



AUDITOR GENERAL'S OFFICE
PAPUA NEW GUINEA

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The Managing Director
Water PNG
PO Box 2779
BOROKO
National Capital District

Date: 30 June 2021
Our Reference: 30-40-4
Action Officer: A Doss
Designation: DOA
Your Reference:
Date:

Dear Sir,

AUDIT REPORT ON
WATER PNG LIMITED (FORMERLY PNG WATER BOARD)
FOR THE YEAR ENDED 31 DECEMBER 2018

I attach a copy of the *Auditor-General's Report* together with a copy of the certified financial statements of the above named Company for the year ended **31 December 2018**.

Please ensure that this Report is tabled by you at the Company's Annual General Meeting.

Yours faithfully,

LEMEKI ILA
Deputy Auditor-General
(Statutory Bodies & Project Audits Division)
FOR: AUDITOR-GENERAL

Our Reference: 30-40-4

**INDEPENDENT AUDIT REPORT
TO THE SHAREHOLDERS ON THE FINANCIAL STATEMENTS OF
WATER PNG LIMITED
(FORMERLY PNG WATER BOARD)
FOR THE YEAR ENDED 31 DECEMBER 2018**

DISCLAIMER OF OPINION

I have audited the accompanying financial statements of **Water PNG Limited**, which comprise the Statement of Financial Position as at **31 December 2018**, Statement of Profit or Loss and other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows; and summary of significant accounting policies and other explanatory notes;

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs below, I was not able to obtain sufficient appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the financial statements of the Water PNG Limited, for the year ended 31 December 2018.

BASIS FOR DISCLAIMER OF OPINION

Opening Balances and Corresponding Amounts

My audit report for the period ended 31 December, 2017 was a disclaimer of opinion due to limitation of scope on the opening balances as a result of my inability to obtain sufficient and appropriate audit evidence on the completeness, existence and accuracy of balances in the financial statements of the Company for the period ended 31 December 2017 as tabulated.

Current Assets	Current Liabilities	Non-Current Liabilities	Non-Current Assets
Prepayments - K2.52 million	Outstanding Accrued Expenses - K12.08 million	Bonds & Refundable Deposits - K6.25 million	Capital Works-In-Progress - K34.6 million
Home Ownership Scheme - K0.25 million	Business Payment Tax - K0.35 million	ADB Loan - K104.92 million	Land and Building - K28.85 million

Suspense Account - K0.25 million	Purchase Clearing Account - K2.37 million	Deferred Income - K51.24 million	-
Bank Suspense Account - K1.48 million	Interest Withholding Tax - K0.07 million	Lease Liability - K1.48 million	-
Novated Lease Suspense - K0.15 million	Contract Retention (Clearing Account) - K0.73 million	-	-
Sundry Debtors - K2.12 million	Deferred Grant – Current - K6.26 million	-	-
Accrued Income - K0.08 million	-	-	-

I was unable to perform alternative procedures over these opening balances due to a continued lack of appropriate supporting documentation. Since the opening balances enter into the determination of the financial position at 31 December 2018 and the results of operations, equity movements and cash flows of the Company for the year ended 31 December 2018, any adjustments necessary on such opening balances would have a consequential effect on the financial position at 31 December 2018 and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018. I was unable to determine whether any such adjustments might be necessary for the year ended 31 December 2018, and corresponding figures for the year ended 31 December 2017.

Loans from National Government (Non-Current Liabilities – ADB Loan)

Note 19 to the financial statements of the Company has disclosed Loans from National Government amounting to K106.21 million at 31 December 2018 and K104.92 million at 31 December 2017. The balances recorded did not reflect loan repayments due according to the historical loan agreements I was provided. In seeking to understand the issue of non-reconciling amounts owing, I was unable to obtain third party confirmations or alternative documentary evidence to assess the completeness, existence, classification and accuracy of the loans from National Government. Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2018 and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018 and for the corresponding period.

Deferred Income (Grant) and Related Depreciation Adjustment

Note 17 and 12 to the financial statements of the Company has disclosed deferred income and the related reduction in depreciation amounting to K46.97 million and K4.47 million as at and for the year to 31 December 2018, and K57.41 million and K12.08 million as at and for the period to 31 December 2017 respectively. I was unable to obtain signed contracts/agreements or alternative documentary evidence to assess the grant arrangements and therefore the completeness, existence, classification and accuracy of the recorded amounts of deferred grant income and related depreciation adjustment. Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2018 and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018 and for the corresponding period.

Property, Plant and Equipment – Land and Pipelines

The Company disclosed property, plant and equipment of K473.38 million at 31 December 2018 and K392.29 million at 31 December 2017 in its financial statements. There is an existing accounting policy whereby property, plant and equipment are carried at fair value, using external valuations at least every 3 years with Directors valuations in intervening years. The Company obtained an external valuation as at 30 June 2018 of certain items of property, plant and equipment however, the external valuation did not include land and certain pipelines within the civil works, pipelines & connections class.

The Directors did not prepare a Directors valuation of these pipeline assets as a replacement valuation for the external valuation and there was no evidence provided for the legal title of the land. The carrying value of this land amounted to K8.95 million at 31 December 2018 and K8.63 million at 31 December 2017. The carrying value of the pipelines not revalued amounted to K51.59 million at 31 December 2018 and K58.13 million at 31 December 2017.

In the absence of a current external valuation, a Directors valuation and evidence of legal title, I was unable to obtain sufficient appropriate audit evidence over the accuracy and valuation of these specific items of property, plant and equipment as at 31 December 2018, and accordingly I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2018 and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018 and for the corresponding period.

Project Assets, Liabilities and Cash Flows (Capital Works-In-Progress)

As set out in Notes 12, 24 and 17 to the financial statements, the Company has disclosed capital work in progress, cash and cash equivalents and deferred income of K23.79 million, K13.58 million and K46.97 million at 31 December 2018 and K34.76 million, K18.24 million and K57.41 million at 31 December 2017 respectively. The Company's Project Management Unit had a number of capital construction projects in-progress as at 31 December 2018 funded by the Government of Papua New Guinea's Public Investment Program and the World Bank. The projects are directed towards the supply of water and sanitation services in selected districts/towns across Papua New Guinea where there is limited or no access to clean and reliable water supply. The Company has legal documentation supporting ownership of all the project's assets, is in control of the Project Management Unit's operational activities, and almost all the assets constructed by the Project Management Unit are transferred to the Company's Fixed Assets Register after their construction is completed. However, it is the Company's policy not to include capital work in progress, cash and cash equivalents and deferred income balances of amounts funded by the third parties managed by the Project Management Unit until a project is complete.

