# Annual Report

Transport for NSW

## RailCorp

2016–17 • Volume 1

NSW GOVERNMENT

**RailCorp**
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# Letter of submission

The Hon. Andrew Constance
Minister for Transport and Infrastructure
Parliament House
Macquarie Street, Sydney NSW 2000

Dear Minister,

It is my pleasure to provide for your information and presentation to Parliament the RailCorp Annual Report for the year to 30 June 2017.

The report has been prepared in accordance with the *Annual Report (Statutory Bodies) Act 1984*, the *Annual Reports (Statutory Bodies) Regulation 2015* and the *Public Finance and Audit Act 1983.*

Yours sincerely

**Howard Collins OBE**
Acting Chief Executive
RailCorp

30 October 2017

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# Foreword


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# From the Chief Executive

RailCorp's operating functions moved to Sydney Trains and NSW Trains when these organisations commenced operations on 1 July 2013.

RailCorp is a NSW Government agency that holds rail property assets, rollingstock and rail infrastructure in the Sydney metropolitan area and limited country locations in the State of NSW and it makes these assets available to Sydney Trains and NSW Trains for their operations. RailCorp provides access to the metropolitan rail network by third-party rail operators.

**Howard Collins OBE**
Acting Chief Executive
RailCorp

30 October 2017


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# Overview


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# About RailCorp

RailCorp's functions changed with Sydney Trains and NSW Trains commencing operations from 1 July 2013. RailCorp owns the metropolitan rail network, stations, the majority of property and certain rolling stock but does not operate rail services.

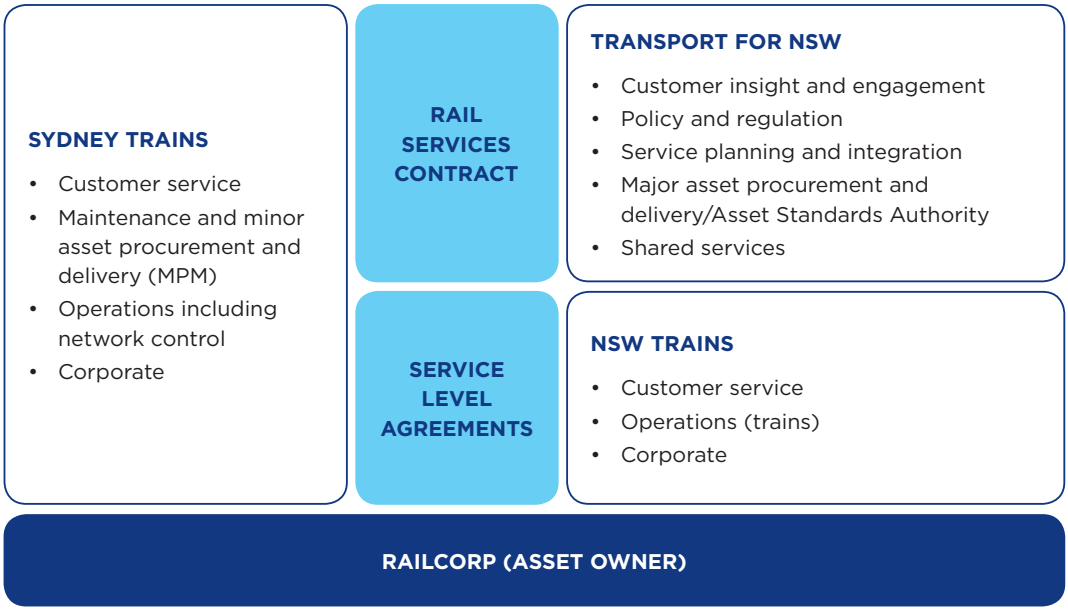
RailCorp's responsibilities include:

- managing non-operational real property assets
- landowner responsibility for all real property assets including land acquisitions, remediation and disposal
- managing access to the rail network by third-party rail operators
- managing the contract with Airport Link Company (ALC) for the operation of the Airport Link Stations
- maintaining land information
- leasing premises within railway stations and other locations.

Howard Collins is the Acting Chief Executive of RailCorp and Gary Pedersen is the Chief Financial Officer. Howard Collins and Gary Pedersen are the respective Chief Executive and Executive Director Finance & Corporate Services at Sydney Trains. Sydney Trains remunerates them for both of their roles.

In addition, the Government has given approval and passed legislation for the reorganisation of RailCorp into a new transport asset-holding entity over the next two years.

The relationship between RailCorp, Transport for NSW (TfNSW), Sydney Trains and NSW Trains is illustrated in the following diagram.



# Financial performance summary

For the 2016–17 year, RailCorp received $193.7 million (2015–16 $181.5 million) in income, while total expenses of $1254.5 million (2015–16 $1125.7 million) were incurred in operations, depreciation and financing costs.

Depreciation and amortisation of $976.3 million (2015–16 $935.9 million) was the largest component of expense, reflective of the current operating environment.

The resulting deficit from operations, before government support, was $1060.7 million (2015–16 $944.2 million).

While RailCorp did not require direct Government contributions for its day-to-day operations, $15.4 million (2015–16: $15.4 million) was provided by Government to fund defined benefits superannuation in the year. The resulting deficit from operations before capital contributions was $1045.4 million (2015–16 $928.8 million).

