICITY PRODUCER IN THE NORTHERN TERRITORY. WE MANAGE AND OPERATE EIGHT POWER GENERATION FACILITIES AND 55 GENERATING UNITS, WITH A COMBINED INSTALLED CAPACITY OF AROUND 580 MW. WE CONTRACT AN ADDITIONAL 37 MW FROM INDEPENDENT POWER PRODUCERS FOR SUPPLY TO OUR CUSTOMERS.

In the 12 months to 30 June 2016, Territory Generation's combined output from gas, diesel and solar facilities was 1,973 Gigawatt hours (GWh) of electricity. This compares with 1,893 GWh produced in 2014/15.

The increase is due in part to the increased use of cooling equipment such as air conditioners and refrigeration during unusually hot and dry conditions in Northern Australia from February through to June.

During 2015/16 Territory Generation achieved its combined efficiency target.

MAJOR PROJECTS

Territory Generation's \$101 million Major Capital Works Program gained formal approval from the Northern Territory Government in February.

This program comprises two main construction projects – generation capacity upgrades at Owen Springs Power Station (\$75 million) and augmentation of the Tennant Creek Power Station (\$26 million).

The engineer, procure and construct (EPC) contract was awarded to Clarke Energy, and construction began in June 2016.

In both projects Territory Generation has sourced state-of-the-art gas-fired reciprocating engines that improve efficiency and reliability, reduce costs, and minimise greenhouse gas emissions.

The upgrades and renewal of our generation capacity will help ensure Territory Generation can continue to meet future electricity demand reliably and efficiently.

Expansion of the Owen Springs Power Station will add 41 MW of highly efficient gas-fired spark ignition reciprocating power, to bring the total generation capacity to 77 MW.

The project will install ten 4.1 MW high efficiency GE Jenbacher reciprocating gas engine generators, which have proved highly reliable in remote conditions.

The new generation capacity at Owen Springs will replace the Ron Goodin Power Station, which was commissioned in 1973 and is approaching the end of its useful life.

Similarly, the work at Tennant Creek Power Station will replace aging equipment and improve reliability and efficiency. The Tennant Creek Power Station units are between 20 to 40 years old and no longer match the requirements of the Tennant Creek load.

The Tennant Creek project involves installation of three high efficiency 2-megawatt gas-fired spark ignition reciprocating engines and a 1.5 MW diesel fired reciprocating engine.

The new generation equipment at Owen Springs and Tennant Creek is expected to be commissioned in 2017.

The Rod Goodin Power Station will be progressively decommissioned as the new generation capacity at Owen Springs comes on line. Once decommissioned, the Ron Goodin Power Station will be dismantled and the facility site will be remediated.

UNINTERRUPTED POWER: NEW RECORD SET

Territory Generation continues to improve the reliability of generation assets with another new reliability record set for the Darwin/Katherine system.

The new record for the longest run without a single-contingency under-frequency load shed event in the Darwin-Katherine interconnected system is 390 days, eclipsing the previous record of 278 days set last year.

Improved reliability is due to a range of factors including improved asset management and maintenance, progressive upgrade to critical generation equipment, improved accuracy of system performance monitoring, and close liaison between Territory Generation and Power and Water Corporation's System Control.

NEW ASSET MANAGEMENT SYSTEM AND PLAN

During 2015/16 Territory Generation finalised and introduced a detailed Asset Management Plan and System (AMPS).

The AMPS was developed in line with Territory Generation's Integrated Asset Management Strategy, which was approved in 2014/15.

A dedicated team was taken off-line for six months from January 2016 to focus on the AMPS.

The AMPS sets out in detail the activities that will ensure Territory Generation assets and facilities are maintained and operated for peak efficiency, including operations, maintenance, and capital expenditure.

The AMPS operates on an annual cycle that aligns with the strategic planning and budget cycles, and links asset management activities with Territory Generation's new Enterprise Resource Planning software.

This ensures that a comprehensive scheduled maintenance and planned outages program will be reflected in broader business planning.

METERING

Territory Generation's new metering system operated for the first full year in the Darwin-Katherine region in the 12 months to 30 June 2016.

During the reporting period new meters were also installed in the Southern Region, taking in Tennant Creek, Alice Springs, Kings Canyon and Yulara.

The metering system provides precise information about electricity send-outs at the network point of exit from our power stations.

The new meters provide real-time data on the amount of power being exported, providing greater accuracy for billing our wholesale customers, as well as providing information about individual power station performance and efficiency.

NEW HEADQUARTERS AT BERRIMAH

In October, Territory Generation relocated to new headquarters at the new Darwin Corporate Park on the Stuart Highway at Berrimah.

The new headquarters are located halfway between Darwin and Territory Generation's largest power station, Channel Island Power Station.

The move reduces travel times, and provides modern accommodation suited to Territory Generation's operational and workforce needs.

REMOTE OPERATIONS CENTRE

Territory Generation's new Corporate Head Office building at Berrimah has been designed to accommodate a ROC.

In 2016 planning for the ROC began, and at 30 June 2016 Territory Generation was reviewing a short list of tenders for supply of technology solutions and fit-out.

The new ROC will utilise Territory Generation's new internal high-speed fibre communication network that will link to all Territory Generation work sites and generation assets.

The ROC will monitor and allow remote operation of the generation assets, and lead to increased generation efficiency, improved network stability, and faster response times to network changes.

In addition, it ensures Territory Generation is well positioned to optimise its integration with the Northern Territory Electricity Market (NTEM) as it evolves.

SYSTEM INTEGRITY

Power supply in Alice Springs was interrupted on Saturday 30 January due to a generator failure at Ron Goodin Power Station. The power outage lasted nine hours.

The generator failure triggered a number of protection mechanisms in the power system due to the change in frequency it caused.

Territory Generation immediately commenced work to restore generation, and worked with Power and Water to investigate the event.

Plant reliability issues at the 43-year-old Rod Goodin Power Station are being addressed through Territory Generation's \$101 million major projects program, which includes a generation capacity upgrade at the Owen Springs Power Station.

The Owen Springs upgrade will more than double output to 77 MW, and allow for the retirement of Ron Goodin Power Station.

TOP EFFORT FROM KATHERINE OPERATIONS

IF YOU NEED EVIDENCE THAT TERRITORY GENERATION'S REMOTE OPERATIONS WORKFORCE HAS A POSITIVE AND PROACTIVE CAN-DO ATTITUDE, LOOK NO FURTHER THAN THE KATHERINE OPERATIONS AND MAINTENANCE TEAM, HEADED UP BY TERRY WILLIAMS.

Team members Daniel Owens, Scott Mitchell, Wayne Meehan (Channel Island) and Daryl Murphy (Tennant Creek) spent most of May and June working long shifts and weekends to successfully maintain power supply to the Katherine region in the face of a series of mechanical challenges.

The Katherine Power Station is a key component of Territory Generation's Darwin/Katherine interconnected system, and comprises four open cycle gas turbines generating around 36 MW of power.