This policy is not in accordance with accounting standards. The preliminary key amounts included in the Company's Project Management Unit's financial statements prepared on a modified cash basis for the year ended 31 December 2018 but not included in the Company's 31 December 2018.

Account	2018	2017
Deferred Income / Capital Contribution (Funding receipts)	K12 million	K 0.2 million
Capital Work in Progress (Project expenditure)	K12.1 million	K2.0 million
Cash and Cash Equivalents	K13.6 million	K1.9 million

I was not provided access to supporting evidence for balances of amounts funded by the third parties, such as transaction listings and contracts in order to perform procedures on the deferred income/capital contribution, capital work in progress or cash and cash equivalents. Therefore, I was unable to obtain sufficient appropriate audit evidence over the completeness and accuracy of capital work in progress, cash and cash equivalents and deferred income to be recorded in the Company's financial statements as at 31 December 2018. Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2018 and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018 and for the corresponding period.

Income Tax

The Company disclosed in Note 11 to the financial statements income tax expense, deferred tax liability, and current tax liability of K2.82 million, K28.89 million and K2.23 million as at and for the year to 31 December 2018 and K1.78 million, K nil and K1.81 million as at and for the period to 31 December 2017 respectively. I was unable to obtain sufficient appropriate audit evidence over the completeness, existence and accuracy of related tax impacts of the transactions and balances of the Company for the year ended 31 December 2018 as the Company has not maintained appropriate records or calculations of its income tax position.

Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2018 and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018 and for the corresponding period.

Responsibilities of the Management for the Financial Statements

The management of the Company are responsible for the preparation and fair presentation of the financial statements in accordance with the *International Financial Reporting Standards*, the *Companies Act 1997* and for such internal control as the Directors determines is necessary to enable the preparation of the financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

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

Auditor-General's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit in the accordance with the *International Standards on Auditing* and to issue an auditor's report that includes my opinion. However, because of the matters described in the basis for disclaimer of opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the financial statements.

Independence

I am independent of the Water PNG Limited in accordance with the ethical requirements that are relevant to my audit of the financial statements in Papua New Guinea, and I have fulfilled my other ethical responsibilities in accordance with these requirements.



GORDON KEGA MBA, CPA
Auditor-General

30 June, 2021

Water PNG Limited

Annual report

For the year ended 31 December 2018

Water PNG Limited

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Water PNG Limited Company information

Water PNG Limited is a registered company under the Papua New Guinea Companies Act 1997, and by virtue of the National Water Supply and Sanitation Act 2016, and National Water Supply and Sanitation (Amendment) Act 2020, incorporated and domiciled in Papua New Guinea.

Registered Office	Water PNG Limited Level 2, Marand Haus Waigani Drive Waigani National Capital District, PNG
Directors	Sir Hubert Namani (Chairman) (appointed 10 November 2020) Ms Tamzin Wardley (appointed 10 November 2020) Mr Aiwa Olmi (appointed 10 November 2020) Mr John Cholai (appointed 10 November 2020) Mr Ako Toua Mr William Sweet (resigned 20 December 2019) Mr Sandis Tsaka (resigned 20 December 2019) Mr Mark Chan (resigned 20 December 2019) Mr Raka Taviri Jnr (resigned 20 December 2019) Mr Thoma Daki (resigned 20 April 2017)
Officer in Charge	Mr Parkop Kurua
Auditors	Auditor-General of Papua New Guinea Level 6, TISA Investment Haus Kumul Avenue Waigani, Port Moresby
Banks	Australia & New Zealand Banking Group (PNG) Ltd PO Box 1152 Port Moresby Bank of South Pacific Limited PO Box 78 Port Moresby Westpac Bank PNG Limited PO Box 77 Port Moresby

Water PNG Limited
Directors' report

The Directors take pleasure in presenting their annual report on the affairs of Water PNG Limited (the "Company") including the financial statements for the year ended 31 December 2018 and the auditors' report thereon.

Principal activities

The principal activities of the Company during the financial year was the provision of water and sanitation services. During the financial year there was no change in the principal activities or state of affairs of the Company.

Results

The Company reported after tax profit of K6,587,665 (2017: K4,153,182).

Dividends

Dividends of K6,922,782 were declared during the financial year (2017: K4,800,000).

Directors

The directors of the Company at any time during or since the end of the previous financial year are listed on page 1. No director was a shareholder of the Company during or since the end of the previous financial year, and none had any material interest by reason of a contractual arrangement with the Company or any related entity with the directors of, or with a firm of which he or she is a member, or in a Company in which he or she has a substantial financial interest.

Interests register

There were no transactions recorded in the interests register during the financial year.

Donations

Donations of K285,171 (2017: K68,643) were made by the Company during the financial year.

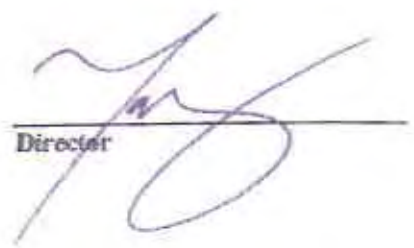
Auditor's remuneration

The amounts paid or payable to the Company's auditor KPMG for audit and non-audit services provided by that firm during the financial year are disclosed in Note 9 to the financial statements.

Dated at Waigani this 9th day of June 2021.

Signed in accordance with a resolution of the Board of Directors.


Director


Director

Water PNG Limited
Statement by Directors

In the Directors opinion:

- (a) the financial statements and notes set out on pages 12 to 41 are in accordance with the Papua New Guinea Companies Act 1997 including:
- i. complying with applicable financial reporting standards and other mandatory professional reporting requirement approved for use in Papua New Guinea by the Accounting Standard Board; and
 - ii. giving a true and fair view of the Company's financial position as at 31 December 2018 and of the financial performance as represented by the results of its operations and its cash flows for the financial year ended on that date.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) the financial statements and notes set out are also in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and the requirements of the Papua New Guinea Companies Act 1997.