NSW Government contributions to fund capital construction in 2016–17 comprised of an equity contribution of $1669.2 million and capital grants of $70.7 million. This compared to 2015–16 equity contributions of $1847 million and capital grants of $83.3 million.

Other comprehensive income for the year, including revaluation of property, plant and equipment, totalled $53.2 million (2015–16 $942.5 million).

The total comprehensive income for the period was therefore a deficit of $921.4 million (2015–16 $97.0 million).

## Performance against budget

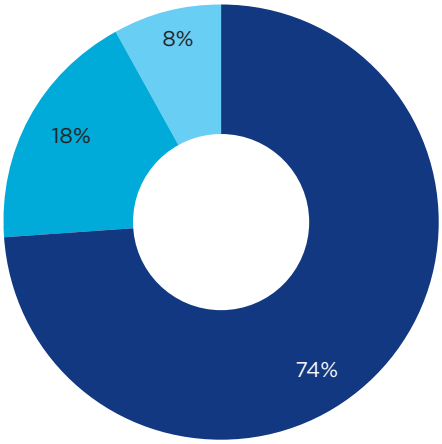
RailCorp's net operating result was $24.8 million better than budget for the year.

## FY17 total income

Total income

# $193.7m

- Access & service fees $144.4m, 74%
- Investment revenue $34.1m, 18%
- Other income $15.2m, 8%

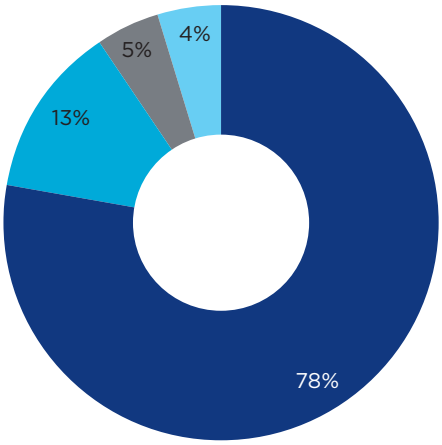



## FY17 total expenses

Total expenses

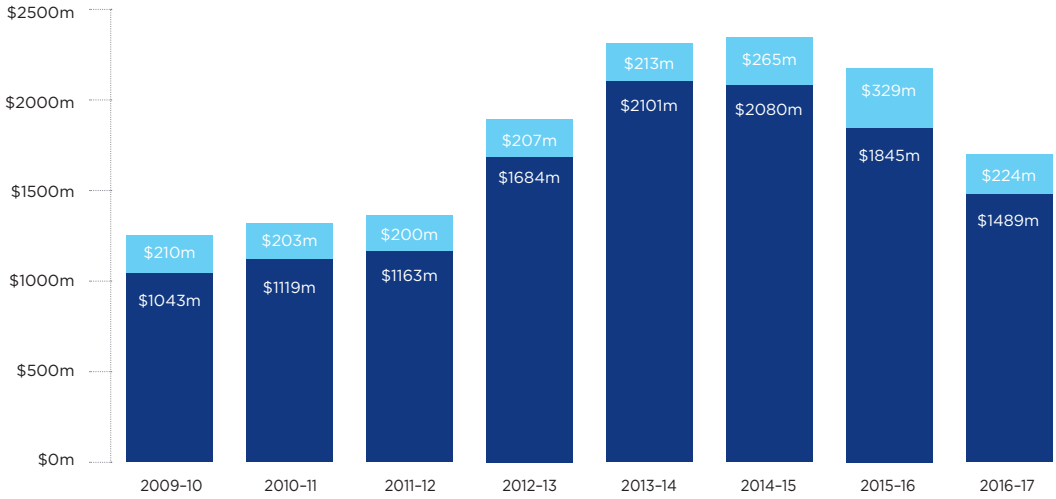
# $1254.5m

- Depreciation and amortisation $976.3m, 78%
- Derecognition & disposal of assets $159.9m, 13%
- Finance costs $61.9m, 5%
- Other operating expenses $56.4m, 4%




## Capital expenditure

- Capital investment
- Capitalised maintenance



## Capital investment

Capital expenditure was $1488.9 million in 2016–17. A further $224 million of major periodic maintenance was capitalised for a total capital expenditure of $1712.9 million being a $460.8 million decrease compared to 2015–16.

Major capital projects delivered by TfNSW for RailCorp totalled $1124.1 million. Sydney Trains delivered a further $577 million in works, including capitalised maintenance, with NSW Trains completing a further $11.7 million of work in the year.

| 2016–17 Capital investment by program | $ million |
|---|---|
| Automatic train protection | 97.1 |
| Digital Train Radio System | 24.8 |
| Enterprise Asset Management (EAM) | 114.2 |
| Existing network enhancements | 164.5 |
| Fixing the Trains investments | 48.4 |
| Lidcombe to Granville Corridor upgrade | 4.9 |
| Next Generation Rail Fleet | 161.9 |
| Power supply | 138.0 |
| Rail Operations Centre | 85.1 |
| Sydney Metro Northwest | 175.1 |
| Transport Access Program | 220.7 |
| Wynyard Walk | 35.8 |
| Rail minor works | 218.4 |
| **Capital expenditure** | **1488.9** |
| Capital maintenance | 224.0 |
| **Total RailCorp capital investment** | **1712.9** |