The Katherine Power Station team's challenges started when a Titan 12MW power generation unit failed to start. A remote visual inspection revealed internal damage to the unit, which needed a turbine replacement. Within 12 hours the team had organised external labour support, specialist tooling, a 70 tonne heavy lift crane and started work to replace the turbine.

Delivery of the new unit under warranty from the United States of America would take 18 days, providing an ideal opportunity to carry out preventative maintenance. The Katherine Power Station crew used the waiting time to complete the unit's 24-month shutdown, originally scheduled for August.

At the same time they also assisted in another unit's fuel and controls upgrade, and completed reactive maintenance and grid compliance operational testing.

After seven weeks straight on the go, the Katherine Operations and Maintenance Team had all units back on line and running smoothly, and all without any unplanned power outages.

Special thanks also goes to Kevin Edwin (Projects) for technical support and Isaak Richard (Assets) for support liaising behind the scene in sourcing large capital items, liaising with third party Original Equipment Manufacturer and always arriving on-site immediately after completion of major works.

"Our isolated teams work really well together and the Katherine team certainly demonstrated that can-do attitude that makes Territory Generation one of the leaders in managing remote energy systems," said Chief Operations Officer Grant Chorvat.







ENVIRONMENT

ENVIRONMENTAL PROTECTION AND MINIMISING OPERATIONAL IMPACTS ARE KEY PRIORITIES FOR TERRITORY GENERATION.

During 2015/2016 there were no reportable environmental incidents; maintaining the excellent performance of zero reportable environmental incidents set in the previous year.

The principal environmental impact of our business is the production of greenhouse gases associated with combustion of natural gas and diesel necessary for the operation of electrical generation assets.

In addition, vehicle use and construction activities also contribute to greenhouse gas emissions. We also use large volumes of water for cooling at our Channel Island Power Station.

NATIONAL GREENHOUSE AND ENERGY REPORTING

Territory Generation primarily uses natural gas to fuel our power stations to generate electricity.

Electricity produced from gas produces 50 per cent to 70 per cent less greenhouse gas emissions than current coal-fired power generation facilities (Australian Petroleum Production & Exploration Association).

We also transport, store and use diesel fuel for use in generation units that require diesel injection for effective gas combustion, as well as for use in diesel powered generators.

Territory Generation is registered under the *National Greenhouse and Energy Reporting Act 2007* (NGER Act).

Under the NGER Act, Territory Generation reports annually on greenhouse gas emissions, energy production and energy consumption on all facilities under our operational control.

In 2015/16, Territory Generation reported emissions of 0.9 million tonnes of carbon dioxide equivalent (CO₂-e), compared with 1.2 million tonnes the previous year.

We consumed 19.2.3 petajoules (PJ) of energy in the form of gas and diesel at Territory Generation sites (2014/15: 18.8 PJ). This excludes Power Purchase Agreements.

Reductions in both emissions and energy consumption are due to efficiency improvements achieved through improved maintenance routines and optimisation work completed at Owen Springs in the previous reporting period.

More than 80 per cent of total emissions are generated by Territory Generation's four largest power plants – Channel Island Power Station, Weddell Power Station, Ron Goodin Power Station and Owen Springs Power Station.

RENEWABLE ENERGY

Territory Generation owns and operates the Kings Canyon power station, which has a peak solar generating capacity of 225 kW. This solar power station does not produce any greenhouse gas emissions during operation.

In addition, Territory Generation has Power Purchase Agreements in place with two renewable energy producers: the Shoal Bay landfill site and Uterne solar power station.

The Shoal Bay landfill site uses methane generated by landfill wastes to operate a one megawatt generator which generates electricity for sale under contract to Territory Generation.

Combustion of the methane in the generator provides heat energy to generate electricity, and the burning of the fuel converts methane to the less greenhouse gas intensive carbon dioxide.

The 4.1MW Uterne power station in Alice Springs is Australia's largest tracking solar power system, and has been providing Alice Springs with power since 2011.

WASTEWATER LICENCE

Territory Generation's Channel Island Power Station operates under a wastewater discharge licence.

The Channel Island Power Station uses water in the cooling towers to manage heat produced as a by-product of electricity generation.

Used water is held in retaining ponds and tested monthly for compliance with Northern Territory Environment Protection Authority water quality parameters prior to release. Territory Generation has recently completed the installation of new flow meters, allowing more accurate reporting of water discharge rates.

WEED MANAGEMENT

Territory Generation undertakes regular weed management activities at sites on Channel Island and in Alice Springs.

Management activities include control and mapping of the Class A weed Bellyache Bush at Channel Island, and the Class B weed Mexican Poppy Seed at the Ron Goodin and Owen Springs Power Station buffer zone sites in Alice Springs.

Control methods include spraying with approved weed control chemicals and removal by hand.

ASBESTOS REMOVAL

Territory Generation has an Asbestos Management Plan to ensure that all practicable steps are taken to prevent or minimise the risk of exposure to Asbestos Containing Material (ACM), and we maintain an Asbestos Register for all Territory Generation sites.

Assessments and Asbestos Registers are updated every five years by a registered asbestos consultant, in line with Commonwealth legislation.

During the reporting period Territory Generation completed work to update Asbestos Registers which included identification and listing of the known and typical locations of ACM and implementation of appropriate control measures, including engineering and administrative systems.

We continuously review our systems and processes to meet best practice and work with other agencies to address any asbestos risks in proximity to our sites.

BUSINESS SERVICES

AS AN EMERGING STANDALONE BUSINESS CREATED THROUGH ELECTRICITY INDUSTRY REFORM, TERRITORY GENERATION CONTINUES TO UNDERGO SIGNIFICANT CHANGE IN THE WAY IT CONDUCTS BUSINESS OPERATIONS.

These changes include increasing capability to deliver a wide range of business services previously provided under a Transitional Services Agreement (TSA) with Power and Water Corporation.

In 2014 the Northern Territory Government separated Power and Water Corporation into three government owned corporations; Power and Water Corporation (PWC), a Power Retail Corporation (Jacana Energy) and a Power Generation Corporation (Territory Generation).

The TSA between Territory Generation and Power and Water Corporation allowed for continuation of essential business services while Territory Generation focused on core functions associated with safety, generation of power supply, and preparations for entry into the interim NTEM.

In the 12 months to 30 June 2016, Territory Generation has progressed a range of projects and activities designed to build capability in the delivery of independent business services, including:

- information technology systems licensing and administration,
- records management,
- finance,
- governance,
- regulatory compliance,
- audit and risk management,
- human resources,
- environmental and sustainability management,
- quality assurance,
- emergency and security management,
- asset and facilities management, and
- procurement.

During the year Territory Generation completed a full review of the corporation risk register, including a development of a new Territory Generation risk management policy, framework, guide and a comprehensive risk register.