Dated at Haigani this 9th day of June 2021.

Signed in accordance with a resolution of the Board of the Directors.


Director


Director

Water PNG Limited
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2018

	Note	2018 K	1 April to 31 December 2017 K
Revenue			
Water Income	5	88,043,778	65,781,410
Sewerage Income	6	10,496,523	8,358,344
Connection Income		253,829	188,580
Compliance Income		2,089,053	1,319,514
		<u>100,883,183</u>	<u>75,647,848</u>
Other income	7	1,617,420	882,307
		<u>102,500,603</u>	<u>76,530,155</u>
Employee expenses	8	(33,264,001)	(28,223,951)
Operating expenses	9	(36,365,728)	(28,892,469)
Depreciation	12	(16,258,990)	(12,082,958)
Impairment of receivables	14	(5,747,619)	-
Finance costs		<u>(1,453,315)</u>	<u>(1,397,661)</u>
		<u>(93,089,653)</u>	<u>(70,597,038)</u>
Profit before tax		9,410,950	5,933,117
Income tax expense	11 (a)	<u>(2,823,285)</u>	<u>(1,779,935)</u>
Profit for the year attributable to equity holders of the Company		6,587,665	4,153,182
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss		67,412,316	-
Revaluation of Property, Plant and Equipment		96,303,308	-
Related tax		(28,890,992)	-
Total comprehensive income for the year attributable to equity holders of the Company		<u>73,999,981</u>	<u>4,153,182</u>

The notes on pages 16 to 41 are an integral part of these financial statements.



Water PNG Limited
Statement of financial position
As at 31 December 2018

	Note	2018 K	2017 K
Assets			
Current assets			
Cash and cash equivalents	24	13,583,699	18,243,182
Term deposits	25	17,317,601	19,442,452
Inventories	13	2,279,054	1,994,794
Trade and other receivables	14	41,456,739	36,600,734
Total current assets		<u>74,637,093</u>	<u>76,281,162</u>
Non-current assets			
Property, plant and equipment	12	473,379,293	392,294,709
Total non-current assets		<u>473,379,293</u>	<u>392,294,709</u>
Total assets		<u>548,016,386</u>	<u>468,575,871</u>
Current liabilities			
Trade and other payables	16	20,110,230	22,908,884
Deferred income	17	1,407,790	6,264,697
Employee benefits obligation	18	1,635,264	1,256,595
Lease liability	20	838,967	640,063
Total current liabilities		<u>23,992,251</u>	<u>31,070,239</u>
Non-current liabilities			
Loans and borrowings	19	106,211,567	104,918,260
Bonds and refundable deposits		4,058,278	6,252,767
Deferred income	17	45,570,989	51,145,573
Employee benefits obligation	18	5,251,093	7,954,591
Lease liability	20	571,091	841,515
Deferred tax liability	11 (d)	28,890,992	-
Total non-current liabilities		<u>190,554,010</u>	<u>171,112,706</u>
Total liabilities		<u>214,546,261</u>	<u>202,182,945</u>
Net assets		<u>333,470,125</u>	<u>266,392,926</u>
Equity			
Asset revaluation reserve	10	267,697,671	217,758,025
Government equity	15	65,895,228	65,895,228
Retained earnings		(32,774)	(17,260,327)
Total shareholders' equity		<u>333,470,125</u>	<u>266,392,925</u>

The notes on pages 16 to 41 are an integral part of these financial statements.



Water PNG Limited
Statement of changes in equity
For the year ended 31 December 2018

	Note	Asset revaluation reserve K	Government equity K	Retained earnings K	Total K
Balance as at 31 March 2017		1,246,712	65,895,228	(16,613,509)	50,528,431
Asset revaluation	10	216,511,313			216,511,313
Dividends declared				(4,800,000)	(4,800,000)
Total comprehensive income for the period 1 April to 31 December 2017		-	-	4,153,182	4,153,182
Balance as at 31 December 2017		<u>217,758,025</u>	<u>65,895,228</u>	<u>(17,260,327)</u>	<u>266,392,926</u>
Balance as at 1 January 2018		217,758,025	65,895,228	(17,260,327)	266,392,926
Adjustment on initial application of IFRS 9, net of tax		-	-	-	-
Adjustment on initial application of IFRS 15, net of tax		-	-	-	-
Restated balance as at 1 January 2018		<u>217,758,025</u>	<u>65,895,228</u>	<u>(17,260,327)</u>	<u>266,392,926</u>
Profit for the year				6,587,665	6,587,665
Other comprehensive income for the year	10	67,412,316			67,412,316
Total comprehensive income for the year		<u>67,412,316</u>	<u>-</u>	<u>6,587,665</u>	<u>73,999,981</u>
Transfer from Asset Revaluation Reserve		(17,562,670)		17,562,670	-
Dividends declared				(6,922,782)	(6,922,782)
Balance as at 31 December 2018		<u>267,607,671</u>	<u>65,895,228</u>	<u>(32,774)</u>	<u>333,470,125</u>

The notes on pages 16 to 41 are an integral part of these financial statements.



Water PNG Limited
Statement of cash flows
For the year ended 31 December 2018

	Note	2018 K	1 April to 31 December 2017 K
Cash flows from operating activities			
Receipts from customers		84,281,483	78,148,618
Payments to suppliers and employees		(75,777,112)	(64,767,996)
Cash generated from operations		<u>8,504,371</u>	<u>13,380,622</u>
Income taxes paid		(2,400,000)	-
Net cash from operating activities		<u>6,104,371</u>	<u>13,380,622</u>
Cash flows from investing activities			
Interest income		737,137	239,040
Payment for property, plant and equipment	12	(8,825,842)	(6,935,185)
Net cash used in investing activities		<u>(8,088,705)</u>	<u>(6,696,145)</u>
Cash flows from financing activities			
Payment of dividends		(4,800,000)	-
Net cash used in financing activities		<u>(4,800,000)</u>	<u>-</u>
Net (decrease) / increase in cash and cash equivalents		(6,784,334)	6,684,477
Cash and cash equivalents at the beginning of the year		37,685,634	31,001,157
Cash and cash equivalents at the end of the year	25	<u>30,901,300</u>	<u>37,685,634</u>
Represented by:			
Cash at bank	25	13,561,749	18,220,561
Cash on hand	25	21,950	22,621
Term deposits	26	17,317,601	19,442,452
		<u>30,901,300</u>	<u>37,685,634</u>

The notes on pages 16 to 41 are an integral part of these financial statements.