# Appendices

# Appendix 1: Changes in Acts and subordinate legislation FY2016–17

## New Acts and amendments to Acts in the portfolio of the Minister for Transport and Infrastructure

**(Acts assented to or commencing during 2016–17)**

*Transport Administration Amendment (Independent Transport Safety Regulator) Act 2017* (2017 No 4)
Commencement Proclamation 2017 No 114 (commenced 01.03.2017)

*Statute Law (Miscellaneous Provisions) Act 2015* (2015 No 15)

*State Insurance and Care Governance Act 2015* (2015 No 19)
(Commencement Proclamation 2015 No 524)

*Statute Law (Miscellaneous Provisions) Act (No 2) 2015* (No 58)

*Passenger Transport Act 2014* (No 46)
Commencement Proclamation 2016 No 93

*Rail Safety National Law (South Australia) (Miscellaneous No 2) Amendment Act 2016*
South Australian Act making amendments applying to the Rail Safety National Law (NSW) – Commencement Proclamation South Australian Government Gazette 21.07.2016 p 2989

*Industrial Relations Amendment (Industrial Court) Act 2016*
Schedule 2.29 amends the Passenger Transport Act 1990; Schedule 2.31 amends the Rail Safety (Adoption of National Law) Act 2012 – Commencement Proclamation 2016 (674)
(part-commenced 18.10.2016; remainder of Act commenced 08.12.2016)

*Transport Administration Amendment (Transport Entities) Act 2017* (2017 No 12)
Commencement Proclamation 2017 No 330 – Schedule 1 commenced 01.07.2017

*Electronic Transactions Legislation Amendment (Government Transactions) Act 2017* (2017 No 25)
(commenced 27.06.2017)

*Transport Administration Amendment (Closure of Railway Line Between Rosewood and Tumbarumba) Act 2017* (2017 No 34) (commenced 27.06.2017)

*Rail Safety National Law (South Australia) (Miscellaneous No 3) Amendment Act 2017*
South Australian Act making amendments applying to the Rail Safety National Law (NSW) – Commencement Proclamation South Australian Government Gazette 07.06.2017 p 2044
(commenced 01.07.2017)

## New subordinate legislation and amendments to subordinate legislation in the portfolio of the Minister for Transport and Infrastructure

| (Amending Acts, subordinate legislation made or commenced during 2016–17) |
|---|
| Rail Safety National Law National Regulations Variation Regulations 2016 (2016 No 360) (commenced 01.07.2016) |
| Rail Safety National Law National Regulations (Fees) Variation Regulations 2016 (2016 No 361) (commenced 01.07.2016) |
| Transport Administration (General) Amendment (Newcastle Light Rail) Regulation 2017 (2017 No 30) (commenced 17.02.2017) |
| *Transport Administration Amendment (Independent Transport Safety Regulator) Act 2017* (2017 No 4) (commenced 31.03.2017) |
| *Transport Administration (General) Amendment (Transitional) Regulation 2017* (2017 No 119) (commenced 31.03.2017) |
| Passenger Transport Amendment (Approved Payment Devices) Regulation 2017 (2017 No 233) (commenced 02.06.2017) |
| Passenger Transport Amendment (Smartcards) Regulation 2017 (2017 No 234) (commenced 02.06.2017) |
| Passenger Transport Amendment (Ticket Offences) Regulation 2017 (2017 No 235) (commenced 02.06.2017) |
| Rail Safety National Law National Regulations (Fees and Returns) Variation Regulations 2017 (2017 No 257) (commenced 01.07.2017) |
| Rail Safety National Law National Regulations (Miscellaneous) Variation Regulations 2017 (2017 No 258) (commenced 01.07.2017) |
| Rail Safety National Law National Regulations (Queensland Fatigue Provisions) Variation Regulations 2017 (2017 No 259) (commenced 01.07.2017) |
| Transport Administration (General) Amendment Regulation 2017 (2017 No 331) (commenced 01.07.2017) |

## New Acts and amendments to Acts in the portfolio of the Minister for Roads, Maritime and Freight

| (Acts assented to or commenced during 2016–17) |
|---|
| *Statute Law (Miscellaneous Provisions) Act 2016* (2016 No 27) (commenced 08.07.2016) |
| *Statute Law (Miscellaneous Provisions) Act (No 2) 2016* (2016 No 55) (part-commenced 06.01.2017) |
| *Regulatory and Other Legislation (Amendments and Repeals) Act 2016* (2016 No 60) (part-commenced 14.11.2016) |
| *Statute Law (Miscellaneous Provisions) Act 2017* (2017 No 22) (part-commenced 08.06.2017) |
| Transport Administration Amendment (Senior Executive Transitional Arrangements) Regulation 2017 (2017 No 291) (commenced 01.07.2017) |