In addition, we created a compliance register, including a compliance policy and strategy, and issued tenders for supply of a new incident management, risk and compliance system tailored for our requirements to replace the existing PWC system.

In line with Territory Generation's Strategic Plan a comprehensive analysis of the corporation's information and computing technologies was completed as part of plans to establish a fibre-optic wide-area network (WAN) linking all work sites and assets.

The WAN will be the enabling infrastructure to allow Territory Generation to be flexible, have capacity and up to date technology to deliver its strategy and reduce costs.

The WAN will also support Territory Generation's own server infrastructure, standard operating environment (SOE) computer hardware and software, a unified communications platform, new business growth opportunities, and the new ROC.

The proposed network will provide reliable and secure high-speed data and communications to support a parallel project to establish the ROC based at Territory Generation's new corporate headquarters in Berrimah.

Territory Generation is reviewing its contracts for a wide range of activities, including insurance, cleaning, gardening, general maintenance, fire services, industrial waste, first aid, appliance testing, stationery supply and security contacts.

The reviews will improve value through renewal on a long-term basis to replace more expensive interim and short-term arrangements.

As part of the continual improvement focus, we are undertaking a review of all aspects of travel to minimise costs.

GOVERNANCE AND OPERATING STRUCTURE

Territory Generation is a government owned corporation established under the *Government Owned Corporations Act* to undertake commercial activities, namely generation of electricity, while providing sustainable financial returns to the Northern Territory on its investment.

Territory Generation has a shareholding Minister and a portfolio Minister. The Territory Generation Board is responsible to the shareholding Minister for providing strategic direction, accountability of management, corporate performance and corporate governance of Territory Generation.

From 1 July 2016 the Australian Energy Regulator will be the regulatory body for power distribution in the Northern Territory. This will involve a staged approach likely to have increasing effect on Territory Generation from 2017 onwards.

Each year Territory Generation produces an SCI which sets out agreed objectives, strategies, financial targets and any other matters that may be agreed on by the shareholding Minister and Territory Generation's Board. The 2016/17 SCI has been presented and approved by the Northern Territory Government.

The SCI provides the formal basis for development of Territory Generation's strategic planning and operational activities.

In accordance with the *Government Owned Corporations Act*, the Auditor-General of the Northern Territory is responsible for the audit of the Corporation's financial statements.

BOARD COMMITTEES

The Territory Generation Audit and Risk Committee and the People and Safety Committee have been established by the Board to provide close scrutiny and additional oversight in areas of key significance.

The Audit and Risk Committee identifies and mitigates key risks and ensures corporate compliance is maintained.

The People and Safety Committee provides a forum for developing safety leadership and a proactive safety culture by ensuring that safety policies, practices and systems are developed, implemented and monitored effectively.

Territory Generation's Audit and Risk Committee is responsible for the oversight of financial management, external reporting, audit, risk management and statutory compliance.

During the reporting period Territory Generation completed a comprehensive review of the corporate risk register.

Part of the review included the development of a related compliance register to provide formal tracking of required compliance activities identified through the risk register review.

In addition the Territory Generation Crisis Management Plan has been reviewed, and work continues with the broader Northern Territory utilities group to clarify roles and responsibilities. Part of this review included gap analysis, training, and running mock crisis scenarios.

MANAGING RISK

As a result of Territory Generation's principal activities of operating power generators to create electricity, Territory Generation is subject to a range of legal requirements.

These legal requirements include but are not limited to Commonwealth and Northern Territory legislation, regulations, licences, standards, and codes.

Territory Generation achieves strategic business objectives, reduces organisational risks and ensures compliance with legal and regulatory obligations through comprehensive risk review, identification and management.

FINANCIAL STATEMENTS

35	DIRECTORS' REPORT
37	DIRECTORS' DECLARATION
38	INDEPENDENT AUDIT OPINION
40	STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
41	STATEMENT OF FINANCIAL POSITION
42	STATEMENT OF CHANGES IN EQUITY
43	STATEMENT OF CASH FLOWS
44	NOTES TO FINANCIAL STATEMENTS

DIRECTORS' REPORT

POWER GENERATION CORPORATION DIRECTORS' REPORT

The directors present their report together with the financial report of Power Generation Corporation (the Corporation) for the year ended 30 June 2016 and the Auditor's report thereon. This report is to be read in conjunction with the financial statements of the Corporation.

DIRECTORS

The following persons were directors of the Corporation during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr David De Silva (Chairperson)

Ms Leeanne Bond

Mr Jon Hubbard

Mr John Tourish - appointed 2 August 2016

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

MEETING ATTENDANCE	BOARD		AUDIT & RISK COMMITTEE		PEOPLE & SAFETY COMMITTEE	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
D De Silva	13	12	5	4	3	3
L Bond	13	12	5	5	3	3
J Hubbard	13	13	5	5	3	3

John Tourish was not a director during the financial year.

REVIEW OF OPERATIONS

Principal activities

The principal activities of the Corporation are to safely, efficiently and reliably generate electricity to sustainably contribute to the lifestyle and development of the Northern Territory.

Review of operations

The Corporation recorded a Net Profit After Tax of \$16.7 million (2015: \$36.0 million). During the financial year, the Corporation invested \$58.6 million (2015: \$18.1 million) in its capital investment program.

Significant changes in the state of affairs

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

Dividends

The Corporation paid a dividend of \$18.0 million on 1 December 2015 in respect of the previous financial year.

Since the end of the financial year, the Directors have declared a dividend of \$8.4 million to be paid by 1 December 2016.

SUBSEQUENT EVENTS

Aside from the above dividend declaration, there has been no item, transaction or event of a material and unusual nature which has arisen since 30 June 2016 that is likely to significantly affect the operations, the results of those operations or the state of affairs of the Corporation in future financial years.

FUTURE DEVELOPMENTS

The Corporation continues to contribute to the development of the Interim Northern Territory Electricity Market (I-NTEM) arrangements. It is expected that this interim market will ultimately transition to the final form of the Northern Territory Electricity Market.

POWER GENERATION CORPORATION DIRECTORS' REPORT

The Corporation is currently delivering two major capital projects to replace aged generation and improve efficiency and reliability in Alice Springs and Tennant Creek. These projects are:

- *Owen Springs Power Station Expansion*
\$75 million has been approved to install 10 x 4.1 MW gas spark fired engines, and associated equipment including an additional transformer at the Owen Springs substation.
- *Tennant Creek Power Station Upgrade*
\$26 million has been approved to install 3 x 2 MW gas spark fired engines and 1 x 1.5 MW diesel engine and associated equipment.

These major projects will enable the Corporation to decommission the Ron Goodin Power Station, and aged diesel engines at the Tennant Creek Power Station, reducing noise and emissions and improving efficiency and reliability.