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

1. General information

Water PNG Limited (the "Company") is a company domiciled in Papua New Guinea. The address of the Company's registered office is Level 2, Marand Haus, Waigani Drive, Waigani, National Capital District, Papua New Guinea. The financial statements of the Company for the year ended 31 December 2018 comprise solely the Company. The Company primarily is involved in the provision of water and sanitation services.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the Accounting Standards Board of Papua New Guinea (ASB) and the requirements of the Papua New Guinea Companies Act 1997.

(b) Basis of preparation

The financial statements have been prepared on a historical cost basis, except where otherwise stated.

(c) Functional and presentation currency

These financial statements are presented in Papua New Guinea Kina which is the Company's functional and presentation currency. All amounts have been rounded to the nearest Kina, unless otherwise indicated.

(d) Use of estimates and judgements

The preparation of a financial report in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods if affected. The significant estimates and judgements applied in the preparation of these financial statements include:

- fair values of property, plant and equipment - refer to note 4 (a)
- impairment of financial assets (provision for doubtful debts) - refer to note 4 (h)

(e) Comparative amounts

Where necessary, comparative figures have been adjusted to conform to current disclosure and reclassification of balances. This has resulted in adjustment to retained earnings.

The comparative period presented financial statements with the accounting policies and notes to the financial statements for 9 months from 1 April 2017 to 31 December 31 2017 to cater for the changes in the company's legal structure, changing from a PNG Water Board Act, subsequently corporatized and called Water PNG was incorporated under the PNG Companies Act 1995. Water PNG Limited was registered under the Companies Act 1995 on 1 April 2017. The accounts were prepared for the 9 months period in order to close out the financials for operations under the former legal structure.



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

2. Basis of preparation (continued)

(f) Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence in the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. Changes in significant accounting policies

The Company initially applied IFRS 15 and IFRS 9 from 1 January 2018. A number of other new interpretations and amendments are also effective 1 January 2018 but they do not have a material effect on the Company's financial statements.

(a) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced *IAS 18 Revenue*, *IAS 11 Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – a point in time or over point in time – requirements judgement.

The Company has adopted IFRS 15 using the cumulative effective method with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Due to the simplified transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally the disclosure requirements of IFRS 15 have not generally been applied to comparative information.

The adoption of this standard did not have any quantitative impact as at 1 January 2018.

The Company generates revenue primarily from water supply and sewerage collection charge. Other sources of revenue include fees and charges, and interest income.

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer.

All revenue is stated net of the amount of Goods and Services Tax (GST).

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related recognition policies.



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

3. Changes in significant accounting policies (continued)

(a) IFRS 15 Revenue from Contracts with Customers (continued)

Revenue Stream	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 from 1 January 2018	Revenue recognition under IAS 18 before 1 January 2018
Water rates and sewerage rates	Customers obtain control when:	Revenue is recognised over time when:	Revenue was recognised over time when:
	<ul style="list-style-type: none"> • water and sanitation services access is provided. • Invoices are billed on a monthly basis over time. 	<ul style="list-style-type: none"> • water and sanitation services access is provided to customers. 	<ul style="list-style-type: none"> • water and sanitation access was provided to customers.
	<ul style="list-style-type: none"> • Invoices are usually payable within 30 days. 	<ul style="list-style-type: none"> • when water is supplied to customers. 	<ul style="list-style-type: none"> • when water was supplied to customers.
Other revenue	Customers obtain control when the Company provides professional and other services to residential and commercial customers.	Revenue is recognised at a point in time upon delivery of the service.	Revenue was recognised at a point in time upon delivery of the service.
• Headwork & other charges			
• Property connection fees			
• Licensing, fines and penalties			
• Other income			

(b) IFRS 9 Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities. The standard replaces *IAS 39 Financial Instruments: Recognition and Measurement*.

As a result of the adoption of IFRS 9 Financial Instruments, the Company adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Company's approach was to include the impairment of trade receivables in expenses. Consequently, the Company reclassified impairment losses amounting to K0 recognised under IAS 39 from 'expenses' to impairment losses on trade receivables in the statement of profit or loss and OCI for the year ended 31 December 2017.

Additionally, the Company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

3. Changes in significant accounting policies (continued)

(b) IFRS 9 Financial instruments (continued)

The following table summarises the impact, net of tax, of transition to IFRS 9 on opening retained earnings at 1 January 2018.

Provision for doubtful debts	
Closing balance under IAS 39 (31 December 2017)	8,237,824
Recognition of expected credit losses under IFRS 9	-
Related tax	-
Opening balance under IFRS 9 (1 January 2018)	8,237,824

(i) Recognition of financial assets and financial liabilities

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

(ii) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI (fair value through other comprehensive income) and FVTPL (fair value through profit or loss). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities, and the adoption of IFRS 9 has not had a significant effect on the Company's accounting policies for financial liabilities.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets – policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

3. Changes in significant accounting policies (continued)

(b) IFRS 9 Financial instruments (continued)

(ii) Classification and measurement of financial assets and financial liabilities (continued)

Financial assets – policy applicable from 1 January 2018 (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest - Policy applicable from 1 January 2018

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument.

Financial assets: Subsequent measurement and gains and losses - Policy applicable before 1 January 2018

Financial assets that are measured at amortised costs are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

The Company classified its financial assets into the *loans and receivables* category.

Loans and receivables were subsequently measured at amortised cost using the effective interest method.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified and measured at amortised cost or FVTPL. A financial liability is classified at FVTPL if it is classified as held-for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit and loss. Any gains or loss on derecognition is also recognised in profit or loss.