## New Acts and amendments to Acts in the portfolio of the Minister for Roads, Maritime and Freight

| (Amending Acts, subordinate legislation made or commenced during 2016–17) |
|---|
| Heavy Vehicle (General) National Amendment Regulation (2016 No 261) (commenced 01.06.2017) |
| Heavy Vehicle (Adoption Road of National Law) Amendment (Penalties) Regulation (No 2) 2016 (2016 No 325) (commenced 01.07.2017) |
| Photo Card Amendment (Fees and Penalty Notice Offences) Regulation 2016 (2016 No 339) (commenced 01.07.2017) |
| *Statute Law (Miscellaneous Provisions) Act 2016* (2016 No 27) (commenced 08.07.2016) |
| Road Transport Legislation Amendment (Fees, Penalty Levels and Charges) Regulation 2016 (2016 No 345) (commenced 01.07.2016) |
| Roads Amendment (Penalty Notice Offences) Regulation 2016 (2016 No 346) (commenced 01.07.2016) |
| Road Amendment (Miscellaneous) Rule 2016 (2016 No 412) (commenced 01.07.2016) |
| Road Transport (Vehicle Registration) Amendment (Auxiliary Number-plates) Regulation 2016 (2016 No 413) (commenced 01.07.2016) |
| Road Transport (Vehicle Registration) Amendment (SIRA) Regulation 2016 (2016 No 429) (commenced 08.07.2016) |
| *Statute Law (Miscellaneous Provisions) Act (No 2) 2016* (2016 No 55) (part-commenced 06.01.2017) |
| *Statute Law (Miscellaneous Provisions) Act 2017* (2017 No 22) (to commence in July 2017) (part-commenced 08.06.17) |
| Road Transport (Vehicle Registration) Amendment (Compliance Certificates) Regulation 2016 (2016 No 620) (commenced 14.10.2016) |
| Road Transport Legislation (Mobile Phones – P2 Licences) Regulation 2016 (2016 No 667) (commenced 1.12.2016) |
| Roads Amendment (Authorised Officers) Regulation 2016 (2016 No 668) (commenced 11.11.2016) |
| *Regulatory and Other Legislation (Amendments and Repeals) Act 2016* (2016 No 60) (part-commenced 14.11.2016) |
| Photo Card Amendment (Fees) Regulation 2017 (2017 No 42) (commenced 01.03.2017) |
| Road Transport Legislation Amendment (Penalties for Over-length Bus Offences) Regulation 2017 (2017 No 156) (commenced 24.04.2017) |
| Marine Safety Amendment (Fees) Regulation 2017 (2017 No 242) (commenced 01.07.2017) |
| Photo Card Amendment (Fees and Penalty Notice Offences) Regulation 2017 (2017 No 244) (commenced 01.07.2017) |
| Road Transport Legislation Amendment (Fees, Penalty Levels and Charges) Regulation 2017 (2017 No 246) (commenced 01.07.2017) |
| Roads Amendment (Penalty Notice Offences) Regulation 2017 (2017 No 247) (commenced 01.07.2017) |
| Heavy Vehicle (Adoption of National Law) Amendment (Penalties) Regulation 2017 (2017 No 311) (commenced 01.07.2017) |
| Heavy Vehicle National Amendment Regulation 2017 (2017 No 329) (Commencement linked to commencement of named Acts – see Reg. 2). (Regulation not yet commenced) |

# Appendix 2: Obligations under the GIPA Act

## Review of proactive release program – Clause 7(a)

RailCorp's functions have changed, with Sydney Trains and NSW Trains commencing operation from 1 July 2013.

RailCorp is a NSW Government agency that holds rail property assets and rail infrastructure in the Sydney Metropolitan area and limited country locations in the state of NSW and it makes these assets available to Sydney Trains and NSW Trains for their operations.

Under section 7 of the *Government Information (Public Access) Act 2009* (GIPA Act), agencies must review their programs for the release of government information to identify the kinds of information that can be made publicly available. This review must be undertaken at least once every 12 months.

The information that RailCorp makes available on its website includes the following details:

- access to RailCorp information
- access to the rail network
- railway electricity rights
- safety performance.

During 2016–17 applications for access to information held by RailCorp were managed by Sydney Trains and statistical information about access applications is aggregated with Sydney Trains' statistics in Appendix 2 of Sydney Trains' Annual Report.

# Appendix 3: *Privacy and Personal Information Protection Act 1998*

## Privacy Management Plan

Clause 8 of the Annual Reports (Statutory Bodies) Regulation 2015 requires NSW Government Agencies to provide a statement of the action taken by the body in complying with the requirements of the *Privacy and Personal Information Protection Act 1998* (PPIP Act) and provide statistical details of any review carried out under Part 5 of the PPIP Act.

RailCorp does not collect personal or health information about customers or employees.

## Privacy reviews

During 2016–17 RailCorp did not receive any applications for reviews of conduct relating to the use, access or release of personal information.

# Appendix 4: *Public Interest Disclosures Act 1994*

RailCorp did not receive any Public Interest Disclosures (PID) during 2016–17.

# Appendix 5: Digital information security policy compliance annual attestation

I, Howard Collins, am of the opinion that RailCorp had an Information Security Management System (ISMS) in place in both the IT Division and the Operational Core Data Network in Operational Technology during the 2016–17 financial year that is consistent with the Core Requirements set out in the *NSW Government Digital Information Security Policy.*

The controls in place to mitigate identified risks to the digital information and digital information systems of RailCorp are adequate.

A. There is no agency under the control of RailCorp, which is required to develop an independent ISMS in accordance with the *NSW Government Digital Information Security Policy.*

B. Risks to the digital information and digital information system of RailCorp have been assessed with an independent ISMS developed in accordance with the *NSW Government Digital Information Security Policy.*

**Howard Collins OBE**
Acting Chief Executive
RailCorp

30 October 2017



# Appendix 6: Internal audit & risk management disclosure

30 October 2017

Director
Financial Management and Accounting Policy
NSW Treasury
Level 27, 52 Martin Place
Sydney NSW 2000

**TPP15-03 Internal Audit and Risk Management Policy for the NSW Public Sector – RailCorp Attestation Statement**

Dear Director,

In accordance with the requirements of TPP15-03, please find attached RailCorp's Internal Audit and Risk Management Attestation Statement, which attests that the core requirements were in place for the 2016–2017 Financial Year.