Apart from the above, there are no developments affecting the operations of the Corporation that, in the opinion of the directors, are likely to significantly impact the Corporation during future financial periods.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Indemnification

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

The Corporation has, subject to the prohibition in the *Government Owned Corporations Act*, provided an indemnity to the directors of the Corporation from and against civil liability unless the liability arises out of conduct involving a lack of good faith. Liability for costs and expenses incurred by the directors in defending a proceeding, whether civil or criminal, is covered by the Corporation where judgment is given in favour of the directors or the directors are acquitted.

Insurance premiums

The following insurance policies were purchased to cover the directors and officers of the Corporation. In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of premiums paid are confidential.

- Personal Accident Insurance
- Directors' and Officers' Liability

ROUNDING OFF

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

This report is made in accordance with a resolution of directors.

Dated at Darwin this 28th day of September 2016.



Mr David De Silva
Director and Chairman

DIRECTORS' DECLARATION

POWER GENERATION CORPORATION DIRECTORS' DECLARATION

In the opinion of the directors of the Corporation:

- (a) The financial statements and notes of the Corporation are in accordance with the *Government Owned Corporations Act*, including:
 - (i) giving a true and fair view of the financial position of the Corporation as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards.
- (b) There are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.
- (c) The financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in note 1(b) to the financial statements.

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

Dated at Darwin this 28th day of September 2016.



Mr David De Silva

Director and Chairman

INDEPENDENT AUDIT OPINION

POWER GENERATION CORPORATION INDEPENDENT AUDIT OPINION



Auditor-General

Independent Auditor's Report to the Board of Directors

Power Generation Corporation

Page 1 of 2

I have audited the accompanying financial report of Power Generation Corporation ("the Corporation"), which comprises the statement of financial position as at 30 June 2016, the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the Corporation are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Government Owned Corporation Act*, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

INDEPENDENT AUDIT OPINION

POWER GENERATION CORPORATION
INDEPENDENT AUDIT OPINION



Auditor-General

Page 2 of 2

Opinion

In my opinion:

- a) the financial report gives a true and fair view of the financial position of the Power Generation Corporation, as at 30 June 2016, and of their financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards and the *Government Owned Corporations Act*; and
- b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(b).

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

Julie Crisp
Auditor-General for the Northern Territory
Darwin, Northern Territory

29 September 2016

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

POWER GENERATION CORPORATION
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	2016 \$'000	2015 \$'000
REVENUE	3	312,536	350,915
Impairment of assets	4	534	-
Other expenses	4	280,192	289,624
Finance costs	4	7,590	10,260
Profit before income tax		24,220	51,031
Income tax expense	5	7,507	15,042
Profit for the year		16,713	35,989
Other comprehensive income			
Other comprehensive income (net of tax)		-	-
Total other comprehensive income for the year		-	-
Total comprehensive income for the year		16,713	35,989

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

POWER GENERATION CORPORATION
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	NOTE	2016 \$'000	2015 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	6	78,866	22,769
Trade and other receivables	7	33,971	72,936
Inventories	8	21,809	20,915
Other current assets	9	487	2,232
Total current assets		135,133	118,852
Non-current assets			
Property, plant and equipment	10	364,599	338,393
Intangible assets	10	2,147	1,168
Deferred tax asset	11	19,842	4,599
Total non-current assets		386,588	344,160
Total assets		521,721	463,012
LIABILITIES			
Current liabilities			
Trade and other payables	12	33,738	29,788
Taxes payable	13	23,775	17,147
Employee provisions	14	5,640	5,663
Total current liabilities		63,153	52,598
Non-current liabilities			
Employee provisions	14	3,797	3,338
Other provisions	15	5,000	5,000
Deferred tax liability	16	1,470	2,494
Deferred income	18	50,000	-
Borrowings	17	180,000	180,000
Total non-current liabilities		240,267	190,832
Total liabilities		303,420	243,430
Net assets		218,301	219,582
EQUITY			
Contributed equity	20	183,593	183,593
Retained earnings	21	34,708	35,989
Total equity		218,301	219,582

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

POWER GENERATION CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	CONTRIBUTED EQUITY \$'000	RETAINED EARNINGS \$'000	TOTAL EQUITY \$'000
Balance at 1 July 2015	20	183,593	35,989	219,582
Profit for the year		-	16,713	16,713
Other comprehensive income (net of tax)		-	-	-
Total comprehensive income for the year		-	16,713	16,713
Transactions with owners in their capacity as owners:				
Contributions of equity		-	-	-
Dividend paid or provided		-	(17,994)	(17,994)
Balance at 30 June 2016		183,593	34,708	218,301
Balance at 1 July 2014		-	-	-
Profit for the year		-	35,989	35,989
Other comprehensive income (net of tax)		-	-	-
Total comprehensive income for the year		-	35,989	35,989
Transactions with owners in their capacity as owners:				
Contributions of equity	20	183,593	-	183,593
Balance at 30 June 2015		183,593	35,989	219,582

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

POWER GENERATION CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	2016 \$'000	2015 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		352,531	334,250
Grant received		50,000	-
Interest received		713	79
Payments to suppliers and employees		(255,641)	(283,250)
Interest paid		(7,590)	(10,260)
Income taxes paid		(17,146)	-
Net cash from operating activities	22	122,867	40,819
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(46,962)	(18,038)
Payments for intangibles		(1,814)	(12)
Net cash from investing activities		(48,776)	(18,050)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(17,994)	-
Net cash from financing activities		(17,994)	-
Net increase in cash and cash equivalents		56,097	22,769
Cash at the beginning of the period		22,769	-
Cash at the end of the period	6	78,866	22,769

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

POWER GENERATION CORPORATION NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

CORPORATE INFORMATION

Power Generation Corporation (the Corporation) trading as Territory Generation was established on 29 May 2014 under the *Power Generation Corporation Act 2014* (PGC Act).

The Corporation is declared to be a Government Owned Corporation for the purposes of the *Government Owned Corporation Act* (GOC Act).

The Board of Directors is responsible to the shareholding Minister for the financial performance of the Corporation.

The financial report was authorised for issue by the directors on 28 September 2016.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) New, revised or amending accounting standards and interpretations adopted

The Corporation has adopted all of the new, revised or amending accounting standards and interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to its operations and are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The Corporation is uncertain of the full impact of these standards in the outer years.

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective are listed below.

AASB 16 Leases

Effective for annual reporting periods beginning on or after 1 January 2019. Expected to be initially applied in the financial year ending 30 June 2020. The Corporation is uncertain of the full impact of this Standard in the outer years.

AASB 9 Financial Instruments (December 2014)

Effective for annual reporting periods beginning on or after 1 January 2018. Expected to be initially applied in the financial year ending 30 June 2019. The Corporation is uncertain of the full impact of this Standard in the outer years.

AASB 15 Revenue from Contracts with Customers and

AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15

Effective for annual reporting periods beginning on or after 1 January 2018. Expected to be initially applied in the financial year ending 30 June 2019. The Corporation is uncertain of the full impact of this Standard in the outer years.