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

3. Changes in significant accounting policies (continued)

(b) IFRS 9 Financial instruments (continued)

(ii) Classification and measurement of financial assets and financial liabilities (continued)

The following table and associated notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Cash and cash equivalents	<i>Loans and receivables</i>	<i>Amortised cost</i>	18,243,182	18,243,182
Term deposits	<i>Loans and receivables</i>	<i>Amortised cost</i>	19,442,452	19,442,452
Trade and other receivables	<i>Loans and receivables</i>	<i>Amortised cost</i>	36,600,734	36,600,734
Total financial assets			74,286,368	74,286,368
Financial liabilities				
Trade and other payables	<i>Amortised cost</i>	<i>Amortised cost</i>	22,908,884	22,908,884
Loans and borrowings	<i>Amortised cost</i>	<i>Amortised cost</i>	104,918,260	104,918,260
Bonds and refundable deposits	<i>Amortised cost</i>	<i>Amortised cost</i>	6,252,767	6,252,767
Total financial liabilities			134,079,911	134,079,911

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. No significant impact is noted in the allowance for impairment over these receivables at 1 January 2018 on transition to IFRS 9.

Additional information about measurement of the impairment allowance is described in Notes 4(h) and 23(a).

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount at 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount at 1 January 2018
Financial assets - Amortised cost				
Cash and cash equivalents:	18,243,182	-	-	18,243,182
Term deposits	19,442,452	-	-	19,442,452
Trade and other receivables	36,600,734	-	-	36,600,734
	74,286,368	-	-	74,286,368



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

3. Changes in significant accounting policies (continued)

(b) IFRS 9 Financial instruments (continued)

(iii) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

vi) Transition

The Company has used the exemption not to restate prior period information with respect to classification and measurement (including impairment) requirements. The comparative information is therefore not comparable to the information presented for 2018. Additionally the determination of the business model within which a financial asset is held is an assessment that has been made on the basis of the facts and circumstances that existed at the date of initial application.



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

4. Summary of significant accounting policies

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

(a) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are initially measured at its cost.

Subsequent to initial recognition, property, plant and equipment are measured at fair value less accumulated depreciation and accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Freehold land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

The straight line method of depreciation is used and the rates of depreciation are:

Buildings	3%
Civil works and pipelines	4.5%
Vehicles	30%
Plant, equipment and furniture	11.25% - 30%

(b) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

(c) Employee benefit plans

(i) Defined contribution plan

The Company contributes to a defined contribution plan as part of its post-employment benefit plan for its employees, the Company pays fixed contributions into the plan. The Company has no legal or constructive obligation to pay further amounts to each employee. The obligation for contributions are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Short-term employment benefits

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

A liability is recognised for the amount at rates expected to be paid under short-term benefits if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(d) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

A deferred tax asset is recognised for deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be recognised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(e) Cash and cash equivalents

Cash comprises cash on hand, at bank and term deposits with an original term of 3 months or less. For the purposes of the cash flow statement, cash includes cash on hand and in banks, net of outstanding bank overdrafts.

(f) Trade and other payables

Trade and other payables are stated at amortised cost. These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid.



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

(g) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(h) Impairment

(i) Non-derivative financial assets

Financial instruments

Policy applicable from 1 January 2018

The Company recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Company measures loss allowances at an amount equal to lifetime ECL, except cash and cash equivalents which are measured as 12 month ECL as credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers another receivable or cash balance to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade". The Company considers this to be Baa3 or a higher rating per Moody's or BBB- or higher per S&P.

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



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

3. Summary of significant accounting policies (continued)

(h) Impairment (continued)

(i) Non-derivative financial assets (continued)

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flow due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

Policy applicable from 1 January 2018

ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Credit-impaired financial assets

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

(h) Impairment (continued)

(ii) Non - financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and investment property are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

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

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

(i) Standards issued but not yet effective

IFRS 16 on Leases is effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted the new standard in preparing these financial statements.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

	2018	1 April to 31 December 2017
	K	K
5. Water Income		
Water Domestic	26,386,139	18,233,659
Water Industrial	19,404,163	17,617,369
Water Non-Domestic	9,445,514	5,060,389
Water Institutional	32,807,962	24,865,402
Water Tankers	-	4,591
	<u>88,043,778</u>	<u>65,781,410</u>
6. Sewerage Income		
Sewerage Domestic	1,233,346	856,679
Sewerage Industrial	3,543,153	3,908,624
Sewerage Non-Domestic	2,355,694	680,526
Sewerage Institutional	2,960,688	2,590,020
Sludge Tankers	403,642	322,495
	<u>10,496,523</u>	<u>8,358,344</u>
7. Other income		
Supervision fees	370,796	67,838
Interest	737,137	239,040
Rental Income from Leases/Tenancies	89,018	34,373
Profit on Disposal of Assets	49,667	207
Fines and Penalties	39,275	42,041
Other Miscellaneous Income	331,527	498,808
	<u>1,617,420</u>	<u>882,307</u>
8. Employee expenses		
Salary & Wages Expenses	31,539,118	25,673,139
Labour Incidentals	1,724,883	2,550,812
	<u>33,264,001</u>	<u>28,223,951</u>

During the year the following number of employees or former employees received remuneration, including benefits, in excess of K100,000 stated in bands of K10,000.

Salary range	Number of employees	
K100,001 - K110,000	20	15
K120,001 - K130,000	3	2
K130,001 - K140,000	7	4
K140,001 - K150,000	9	4



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

8. Employee expenses (continued)

	2018	1 April to 31 December 2017
Salary range	Number of employees	
K150,001 - K160,000	2	2
K160,001 - K170,000	5	6
K170,001 - K180,000	4	3
K180,001 - K190,000		3
K190,001 - K200,000	3	1
K220,001 - K230,000	3	3
K240,001 - K250,000	3	1
K250,001 - K260,000	2	
K290,001 - K300,000	1	
K300,001 - K310,000	1	1
K420,001 - K440,000		2
K480,001 - K500,000	1	1
K500,001 - K520,000	1	1
K750,001 - K760,000	1	1
Directors		
K110,001 - K120,000	1	-

The average number of employees for the year was 338 (2017: 361).