**Howard Collins OBE**
Acting Chief Executive
RailCorp

30 October 2017

## Internal Audit and Risk Management Attestation Statement for the 2016–17 financial year for RailCorp

I, Howard Collins, am of the opinion that RailCorp has internal audit and risk management processes in operation that are compliant with the eight (8) core requirements set out in the *Internal Audit and Risk Management Policy for the NSW Public Sector*, specifically:

| Core requirements | Compliant, non-compliant or in transition |
|---|---|
| **Risk management framework** | |
| 1.1 The agency head is ultimately responsible and accountable for risk management in the agency | Compliant |
| 1.2 A risk management framework that is appropriate to the agency has been established and maintained and the framework is consistent with AS/NZS ISO 31000:2009 | Compliant |
| **Internal audit function** | |
| 2.1 An internal audit function has been established and maintained | Compliant |
| 2.2 The operation of the internal audit function is consistent with the International Standards for the Professional practice of Internal Auditing | Compliant |
| 2.3 The agency has an Internal Audit Charter that is consistent with the content of the 'model charter' | Compliant |
| **Audit and risk committee** | |
| 3.1 An independent Audit and Risk Committee with appropriate expertise has been established | Compliant |
| 3.2 The Audit and Risk Committee is an advisory committee providing assistance to the agency head on the agency's governance processes, risk management and control frameworks, and its external accountability obligations | Compliant |
| 3.3 The Audit and Risk Committee has a Charter that is consistent with the content of the 'model charter' | Compliant |

## Membership

The chair and members of the RailCorp Audit and Risk Committee for the FY2016–17 year are:

- Independent Chair, E. Couch
- Independent Member 1, G. Fletcher
- Independent Member 2, B. Blood.

**Howard Collins OBE**
Acting Chief Executive
RailCorp

30 October 2017

# Appendix 7: Insurance management

RailCorp has a comprehensive tailored insurance program managed by Sydney Trains as part of its risk management strategy. The insurance program is reviewed annually in consultation with its appointed insurance brokers to protect against insurable risks. These risks could affect:

- its operations
- its legal liabilities to third parties
- existing assets and those under construction.

RailCorp transfers insurable risks through insurance obtained via the commercial insurance market with established and financially stable insurers.

# Appendix 8: Major works in progress

RailCorp has a wide range of works in progress at 30 June 2017 including the following:

| | Cost to date ($ million) | Forecast completion (year) |
|---|---|---|
| Sydney Metro North West | 2794* | 2019 |
| Lidcombe to Granville Corridor upgrade | 349 | 2017 |
| Automatic train protection | 317 | 2019 |
| Tangara rolling stock refurbishment | 148 | 2018 |
| Enterprise Asset Management Program | 214 | 2018 |
| New Intercity Fleet | 197 | 2024 |
| Rail Operations Centre | 154 | 2018 |

**Cost to date excludes land acquired and held by Transport for NSW.*

The construction works are undertaken by Transport for NSW on behalf of RailCorp other than the Tangara rolling stock refurbishment, Enterprise Asset Management, and Rail Operations Centre programs which are undertaken by Sydney Trains.

# Appendix 9: Land disposals

In the year ended 30 June 2017, RailCorp did not sell any land with a value greater than $5 million.

# Appendix 10: Payment of accounts

Outstanding invoices by age at the end of each quarter.

| Quarter | Current (i.e. within due date) $M | Less than 30 days overdue $M | Between 30 and 60 days overdue $M | Between 60 and 90 days overdue $M | More than 90 days overdue $M |
|---|---|---|---|---|---|
| **Suppliers** | | | | | |
| Sep-16 | 0.6 | 0.1 | 0.0 | 0.0 | 0.0 |
| Dec-16 | 0.3 | 0.1 | 0.0 | 0.0 | 0.0 |
| Mar-17 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Jun-17 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Small business suppliers** | | | | | |
| Sep-16 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dec-16 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Mar-17 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Jun-17 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Accounts paid on time within each quarter

| Measure | Sept-16 | Dec-16 | Mar-17 | Jun-17 |
|---|---|---|---|---|
| **Suppliers** | | | | |
| Number of accounts due for payment | 159 | 145 | 170 | 120 |
| Number of accounts paid on time | 122 | 91 | 112 | 71 |
| Actual % accounts paid on time | 77% | 63% | 66% | 59% |
| $ amount of accounts due for payment | $2.3m | $2.2m | $2.1m | $2.0m |
| $ amount of accounts paid on time | $2.2m | $1.8m | $1.7m | 1.7m |
| Actual % accounts paid on time (based on $) | 96% | 82% | 81% | 85% |
| Number of payments for interest | – | – | – | – |
| Interest paid on overdue accounts | – | – | – | – |
| **Small business suppliers** | | | | |
| Number of accounts due for payment | 2 | – | 1 | – |
| Number of accounts paid on time | 2 | – | 1 | – |
| Actual % accounts paid on time | 100% | – | 100% | – |
| $ amount of accounts due for payment | $8028 | – | $4014 | – |
| $ amount of accounts paid on time | $8028 | – | $4014 | – |
| Actual % accounts paid on time (based on $) | 100% | – | 100% | – |
| Number of payments for interest | – | – | – | – |
| Interest paid on overdue accounts | – | – | – | – |

## Appendix 11: Investment management performance

In the year ended 30 June 2017, RailCorp held cash in the Westpac Treasury Banking System. The interest earned was 1.53 per cent on the funds invested, which was below the benchmark rate of 1.82 percent.