(b) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the GOC Act, as appropriate for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The financial statements comprise Power Generation Corporation's financial statements as an individual entity. For the purpose of preparing financial statements, the Corporation is a for-profit entity.

Historical Cost Convention

The financial statements have been prepared under the historical cost convention. Cost is based on the fair values of the consideration given in exchange for the assets.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

POWER GENERATION CORPORATION NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

(c) Foreign currency translation

The financial statements are presented in Australian dollars, which is the Corporation's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at financial year-end exchange rates are recognised in profit or loss.

(d) Revenue recognition

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

Sale of energy

Under a Power Purchase Agreement the Corporation has a contractual obligation to sell gas to an electricity supplier.

Unbilled revenue

Unbilled revenue is recognised to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be measured reliably. Therefore, the Corporation has recognised the estimate of the amount of electricity consumed but yet to be billed. Refer Note 2 for further details.

Interest

Interest revenue is accrued on a time basis using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

Government grants

Government grants are recognised upon receipt. Grants related to purchase or construction of assets are treated as deferred income and allocated to the income statement over the useful lives of the related assets while grants related to expenses are treated as other income in the income statement.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

(e) Income tax equivalents

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

Income tax equivalent payments are made pursuant to section 33 of the GOC Act and are based on rulings under the National Tax Equivalent Regime (NTER). The NTER gives rise to obligations which reflect in all material aspects those obligations for taxation which would be imposed by the *Income Tax Assessment Act 1936 and 1997*.

Current tax

The income tax expense for the period is the tax payable on that period's taxable income based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

POWER GENERATION CORPORATION NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

(f) **Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when:

- It is expected to be realised or intended to be sold or consumed in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is expected to be realised within 12 months after the reporting period; or
- The asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

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

(g) **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(h) **Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are normally settled within 30 days and are carried at amounts due.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

(i) **Inventories**

Inventories are carried at the lower of cost and net realisable value using the weighted average cost method, and are impaired accordingly to take into account obsolescence.

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

(j) Property, plant and equipment

It is the Corporation's policy to record all fixed asset items at fair value. All assets recognised by the Corporation on 1 July 2014 from the structural separation of Power and Water Corporation (PWC) were valued at fair value on an income basis for initial recognition. The condition of the assets was assessed and estimates of the remaining useful lives of all assets were calculated. The acquisition price was recorded as the opening cost of these items at this time.

Initially the asset item is recorded at the fair value of the consideration to acquire the item. In most cases, this will be the purchase price, or the cost of the asset. On a periodic basis a fair value assessment will be performed under either the market approach, the cost approach or the income approach depended on the asset class:

- Market approach - Land, buildings
- Cost approach - Leasehold improvements, furniture and fittings, software
- Income approach - Prime movers, plant and equipment

The Corporation depreciates assets over their useful lives utilising both the time basis and output/service basis of depreciation. The determination of the appropriate method is based on the expected pattern of consumption of the future economic benefits embodied in the asset.

Assets depreciated using the time basis are:

ASSET CLASS	EFFECTIVE LIFE
Buildings	10 to 40 years
Plant and equipment	2 to 30 years
Furniture and fittings	5 to 10 years

Assets depreciated using the output/service basis are:

ASSET CLASS	EFFECTIVE LIFE
Prime Movers	25,000 to 50,000 equivalent operating hours

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

The Corporation capitalises assets when the asset life is greater than one year, and the cost is greater than \$10,000. For expenditure on existing assets, the cost is capitalised if:

- the service capacity is significantly increased;
- the useful life has increased significantly and permanently from original expectations;
- there has been a significant increase in efficiency or performance;
- a component on the fixed asset register has been replaced; or
- it represents an item of major periodic maintenance where the cyclical inspections are greater than one year and the new asset will be recognised as a component of the parent asset.

An item of property, plant and equipment is derecognised upon disposal or where there is no future economic benefit to the Corporation. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained earnings.

(k) Leases

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

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

POWER GENERATION CORPORATION NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Corporation will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

(l) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The amortisation method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Software

Significant costs associated with software are amortised on a straight-line basis over their estimated useful lives. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Software has a useful life of 2 - 10 years.

(m) Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Corporation prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

(p) Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

- interest on bank overdrafts
- interest on short-term and long-term borrowings
- interest on finance leases
- unwinding of discounts on provisions.

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

(q) Provisions

Provisions are recognised when the Corporation has a present (legal or constructive) obligation as a result of a past event, it is probable the entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Decommissioning

A decommissioning provision is raised when there is the existence of a present obligation that can be reliably measured. Reliable measurement is taken at the point a reasonable expectation of the remaining useful life of the asset can be determined.

(r) Employee benefits

Short term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave expected to be settled more than 12 months from the reporting date is recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

(s) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on their highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(t) Issued capital

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

(u) Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not

POWER GENERATION CORPORATION NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

(v) **Dividends**

Dividends are recognised when declared and at the point in time they become payable to the Government. Under the Northern Territory Government's dividend policy (Policy Brief - Liabilities Issue 2: Provision for Dividends) the Corporation is required to declare a dividend calculated at 50% of the 30 June post tax surplus.

(w) **Rounding of amounts**

Amounts in this report have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar.

2. **CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgments and estimates will seldom equal the related actual results. The judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Unbilled Revenue

The Corporation recognises an estimate of the amount of electricity consumed but yet to be billed. The estimate is derived from information provided by the Market Operator to all market participants. Refer to Note 7 for more information.

Provision for obsolescence of inventories

The provision for obsolescence of inventories assessment requires a degree of estimation and judgment. The level of the provision is assessed by taking into account the recent consumption experience, the ageing of inventories and other factors that affect inventory obsolescence. Refer to Note 8 for more information.

Estimation of useful lives of assets

The Corporation determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down. Refer to Note 10 for more information.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the entity considers it is probable that future taxable amounts will be available to utilise those temporary differences. Refer to Note 11 for more information.

Employee benefits provision

As discussed in Note 1(r), the liability for employee benefits expected to be settled more than 12 months from the reporting date is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account. Refer to Note 14 for more information.

Decommissioning provision

The Corporation has recognised a decommissioning provision based on an evaluation and assessment provided by an external expert. This assessment may be subject to future unexpected events and as such may change in response to other factors. Refer to Note 15 for more information.