9. Operating expenses

Included in these are the following:

	2018	1 April to 31 December 2017
	K	K
Auditors remuneration	461,369	276,175
Contractual Services	2,689,257	2,226,936
Operational Supplies	13,116,121	9,036,105
Building Rentals	2,318,888	1,548,131
Repairs & Maintenance	2,909,870	1,858,052
Professional Services	3,437,150	5,425,296
Travel & Accommodation	2,687,647	1,535,319
Public Relations	749,683	833,434
Stationery Expenses	758,167	367,756
Communication Costs	3,598,935	2,423,375
Insurance Costs	552,537	421,535
Sundry Costs	3,086,104	2,940,354
	<u>36,365,728</u>	<u>28,892,469</u>



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

	2018	1 April to 31 December 2017
	K	K
10. Asset revaluation reserve		
Opening balance, 1 January (2017: 1 April)	217,758,025	1,246,712
Assets revalued during the financial year	96,303,308	216,511,313
Deferred tax adjustment	(28,890,992)	
Transfer to Retained Earnings	(17,562,670)	
Closing balance, 31 December	<u>267,607,671</u>	<u>217,758,025</u>

11. Income tax

(a) Income tax expense

The prima facie tax charge on the profit for the year is reconciled to the tax expense as follows:

Accounting profit before tax	9,410,950	5,933,117
Tax on the profit at 30% (2017: 30%)	<u>2,823,285</u>	<u>1,779,935</u>
Tax expense is comprised of:		
Current tax expense	2,823,285	1,779,935
Total tax expense	<u>2,823,285</u>	<u>1,779,935</u>

(b) Amounts recognised in other comprehensive income

Gain on asset revaluation	<u>28,890,992</u>	<u>-</u>
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(d) Deferred tax assets / (liabilities)

The Company recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised whereas deferred tax liability is recognised for all taxable temporary differences. These are attributable to the following items in the list below:

	2018			2017		
	Asset K	Liability K	Net K	Asset K	Liability K	Net K
Property, plant and equipment	-	28,890,992	28,890,992	-	-	-
	<u>-</u>	<u>28,890,992</u>	<u>28,890,992</u>	<u>-</u>	<u>-</u>	<u>-</u>

(e) Current tax asset / (liability)

Presented as follows is the details of the movement in the provision for income tax:

Balance at beginning of the year	1,806,935	-
Current income tax	2,823,285	1,779,935
Under/(over) provision in previous year/other adjustments	-	27,000
Tax paid	(2,400,000)	-
Balance at end of the year	<u>2,230,220</u>	<u>1,806,935</u>



Water PNG Limited
Notes to the financial statements
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12. Property, plant and equipment

(a)	LAND & BUILDINGS	CIVIL WORKS, PIPELINES & CONNECTIONS	MOTOR VEHICLES	PLANT, EQUIPMENT & FURNITURE	WORK IN PROGRESS	Total
Cost						
Balance at 1 April 2017	27,030,304	259,336,693	9,269,892	58,236,332	30,727,083	384,600,304
Additions	322,680	703,289	993,061	2,069,243	2,846,912	6,935,185
Other asset adjustments	1,494,407	75,491,997	(4,715,443)	6,219,447	1,182,885	79,673,293
Balance at 31 December 2017	28,847,391	335,531,979	5,547,510	66,525,022	34,756,880	471,208,782
Revaluation: Increase/(decrease) in value	4,515,212	94,721,146	293,017	(3,226,068)	-	96,303,308
Revaluation: Elimination of depreciation	(2,370,506)	(42,649,502)	(3,175,879)	(40,080,881)	-	(88,276,768)
Additions	539,515	1,533,446	1,178,104	3,853,877	1,720,900	8,825,842
Reclassification and other adjustments	-	9,369,188	-	-	(9,370,770)	(1,582)
Balance at 31 December 2018	31,531,613	398,506,257	3,842,752	27,071,949	27,107,010	488,059,581
Accumulated Depreciation and Impairment						
Balance at 1 April 2017	(6,180,657)	(96,127,611)	(7,827,951)	(44,638,311)	-	(154,774,531)
Depreciation charges for the year	88,556	(8,246,724)	(670,782)	(3,254,005)	-	(12,082,955)
Other asset adjustments	3,993,612	68,520,402	5,741,377	9,688,023	-	87,943,413
Balance at 31 December 2017	(2,098,490)	(35,853,933)	(2,757,356)	(38,204,294)	-	(78,914,073)
Revaluation: Elimination of depreciation	2,370,506	42,649,502	3,175,879	40,080,881	-	88,276,768
Depreciation charges for the year	(519,516)	(11,212,538)	(960,973)	(3,865,666)	-	(16,558,693)
For the period 1 January to 30 June 2018	(272,013)	(6,795,189)	(418,322)	(1,876,587)	-	(9,362,112)
On internal & other funded assets	(747,200)	(4,415,966)	(542,450)	(1,688,979)	-	(16,895,295)
Charges on donor funded assets	(85,952)	(4,384,390)	-	-	-	(4,470,343)
Impairment	-	-	-	-	(3,313,450)	(3,313,450)
Balance at 31 December 2018	(333,852)	(8,801,356)	(542,450)	(1,688,979)	(3,313,450)	(14,680,285)
Net book value						
At 31 December 2017	26,748,901	299,678,046	2,790,154	28,320,728	34,756,880	392,294,709
At 31 December 2018	31,197,761	389,704,701	3,300,302	25,382,970	23,793,560	473,379,293



Water PNG Limited
Notes to the financial statements
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12. Property, plant and equipment (continued)

(a) PPE classes were revalued to fair value during the 2018 financial period. The effective date of revaluation was 30 June 2018 and the valuation was performed by registered and independent valuers.