## Appendix 12: Liability management performance

In the year ended 30 June 2017, RailCorp's cost of funds was 2.62 per cent against the benchmark of 1.87 percent. The benchmark debt portfolio comprised an equal weighting of short and long-term debt instruments. RailCorp's debt portfolio had a greater than 90 per cent weighting of long-term debt in accordance with RailCorp policy which resulted in a higher cost of funds than the neutral benchmark.

## Appendix 13: Payments to consultants

RailCorp made no payments to consultants during 2016–17.

## Appendix 14: Annual Report accessibility requirements

The RailCorp Annual Report was produced in-house and complies with Web Content Accessibility Guidelines 2.0, as per the Premier's Circular 2012-18 NSW Government Website Management.

**RailCorp**
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Haymarket NSW 1238
**www.railcorp.info**



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# Annual Report

Transport for NSW

## RailCorp

2016–17 • Volume 2

NSW GOVERNMENT

# Rail Corporation New South Wales

# (RailCorp)

## Financial Statements 2016-2017

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# Statement by the Chief Executive

**In relation to the Financial Statements for the year ended 30 June 2017**

Pursuant to section 41C (1B) of the *Public Finance and Audit Act 1983* and clause 7 of the *Public Finance and Audit Regulation 2015*, I declare that:

(a) In my opinion, the accompanying Financial Statements, read in conjunction with the notes thereto, exhibit a true and fair view of the financial position of RailCorp as at 30 June 2017 and of its financial performance for the year ended 30 June 2017.

(b) The Financial Statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015*, Australian Accounting Standards, which includes Australian Accounting Interpretations and Financial Reporting Directions mandated by the Treasurer.

(c) I am not aware, as at the date of this statement, of any circumstances which would render any particulars included in the Financial Statements to be misleading or inaccurate.

**Howard Collins OBE**
Acting Chief Executive

17 October 2017

*(Start of audited financial statements)*

## **Statement of Comprehensive Income** for the year ended 30 June 2017

| | Note | 2016-17 $'000 | 2015-16 $'000 |
|---|---|---|---|
| **Income** | | | |
| Income from operating activities | 3.1 | 159,655 | 148,124 |
| Investment revenue | 3.2 | 34,060 | 33,326 |
| Total income | | 193,715 | 181,450 |
| **Expenses** | | | |
| Operating expenses | | | |
| - Employee related expenses | 4.1 | 5,283 | 4,005 |
| - Other operating expenses | 4.3 | 51,058 | 54,300 |
| Depreciation and amortisation | 7.2, 8.2 | 976,312 | 935,870 |
| Derecognition and disposal of assets | 7.5 | 159,899 | 70,055 |
| Finance costs | 4.5 | 61,912 | 61,421 |
| Total expenses | | 1,254,464 | 1,125,651 |
| **Deficit from operations before Government contributions** | | **(1,060,749)** | **(944,201)** |
| Government subsidies | 3.4 | 15,393 | 15,393 |
| **Deficit from operations** | | (1,045,356) | (928,808) |
| Contributions for capital expenditure | 3.3 | 70,664 | 83,348 |
| **(Deficit)/Surplus for the year from continuing operations** | | **(974,692)** | **(845,460)** |
| **Other Comprehensive Income** | | | |
| *Items that will not be reclassified to surplus/deficit* | | | |
| Revaluation of property, plant and equipment | | **1,459** | 951,483 |
| Superannuation actuarial gains/(losses) on defined benefit schemes | | **51,790** | (9,005) |
| Total Other Comprehensive Income for the year | | **53,249** | 942,478 |
| **Total Comprehensive Income for the year** | | **(921,443)** | **97,018** |

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

## **Statement of Financial Position** as at 30 June 2017

| | Note | 30.6.2017 $'000 | 30.6.2016 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 5.1 | 164,301 | 259,284 |
| Trade and other receivables | 6.1 | 255,052 | 44,297 |
| Non-current assets classified as held for sale | | 24 | 1,468 |
| Total current assets | | 419,377 | 305,049 |
| | | | |
| **Non-current assets** | | | |
| Trade and other receivables | 6.1 | 32,260 | 32,499 |
| Property, plant and equipment | 7.1 | 35,922,093 | 31,297,138 |
| Intangible assets | 8 | 381,387 | 196,329 |
| Other | 9 | 69,346 | 62,708 |
| Total non-current assets | | 36,405,086 | 31,588,674 |
| **Total assets** | | **36,824,463** | **31,893,723** |
| | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade & other payables | 10 | 126,829 | 151,433 |
| Borrowings | 11 | 205,866 | 777,166 |
| Provisions | 12 | 21,411 | 26,687 |
| Total current liabilities | | 354,106 | 955,286 |
| | | | |
| **Non-current liabilities** | | | |
| Borrowings | 11 | 2,240,227 | 1,617,368 |
| Provisions | 12 | 273,180 | 345,944 |
| Total non-current liabilities | | 2,513,407 | 1,963,312 |
| **Total liabilities** | | **2,867,513** | **2,918,598** |
| | | | |
| **Net Assets** | | **33,956,950** | **28,975,125** |
| | | | |
| **Equity** | | | |
| Contributed equity | 13.1 | 16,907,138 | 15,248,702 |
| Reserves | | 9,800,071 | 9,873,681 |
| Retained earnings | | 7,249,741 | 3,852,742 |
| **Total equity** | | **33,956,950** | **28,975,125** |

The Statement of Financial Position should be read in conjunction with the accompanying notes.