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
3. REVENUE		
Revenue		
<i>Sales revenue</i>		
Electricity sales	306,605	342,789
Gas sales	2,082	3,079
	308,687	345,868
<i>Other revenue</i>		
Other revenue	3,136	4,495
Interest revenue	713	552
	3,849	5,047
Total revenue	312,536	350,915
4. EXPENDITURE		
Profit before income tax includes the following specific expenses:		
(a) Depreciation and amortisation		
<i>Depreciation</i>		
Property, plant and equipment – refer Note 10(b)	26,052	23,650
<i>Amortisation</i>		
Intangible assets – refer Note 10(b)	835	381
Total depreciation and amortisation	26,887	24,031
(b) Impairment of assets		
Buildings	29	-
Plant and Equipment	505	-
Total impairment of assets	534	-
(c) Finance costs		
Interest and finance charges paid/payable	7,590	10,260
Total finance costs	7,590	10,260
(d) Operating expenses		
Energy costs	175,985	197,910
Repairs and maintenance	25,247	17,596
External service agreements	3,761	10,957
Employee benefits expense	26,948	20,499
Other expenses	21,364	18,631
Total operating expenses	253,305	265,593

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
5. INCOME TAX EQUIVALENT EXPENSE		
(a) Income tax expense		
Current tax	25,877	17,147
Deferred tax - origination and reversal of temporary differences	(16,267)	(2,105)
Adjustment recognised for prior periods	(2,103)	-
Income tax expense reported in profit or loss	7,507	15,042
(b) Deferred tax included in income tax expense comprises:		
(Increase) in deferred tax assets - refer Note 11	(15,243)	(4,599)
(Decrease) / increase in deferred tax liabilities - refer Note 16	(1,024)	2,494
Deferred income tax - origination and reversal of temporary differences	(16,267)	(2,105)
(c) Numerical reconciliation current tax expense and pre-tax net profit		
Profit before income tax expense	24,220	51,031
Tax at the statutory income tax rate of 30%	7,266	15,309
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income	2,344	(267)
	9,610	15,042
Adjustment recognised for prior periods	(2,103)	-
Current tax equivalent expense	7,507	15,042
6. CASH AND CASH EQUIVALENTS		
Cash at bank	78,866	22,769
Cash and cash equivalents	78,866	22,769
7. TRADE AND OTHER RECEIVABLES		
Trade receivables	8,577	11,978
Less: impairment of receivables	-	-
	8,577	11,978
Other receivables		
Unbilled generation	23,613	26,596
Interest receivable	58	56
Loan arising from disaggregation	-	29,201
Other receivables	1,723	5,105
Total current receivables	33,971	72,936

Impairment of receivables

No trade receivables are past due, and none are considered to require impairment.

Loan arising from disaggregation

As a result of the reforms of the electricity industry, the business was disaggregated from PWC during the 2014/15 financial year. This receivable represented the final settlement of the financial position between the Corporation and PWC, which was settled during the 2015/16 financial year.

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
8. INVENTORIES		
Stores and spares	21,235	19,302
Less: Provision for obsolescence	(2,053)	(1,907)
	19,182	17,395
Fuel stocks	2,627	3,520
Total inventories	21,809	20,915
Movement in the provision for obsolescence:		
Opening provision for obsolescence	1,907	-
Additional provisions recognised during the period	146	1,907
Closing provision for obsolescence	2,053	1,907
9. OTHER CURRENT ASSETS		
Excise duty	-	616
Prepayments	487	543
GST recoverable	-	1,073
Total other current assets	487	2,232
Excise duty is the recovery of excise tax imposed on the purchase of diesel fuel. Prepaid costs greater than \$10,000 are recorded in the balance sheet and released over the relevant period.		
10. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLES		
(a) Summary		
Property, plant and equipment		
Land	1,219	1,110
Buildings	46,470	45,037
Less: Accumulated depreciation	(4,660)	(2,301)
	41,810	42,736
Plant and equipment	310,065	304,481
Less: Accumulated depreciation	(44,228)	(21,349)
	265,837	283,132
Assets under construction	55,733	11,415
Total property, plant and equipment	364,599	338,393
Intangibles		
Software	3,363	1,549
Less: Accumulated amortisation	(1,216)	(381)
Total intangibles	2,147	1,168

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

(b) Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial year are set out below:

	LAND AND BUILDINGS \$'000	PLANT AND EQUIPMENT \$'000	INTANGIBLES \$'000	ASSETS UNDER CONSTRUCTION \$'000	TOTAL \$'000
Cost					
Opening balance at 1 July 2014	-	-	-	-	-
Recognised at structural separation	46,057	292,086	1,537	5,862	345,542
Additions	-	-	-	18,050	18,050
Capitalisation	90	12,395	12	(12,497)	-
Disposals	-	-	-	-	-
Closing balance at 30 June 2015	46,147	304,481	1,549	11,415	363,592
Opening balance at 1 July 2015	46,147	304,481	1,549	11,415	363,592
Additions	1,915	4,014	-	52,668	58,597
Capitalisation	-	6,536	1,814	(8,350)	-
Disposals	(373)	(4,966)	-	-	(5,339)
Closing balance at 30 June 2016	47,689	310,065	3,363	55,733	416,850
Accumulated depreciation and impairment					
Opening balance at 1 July 2014	-	-	-	-	-
Depreciation expense - refer note 4(a)	(2,301)	(21,349)	(381)	-	(24,031)
Impairment of assets	-	-	-	-	-
Disposals	-	-	-	-	-
Closing balance at 30 June 2015	(2,301)	(21,349)	(381)	-	(24,031)
Opening balance at 1 July 2015	(2,301)	(21,349)	(381)	-	(24,031)
Depreciation expense - refer note 4(a)	(2,330)	(23,722)	(835)	-	(26,887)
Impairment of assets	(29)	(505)	-	-	(534)
Disposals	-	1,348	-	-	1,348
Closing balance at 30 June 2016	(4,660)	(44,228)	(1,216)	-	(50,104)
Carrying amounts					
At 30 June 2015	43,846	283,132	1,168	11,415	339,561
At 30 June 2016	43,029	265,837	2,147	55,733	366,746

The recoverable amount of the Corporation's property, plant equipment has been determined by a value-in-use calculation using a discounted cash flow model, based on the Corporation's Statement of Corporate Intent.

Based on the above, an impairment of \$533,753 has been applied to the Kings Canyon Power Station as the carrying amount of its assets exceeds their recoverable amount.

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
11. DEFERRED TAX ASSET		
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit and loss:		
Employee provisions	2,726	2,514
Other provisions	1,500	1,500
Obsolete stock provision	616	572
Property, plant and equipment	-	13
Deferred grant income	15,000	-
Deferred tax asset	19,842	4,599
Movements:		
Opening deferred tax asset	4,599	-
Credited/(charged) to income tax payable	-	-
Credited/(charged) to profit or loss	15,243	4,599
Closing deferred tax asset	19,842	4,599
Deferred tax liability – refer Note 16	1,470	2,494
Net deferred tax assets	18,372	2,105
12. TRADE AND OTHER PAYABLES		
Current		
Trade creditors	3,781	477
Other creditors and accruals	16,027	15,086
Energy accruals	13,930	14,225
Total payables	33,738	29,788
The policy of the Corporation is to settle trade payables within 30 days. The Corporation has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.		
13. INCOME TAXES PAYABLE		
Provision for income tax	23,775	17,147
Taxes payable	23,775	17,147