(b) The capital work in progress balance of K23,793,559 at 31 December 2018 (2017: K34,756,881) comprises of:

Description	2018	1 April to 31 December 2017
	K	K
Buildings	573,627	480,831
Civil Works	6,700,121	11,156,979
Computers & Equipments	513,355	513,355
Other Assets-Pumps & Water Metres	292,195	3,541,374
Pipelines	8,264,976	10,841,788
Plant & Equipment	6,711,996	7,509,341
Water Supply System	737,289	713,213
	<u>23,793,559</u>	<u>34,756,881</u>

13. Inventories

Tools and Spare Parts	905	108,294
Inventory Control Account	2,278,149	1,886,500
	<u>2,279,054</u>	<u>1,994,794</u>

14. Trade and other receivables

Trade receivables	47,649,264	37,063,600
Sundry Debtors - Miscellaneous	1,942,167	2,120,172
Less: Provision for doubtful debt	(13,266,200)	(8,237,234)
	36,325,231	30,946,538
Prepayments/Advances	2,255,091	2,516,121
Housing Advance	5,260	12,795
Bond Fee - Office & staff Housing	494,202	429,740
Home Ownership Scheme	144,737	247,914
Bank suspense	1,546,194	2,215,348
Accrued Income	492,630	81,111
Novated leases	193,395	151,167
	<u>41,456,739</u>	<u>36,600,734</u>

Reconciliation of provision for doubtful debts:

Opening balance, 1 January	8,237,234	13,216,028
Additional provision	5,747,619	-
Write off	(718,653)	(4,978,794)
Closing balance, 31 December	<u>13,266,200</u>	<u>8,237,234</u>



Water PNG Limited
Notes to the financial statements
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15 Equity	2018	1 April to 31 December 2017
	K	K
Government Equity	<u>65,895,228</u>	<u>65,895,228</u>

There were no equity contributions received or issues of shares in the current or previous reporting periods.

16. Trade and other payables

Accounts Payable Control Account	1,223,474	3,127,786
Accrued expenses	9,798,033	12,075,605
Payroll accruals	2,793,947	831,673
Goods and Services Tax	773,902	917,217
Other Accrued Taxes	2,245,607	2,858,379
Other Liabilities	3,275,267	3,098,225
	<u>20,110,230</u>	<u>22,908,884</u>

17. Deferred Income

<i>Current</i>		
Unspent grants	<u>1,407,790</u>	<u>6,264,697</u>
<i>Non-Current</i>		
Unspent grants	<u>45,570,989</u>	<u>51,145,573</u>

During the year deferred income of K4,470,543 was amortised against current year depreciation (note 12).

18. Employee benefits obligation

<i>Current</i>		
Annual Leave Provision	<u>1,635,264</u>	<u>1,256,595</u>
	<u>1,635,264</u>	<u>1,256,595</u>
<i>Non-Current</i>		
Long Service Leave Provision	5,051,507	3,521,701
Ex-Gratia Provision	122,278	4,099,547
Gratuity Provision	77,308	333,342
	<u>5,251,093</u>	<u>7,954,591</u>

Employee benefits entitlements due as at reporting date are based on rates of pay that the liability is expected to be settled at. During the year, K1,795,178 was contributed by Water PNG on behalf of its staff to defined contribution plans (2017: K1,075,304).



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19. Loans and borrowings

	2018	1 April to 31 December 2017
	K	K
Loans from National Government	<u>106,211,567</u>	<u>104,918,261</u>

20. Lease liability

Finance lease liabilities are payable as follows:

Not later than one year	838,967	640,063
Later than one year but not later than five years	571,091	841,515
Later than five years	-	-
	<u>1,410,058</u>	<u>1,481,578</u>

21. Related parties

Parties are related where one party has the ability to control or significantly influence the other party in financial or operational decisions. Related parties include the Company's shareholders, directors and related entities. The directors confirm that during the year, all transactions with these parties were conducted on normal commercial term.

Ultimate controlling entity

At 31 December 2018, the ultimate controlling entity of Water PNG was Kumul Consolidated Holdings Limited, the state's private equity and investment company with a mandate to build shareholder wealth and to improve the provision of services to the people of Papua New Guinea.

Related party transactions

Water PNG has related party relationships with key management personnel and with entities that belong to the government sector controlled by the Kumul Consolidated Holdings Limited.

From time to time, key management personnel may purchase goods or services from the Company. These purchases are on the same terms and conditions as those entered into by other customers and are trivial or domestic in nature. There were no related party transactions during either the current or previous reporting periods with other entities related to the Company's directors and senior executives.

Key management personnel compensation

	2018	1 April to 31 December 2017
	K	K
Salaries and other benefits	<u>2,731,539</u>	<u>1,985,432</u>
Directors' fees	<u>402,000</u>	<u>269,500</u>



Water PNG Limited
Notes to the financial statements
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21. Related parties (continued)

	2018	1 April to 31 December 2017
Accrued dividends	<u>6,922,782</u>	<u>4,800,000</u>

Loans to directors

There were no loans to directors of the Company during the year (2017: K Nil).

22. Contingent liabilities

Contingent liabilities of K4,500,000 million against the Company is outstanding at 31 December 2018 (2017: Nil).

This relates to the estimated amount of K2,000,000 due for land compensation to land owners at Mt Hagen Reservoir, as well as an estimated amount of K2,500,000 due for land compensation and occupancy fees for land portions at Brandi, Wewak.

23. Financial instruments

The Company has exposure to the following risks from its use of financial instruments:

- a) Credit risk
- b) Liquidity risk
- c) Market risk
- d) Operational risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.



Water PNG Limited
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23. Financial instruments (continued)

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current economic circumstances. The Company's revenue is not attributable to sales transactions with any particular single customer. Geographically, the concentration of credit risk is mainly in Lae, within the Momase region of Papua New Guinea.

Cash and cash equivalents

The Company limits its exposure to credit risk by investing its cash and cash equivalents with reputable banks and other institution.