## **Statement of Changes in Equity** for the year ended 30 June 2017

| | Note | Contributed equity $'000 | Retained earnings $'000 | Asset revaluation $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2016** | | **15,248,702** | **3,852,742** | **9,873,681** | **28,975,125** |
| Restatement of infrastructure assets* | | - | 4,244,832 | - | 4,244,832 |
| **Balance at 1 July 2016 (Restated)** | | **15,248,702** | **8,097,574** | **9,873,681** | **33,219,957** |
| **Surplus/(deficit) for the year** | | **-** | **(974,692)** | **-** | **(974,692)** |
| **Other Comprehensive Income** | | | | | |
| Increase/(decrease) in asset revaluation reserve | | - | - | 1,459 | 1,459 |
| Superannuation actuarial gains/(losses) on defined benefit schemes | | - | 51,790 | - | 51,790 |
| **Total Other Comprehensive Income for the year** | | **-** | **51,790** | **1,459** | **53,249** |
| **Total Comprehensive Income for the year** | | **-** | **(922,902)** | **1,459** | **(921,443)** |
| **Reserves transferred to/(from) retained earnings** | | **-** | **75,069** | **(75,069)** | **-** |
| **Transaction with Owners in their capacity as owners** | | | | | |
| Increase/(decrease) in net assets from equity transfers (contribution by owners) | 13.2 | 1,658,436 | - | - | 1,658,436 |
| **Balance as at 30 June 2017** | | **16,907,138** | **7,249,741** | **9,800,071** | **33,956,950** |
| **Balance at 1 July 2015** | | **13,182,219** | **4,679,339** | **8,950,066** | **26,811,624** |
| **Deficit for the year** | | **-** | **(845,460)** | **-** | **(845,460)** |
| **Other Comprehensive Income** | | | | | |
| Increase/(decrease) in asset revaluation reserve | | - | - | 951,483 | 951,483 |
| Superannuation actuarial gains/(losses) on defined benefit schemes | | - | (9,005) | - | (9,005) |
| **Total Other Comprehensive Income for the year** | | **-** | **(9,005)** | **951,483** | **942,478** |
| **Total Comprehensive Income for the year** | | **-** | **(854,465)** | **951,483** | **97,018** |
| **Reserves transferred to/(from) retained earnings** | | **-** | **27,868** | **(27,868)** | **-** |
| **Transaction with Owners in their capacity as owners** | | | | | |
| Increase/(decrease) in net assets from equity transfers (contribution by owners) | 13.2 | 2,066,483 | - | - | 2,066,483 |
| **Balance as at 30 June 2016** | | **15,248,702** | **3,852,742** | **9,873,681** | **28,975,125** |

*Refer Note 1 (c)

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## **Statement of Cash Flows** for the year ended 30 June 2017

| | Note | 2016-17 $'000 | 2015-16 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| *Cash received* | | | |
| Other receipts from customers and others | | 335,250 | 395,643 |
| Government subsidies and concessions | | 15,393 | 15,393 |
| Interest received | | 2,562 | 1,587 |
| Total cash received | | 353,205 | 412,623 |
| *Cash used* | | | |
| Payments to suppliers, employees and others | | (233,325) | (360,452) |
| Interest paid | | (92,307) | (74,001) |
| Total cash used | | (325,632) | (434,453) |
| **Net cash from/(used in) operating activities** | 5.2 | **27,573** | **(21,830)** |
| **Cash flow from investing activities** | | | |
| *Cash received* | | | |
| Capital grants | | 71,038 | 84,653 |
| Property, plant and equipment and intangible assets disposals | | 3,652 | 6,997 |
| Total cash received | | 74,690 | 91,650 |
| *Cash used* | | | |
| Property, plant and equipment and intangible assets acquisitions | | (1,945,187) | (2,137,600) |
| Total cash used | | (1,945,187) | (2,137,600) |
| **Net cash from/(used by) investing activities** | | **(1,870,497)** | **(2,045,950)** |
| **Cash flows from financing activities** | | | |
| *Cash received* | | | |
| Proceeds from borrowings | | 78,700 | 1,521,817 |
| Capital contribution from NSW Treasury | | 1,669,241 | 1,847,053 |
| Total cash received | | 1,747,941 | 3,368,870 |
| *Cash used* | | | |
| Repayment of borrowings | | - | (535,017) |
| Repayment of payable to rail entities | | - | (609,835) |
| Total cash used | | - | (1,144,852) |
| **Net cash from/(used in) financing activities** | | **1,747,941** | **2,224,018** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(94,983)** | **156,238** |
| Cash and cash equivalents at beginning of year | | 259,284 | 103,046 |
| **Cash and cash equivalents at end of year** | 5.1 | **164,301** | **259,284** |

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

## **Notes to the Financial Statements** for the year ended 30 June 2017

## Note 1 Reporting entity and Financial Statements

### (a) Reporting entity

Rail Corporation New South Wales (RailCorp) is a Statutory Authority constituted under the *Transport Administration Act 1988* and is a scheduled entity under the *Public Finance and Audit Act 1983*. It is domiciled in Australia and its principal office is at 477 Pitt Street Sydney, NSW 2000.