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
14. EMPLOYEE PROVISIONS		
Current		
Employee benefits	5,640	5,663
	5,640	5,663
Non-current		
Employee benefits	3,797	3,338
	3,797	3,338
Employee benefits include amounts for recreation leave, long service leave, and related on costs.		
15. OTHER PROVISIONS		
Decommissioning		
Opening decommissioning provision	5,000	-
Provisions made during the year	-	5,000
Closing decommissioning provision	5,000	5,000
The decommissioning provision has been raised due to the existence of a present obligation for the rectification of the operating site at Ron Goodin Power Station which is coming to the end of its useful life.		
16. DEFERRED TAX LIABILITY		
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Property, plant and equipment	1,453	2,315
Interest	17	17
Prepayments	-	162
Deferred tax liability	1,470	2,494
Movements:		
Opening deferred tax liability	2,494	-
(Credited)/charged to profit or loss	(1,024)	2,494
Closing deferred tax liability	1,470	2,494
17. BORROWINGS		
Non-current		
NT Government loans - unsecured	180,000	180,000
	180,000	180,000
Refer to Note 1 (o) Borrowings		

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
18. DEFERRED GRANT INCOME		
Non-current	50,000	-
	50,000	-
The Corporation received a \$50 million capital grant toward the construction of Alice Springs and Tennant Creek power stations.		
19. EQUITY - ISSUED CAPITAL		
Share capital		
1 Share	-	-
Total share capital	-	-
The GOC Act requires the Corporation to have share capital to be held by one shareholder, being the shareholding Minister, who holds the share on behalf of the Northern Territory Government. The Corporation's constitution specifies the share capital to be one share. No value is assigned to this share.		
20. EQUITY - CONTRIBUTED EQUITY		
Contributed equity at beginning of year	183,593	-
Contributed equity during the year	-	183,593
Contributed equity at end of the year	183,593	183,593
The contributed equity was the result of the approved capital structure for the Corporation by the shareholding Minister with regard to the fair value of its acquired asset base and an appropriate debt level.		
21. EQUITY - RETAINED EARNINGS		
Retained earnings at beginning of the year	35,989	-
Total comprehensive income for the year	16,713	35,989
Dividends paid	(17,994)	-
Retained earnings at end of the year	34,708	35,989

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
22. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES		
Profit after income tax expense for the year	16,713	35,989
<i>Adjustments for:</i>		
Depreciation and amortisation	26,887	24,031
Net loss on disposal of non-current assets	3,619	-
Impairment of assets	534	-
<i>Changes in assets and liabilities:</i>		
(Increase)/decrease in trade, other receivables and other current assets	40,709	(45,371)
(Increase) in inventories	(894)	(942)
Increase/(decrease) in trade and other payables	(5,203)	13,439
Increase/(decrease) in energy accruals	(295)	1
Increase/(decrease) in provisions	436	(1,370)
Increase in deferred income	50,000	-
Increase/(decrease) in taxation liabilities	(9,639)	15,042
Net cash flows from operating activities	122,867	40,819

23. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives

The Corporation's activities expose it to a variety of financial risks including market risk, foreign currency risk, price risk, interest rate risk, credit risk and liquidity risk.

Risk management is carried out by the senior executives under policies approved by the Board of Directors. These policies include identification and analysis of the risk exposure of the Corporation and appropriate procedures, controls and risk limits.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instruments are disclosed in Note 1 to the financial statements.

(b) Market risk

The Corporation is exposed to competition through the establishment of the I-NTEM in the Darwin/Katherine market. The Corporation is focused on developing performance and cost efficiencies across its operations in order to mitigate the business impact of incoming generation competition.

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

(c) Efficiency risk

The Corporation is exposed to the risk of running its plant inefficiently to manage electricity network system integrity issues. This includes risks such as inefficient or uneconomic system dispatch, excessive spinning reserve, and running inefficient plant to provide inertia to the system. These ancillary services all have the impact of increasing the operational costs of the Corporation, making it imperative that the future market arrangements provide a corresponding ability to recover costs through market payments for ancillary services.

(d) Foreign currency risk

The Corporation undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

The Corporation manages foreign currency exposure on a case by case basis, with future foreign currency commitments also considering potential exchange rate volatility. The Corporation has the ability to enter forward exchange rate contracts, or alternatively purchasing foreign currency at current rates to meet future commitments. During the 2015/16 financial year the Corporation opened and transferred funds to a foreign currency bank account to manage foreign currency exchange rate fluctuations.

The carrying amount of the Corporation's foreign currency denominated monetary liabilities at the reporting date was \$8.3 million.

(e) Price risk

The Corporation manages price risk by aligning the terms of the wholesale electricity sales and fuel purchase agreements. As the individual agreements are considered to be commercial-in-confidence, a sensitivity on these risks is not able to be presented.

(f) Interest rate risk

The Corporation's exposure to the risk of changes in market interest rates relates to the long-term debt obligations to the Northern Territory Government. The loans are interest only based on fixed interest rates and the Corporation is exposed to interest rate risk when there are interest rate resets over the life of the loans. All loans are non-current.

The following table shows the Corporation's debt and interest obligations to the Northern Territory Government:

	2016		2015	
	FIXED RATE LOANS	AVERAGE INTEREST RATE	FIXED RATE LOANS	AVERAGE INTEREST RATE
Remaining loan term	\$'000	%	\$'000	%
0 to 1 year	-	-	-	-
1 to 2 years	47,000	5.16	-	-
2 to 5 years	133,000	4.56	160,000	4.94
Over 5 years	-	-	20,000	4.24
	180,000	4.80	180,000	4.80

As the interest rates for debt are fixed, a 100 basis point movement in rates will not impact either liquidity or profitability over the next 12 months.

(g) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Corporation. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Corporation does not hold any collateral.

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

The Corporation has a credit risk exposure with Power Retail Corporation trading as Jacana Energy, which as at 30 June 2016 owed the Corporation \$7.7 million (96% of trade receivables). This balance was within the terms of the wholesale electricity sales agreement and no impairment was made as at 30 June 2016. There are no guarantees against this receivable but management closely monitors the receivable balance on a regular basis and is in regular contact with this customer to mitigate risk. This customer is a Government Owned Corporation.

New and existing customers are evaluated for credit risk, with the Corporation actively monitoring the appropriateness of credit limits, and clear accountability for customer relationships established. Ageing analysis is regularly undertaken for all customers to understand and mitigate credit risk.

(h) Liquidity risk

Liquidity risk management requires the Corporation to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Corporation's objective is to maintain cash to meet its liquidity requirements for 30 day periods. This objective was met for the period.

The Corporation considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Corporation's existing cash resources and trade receivables significantly exceed the current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within six months.