In the normal course of its business the Company incurs credit risk from customers. There are no significant concentrations of credit risk. The Company has a credit policy to manage exposure to credit risk. As part of this policy, limits on exposures have been set and are monitored on a regular basis. The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date was:

	2018	1 April to 31 December 2017
	K	K
Cash and cash equivalents	13,583,699	30,946,538
Term deposits	17,317,601	19,442,452
Inventories	2,279,054	1,994,794
Trade and other receivables	41,456,739	36,600,734
	<u>74,637,093</u>	<u>88,984,518</u>

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Highlands	5,438,307	3,919,290
Momase	32,889,321	26,591,335
New Guinea Islands	5,876,980	3,709,888
Southern	3,444,656	2,843,087
	<u>47,649,264</u>	<u>37,063,600</u>



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

23. Financial instruments (continued)

(a) Credit risk (continued)

Impairment loss

The aging of trade receivables (gross) at the reporting date was:

	Gross 2018 K	Impairment 2018 K
Not past due	6,001,612	617,402
Past due 0 - 30 days	5,969,764	345,908
Past due 31 - 90 days	5,132,415	164,606
Past due 91 - 180 days	4,582,009	104,865
More than 180 days	25,963,464	12,033,419
	<u>47,649,264</u>	<u>13,266,200</u>

Comparative information under IAS 39

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2018 K
Balance at 1 January under IAS 39	8,237,234
Adjustment on initial application of IFRS 9	-
Balance at 1 January under IFRS 9	<u>8,237,234</u>
Additional provision	5,747,619
Write off	(718,653)
Balance at 31 December	<u>13,266,200</u>

Cash and cash equivalents

The Company held cash at bank of K13,561,749 (2017: K18,220,561). Cash at bank is held with banks which are rated AA- and B based on S&P's ratings.

Impairment on cash at bank has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers its cash at bank has a low credit risk based on external credit ratings of the counterparties.

Accordingly, due to short term maturities and low credit risk, on initial application of IFRS 9, the Company did not recognise an impairment allowance against cash and cash equivalents as at 1 January 2018. The amount of allowance did not change during 2018.



Water PNG Limited
Notes to the financial statements
For the year ended 31 December 2018

23. Financial instruments (continued)

(c) Market risk (continued)

(i) Foreign exchange risk

The Company is not exposed to foreign currency risk, as there is no hedging, and no technical support from foreign countries.

(ii) Interest rate risk

There were term deposits at year end of K17,317,601 (2017: K19,442,452) with maturities greater than 3 months bearing interest rates as in note 26 below.

The Company does not account for any fixed rate financial assets at fair value through profit or loss, and the Company does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(iii) Fair values versus carrying values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

	Fair values		Carrying values	
	2018	1 April to 31 December 2017	2018	1 April to 31 December 2017
	K	K	K	K
Cash and cash equivalents	13,583,699	18,243,182	13,583,699	18,243,182
Term deposits	17,317,601	19,442,452	17,317,601	19,442,452
Trade and other receivables	41,456,739	36,600,734	41,456,739	36,600,734
Trade and other payables	(20,110,230)	(22,908,884)	(20,110,230)	(22,908,884)
	<u>52,247,809</u>	<u>51,377,484</u>	<u>52,247,809</u>	<u>51,377,484</u>

The carrying amount of cash and cash equivalent, trade and other receivables and trade and other payables approximate their fair values due to the relatively short-term nature of these financial instruments.

	Level 1	Level 2	Level 3	Total
31 December 2018				
Cash and cash equivalents	13,583,699	-	-	13,583,699
Term deposits	17,317,601	-	-	17,317,601
Trade and other receivables	-	-	41,456,739	41,456,739
Trade and other payables	-	-	(20,110,230)	(20,110,230)
	<u>30,901,300</u>	<u>-</u>	<u>21,346,509</u>	<u>52,247,809</u>



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23. Financial instruments (continued)

(c) Market risk (continued)

	Level 1	Level 2	Level 3	Total
31 December 2017				
Cash and cash equivalents	18,243,182	-	-	18,243,182
Term deposits	19,442,452	-	-	19,442,452
Trade and other receivables	-	-	36,600,734	36,600,734
Trade and other payables	-	-	(22,908,884)	(22,908,884)
	<u>37,685,634</u>	<u>-</u>	<u>13,691,850</u>	<u>51,377,484</u>

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations. The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

24. Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank and term deposits at call net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:

	2018	1 April to 31 December 2017
	K	K
Cash in Bank	13,561,749	18,220,561
Cash on hand	21,950	22,621
	<u>13,583,699</u>	<u>18,243,182</u>

25. Term deposits

Term deposits presented in the statement of financial position are deposits made by the Company to Bank of South Pacific with maturity dates of 180 to 365 days at 1% to 1.6% interest; to Heduru Moni Limited with a maturity date of 181 days at 4.75% interest; to Kina Bank with a maturity date of 182 days with 2.75% interest and to Bank of Papua New Guinea with a maturity date of 365 days with 8.4% interest rate.

Term deposits	<u>17,317,601</u>	<u>19,442,452</u>
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Water PNG Limited
Notes to the financial statements
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26. Subsequent events

On 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which is, for example, evidenced by more volatile asset prices and currency exchange rates.

For the Company's 31 December 2018 financial statements, the Coronavirus outbreak and the related impacts are considered non-adjusting events. Consequently, there is no impact on the recognition and measurement of assets and liabilities. Due to the uncertainty of the outcome of the current events, the Company cannot reasonably estimate the impact these events will have on the financial position, results of operations or cash flows in the future.

During 2019, an amount of K 1,515,000 was paid on the estimated (contingent) liability due to land owners at Brandi, Wewak, and the balance in 2020.

During 2020, an amount of K 1,500,000 was paid on the estimated (contingent) liability due to land owners at Mt Hagen.

Amalgamation

On 20 November 2020, the National Parliament of Papua New Guinea gazetted a new National Water Supply and Sanitation (Amendment) Act 2020 ("Amendment Act") that repealed the NCD Water & Sewerage Act 1996. The Amendment Act amalgamated Water PNG Limited and NCD Water & Sewerage Limited (t/a Eda Ranu) effective from the 4th of November 2020. Under the Amendment Act, all assets and liabilities of NCD Water & Sewerage Limited were transferred to Water PNG Limited. The constitution, registered office, directors, secretary, and number of issued shares of the Company (Water PNG Limited) remain unchanged. The Company is assessing the potential impact on its financial statements resulting from the amalgamation.