NON-DERIVATIVES	1 YEAR OR LESS \$'000	BETWEEN 1 AND 2 YEARS \$'000	BETWEEN 2 AND 5 YEARS \$'000	OVER 5 YEARS \$'000
2015-16				
Non-interest bearing				
Trade and other payables	33,738	-	-	-
Taxes payable	23,775	-	-	-
Interest bearing - fixed rate				
Loans from Northern Territory Treasury Corporation	-	47,000	133,000	-
Total	57,513	47,000	133,000	-

NON-DERIVATIVES	1 YEAR OR LESS \$'000	BETWEEN 1 AND 2 YEARS \$'000	BETWEEN 2 AND 5 YEARS \$'000	OVER 5 YEARS \$'000
2014-15				
Non-interest bearing				
Trade and other payables	29,788	-	-	-
Taxes payable	17,147	-	-	-
Interest bearing - fixed rate				
Loans from Northern Territory Treasury Corporation	-	-	160,000	20,000
Total	46,935	-	160,000	20,000

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

(i) **Capital risk management**

The Corporation's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for the shareholder and benefits for other stakeholders while maintaining an efficient capital structure in line with shareholding Minister expectations.

The capital structure of the Corporation consists of debt, which includes borrowings disclosed in Note 17, cash and cash equivalents and equity attributable to the equity holder of the Corporation, comprising of contributed capital and retained earnings as disclosed in Notes 20 and 21 respectively.

In order to maintain or adjust the capital structure, the Corporation may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, increase borrowings, reduce debt from operating cash flows or sell assets to reduce debt.

Operating cash flows are used to maintain and expand the Corporation's assets, as well as to meet routine outflows of tax, dividends and servicing of debt.

The Corporation's policy is to borrow centrally using facilities provided by Northern Territory Treasury Corporation to meet anticipated funding requirements.

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

24. COMMITMENTS

	2016 \$'000	2015 \$'000
Committed at the reporting date but not recognised as liabilities, payable:		
Capital commitments - payable		
Within one year	71,444	1,771
One to five years	25,233	3,543
More than five years	-	-
	96,677	5,314
Major projects include:		
- Additional 41 MW of gas fired spark ignition reciprocating power at Owen Springs Power Station to replace the capacity to be withdrawn from Ron Goodin Power Station. - Capacity upgrade works at Tennant Creek Power Station.		
Operating lease commitments - payable		
Within one year	717	696
One to five years	1,988	2,079
More than five years	19	359
	2,724	3,134

25. AUDITOR'S REMUNERATION

	2016 \$'000	2015 \$'000
Audit services:		
Auditors of the Corporation - NT Auditor-General	99	83
	99	83

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

26. DIRECTOR AND EXECUTIVE DISCLOSURES

Remuneration of key management personnel

Remuneration of directors is determined by the shareholding Minister under section 24 of the GOC Act. Compensation levels are appropriately set to attract and retain qualified and experienced senior executives.

The following table provides the details of all non-executive directors of the Corporation and the nature and amount of the elements of their remuneration:

		FEES \$	SUPERANNUATION \$	TOTAL \$
Non-executive directors				
Mr David De Silva (Chairperson)	2016	97,318	9,245	106,563
	2015	111,716	10,613	122,329
Ms Leeanne Bond	2016	79,269	7,530	86,799
	2015	93,331	8,867	102,198
Mr Jon Hubbard	2016	61,218	5,816	67,034
	2015	74,947	7,120	82,067
Total non-executive directors				
	2016	237,805	22,591	260,396
	2015	279,994	26,600	306,594

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

Executives' remuneration

The following table shows the aggregate compensation made to key management personnel of the Corporation:

	2016 \$	2015 \$
(i) Short-term employee benefits	1,848,528	996,975
(ii) Post-employment benefits	139,332	87,290
Long-term benefits	135,591	114,754
Total compensation of key management personnel	2,123,451	1,199,019

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

During the financial year the Corporation finalised the Executive Leadership Team (ELT) with the recruitment of two additional positions. This along with the first full year for a number of the ELT members has resulted in an overall increase in the key management personnel compensation.

- (i) Short-term employee benefits refer to salary and wages paid during the financial year and the current annual leave and long service leave accrued at year end.
- (ii) Post-employment benefits refer to superannuation contributions made during the financial year.
- (iii) Long-term benefits refer to non-current annual leave and long service leave accrued at year end.

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

Other transactions with key management personnel

Apart from the details disclosed in this note, no key management personnel have entered into a material contract with the Corporation since the commencement of the Corporation and there were no material contracts involving their interests existing at year end.

27. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent liabilities

The Corporation is not aware of any events that give rise to contingent liabilities of the organisation.

(b) Contingent assets

The Corporation has an outstanding warranty claim in respect of a damaged engine. The supplier has provided a replacement engine at a cost of \$4.3 million which the Corporation has capitalised and negotiations are being held with the supplier as to the extent of the warranty payout. Further details may prejudice the outcome of the claim.

28. SUBSEQUENT EVENTS

Apart from the dividend noted in the Directors' report, the Corporation is not aware of any subsequent events or developments that give rise to any disclosures that are not already captured.

29. RELATED PARTY INFORMATION

The parent entity of the Corporation is the Northern Territory Government, which at 30 June 2016 owned 100% (2015 :100%) of the issued shares of Power Generation Corporation. This share is held by the shareholding Minister on behalf of the Northern Territory.

The Corporation has related party transactions with its parent entity (includes other agencies and departments of the Northern Territory Government). All financial transactions between the Corporation and related parties are on arm's length normal market terms.

Transactions

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year. The Corporation is the predominant supplier of wholesale electricity in the Northern Territory.

RELATED PARTY		SALES TO RELATED PARTIES \$'000	PURCHASES FROM RELATED PARTIES \$'000	AMOUNTS OWED BY RELATED PARTIES \$'000	AMOUNTS OWED TO RELATED PARTIES \$'000
The parent entity including all entities that are associated with the parent entity.	2015	334,894	215,823 ⁽ⁱ⁾	67,752 ⁽ⁱⁱ⁾	208,101 ⁽ⁱⁱⁱ⁾
	2016	301,803	200,820	30,449	194,196

⁽ⁱ⁾ Includes a prior period disclosure adjustment of \$86 million

⁽ⁱⁱ⁾ Includes a prior period disclosure adjustment of \$41 million.

⁽ⁱⁱⁱ⁾ Includes a prior period disclosure adjustment of \$12 million.

The above adjustments have not led to any change in the primary statements or the line items within these primary statements relating to engaging goods and services. This has resulted from incorrect classification of related party transactions.

As at 30 June 2016 related party transactions of the Corporation included:

- services provided by PWC under the Transition Service Agreements;
- supply of gas from PWC;
- services provided by the Department of Corporate and Information Services under a Service Level Agreement;
- borrowings from the Northern Territory Treasury Corporation;
- provision of wholesale electricity to Jacana Energy; and
- provision of wholesale electricity to PWC.

These related party transactions were negotiated under commercial terms and conditions.



ABN 72 687 980 755

POWERING THE NT

CONTACT US

08 8936 4609

territorygeneration.com.au

Building 3 Level 2-631 Stuart Highway
Berrimah NT 0828

PO Box 1721
Berrimah NT 0828