RailCorp is the owner of the rail network, stations, majority of property and certain rolling stock and provides Sydney Trains and NSW Trains with access rights to the assets, at no charge, which they operate at their own risk in accordance with the Rail Services Contract with Transport for NSW (TfNSW). Sydney Trains is responsible for the maintenance of rail assets under the Sydney Trains Rail Services Contract.

RailCorp's other responsibilities include managing:

- non-operational real property assets
- land owner responsibility for real property assets including maintaining land information
- access to the rail network by third party rail operators
- lease of premises within railway stations and other locations
- the contractual arrangements with Airport Link Company

RailCorp is a controlled entity of TfNSW and TfNSW is a controlled entity of the Department of Transport which is consolidated as part of the NSW Total State Sector Accounts. The ultimate parent entity is the Department of Transport. The *Transport Administration Amendment (Transport Entities) Act 2017 No 12* enabled the enactment of a Transport Asset Holding Entity (TAHE) at a future date which is yet to be determined. The transition of RailCorp to TAHE (a state owned corporation) may impact future operations, asset ownership and asset valuation methodologies.

From August 2014, RailCorp does not have any employees as a result of Administrative Orders which transferred staff to Sydney Trains or NSW Trains.

### (b) Comparative information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is presented in respect of the previous periods for all amounts reported in the Financial Statements.

Where required, prior year information has been reclassified to align with the current year. RailCorp reclassified rental income of $30.7m from Income from Operating Activities to Investment revenue in the prior year to comply with current year Treasury mandates.

### (c) Restatement of infrastructure assets

In previous years, RailCorp has carried bored and excavated tunnels and earthworks including cuttings and embankments entering service prior to 30 June 2000 at nil value on the basis that the assets could not be reliably measured. The treatment was disclosed in Note 2 of the 2015-16 Financial Statements.

In 2016-17, RailCorp has valued these assets using advances in technology, improved asset management systems, equipment and technical asset information. On balance, it now appears it may have been possible to reliably value these assets in a prior year. As a result, RailCorp has recorded an additional $941.2m in tunnel boring assets and $3,304m in earthworks to correct the value of infrastructure assets as at 1 July 2016 with an adjustment to equity. The nature of the inputs to the valuation makes it impractical to retrospectively restate previously reported balances. Refer Note 7.3(c).

## Note 1 Reporting entity and Financial Statements (continued)

### (d) Authorisation of the Financial Statements

The Financial Statements were authorised for issue by the Acting Chief Executive on the date on which the accompanying Statement by the Acting Chief Executive was signed.

### (e) Statement of compliance

The Financial Statements and notes comply with Australian Accounting Standards which includes Australian Accounting Interpretations.

## Note 2 Summary of significant accounting policies

### 2.1 Basis of preparation

The Financial Statements are general purpose Financial Statements prepared in accordance with Australian Accounting Standards, which includes Australian Accounting Interpretations, the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and Financial Reporting Directions mandated by the Treasurer.

Generally, the historical cost basis of accounting has been adopted and these Financial Statements do not take into account changing money values or current valuations. However, property, plant and equipment, non current assets held for sale and other assets are measured at fair value. Refer Note 2.8, Note 2.9(ii) and Note 2.11. Certain liabilities are calculated on a present value basis such as certain provisions.

The accrual basis of accounting has been adopted in the preparation of the Financial Statements, except for cash flow information.

RailCorp is a not-for-profit entity for accounting purposes.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

#### 2.1.1 Going concern

The Financial Statements have been prepared on a going concern basis which assumes that RailCorp is expected to be able to pay its debts as and when they fall due and continue in operation without any intention or necessity to liquidate or otherwise wind up their operations. RailCorp's continued operation and ability to pay its debts are satisfied by a NSW government guarantee on borrowings, annual grants by the Government to support RailCorp's operations and equity contributions by the Government to support capital acquisitions.

#### 2.1.2 Change in accounting policy

There is no change to accounting policies in 2016-17.

## Note 2 Summary of significant accounting policies (continued)

### 2.2 Significant accounting judgements, estimates and assumptions

Management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular refer Note 7.3, Note 9, Note 12 and Note 15.

### 2.3 Income

Income is measured at the fair value of the consideration or contributions received or receivable. In most cases this is the value of the cash exchanged or exchangeable. Income is only recognised if its receipt is probable and the amount is reliably measurable. The accounting policies for the recognition of income are discussed below:

**(i) Income from operating activities**

***Transport cluster recoveries***
Transport cluster recoveries are reimbursements from transport entities for costs incurred by RailCorp in providing services to the transport cluster. Revenue is recognised when the associated costs are incurred and recoverable.

***Access and service fees***
Access and service fees include the fees for rail services provided to third parties (excluding Sydney Trains and NSW Trains) and for granting operators access to the rail network. Revenue is recognised when the services are provided.

***Rendering of services***
Revenue from the rendering of a service is recognised by reference to the stage of completion of the transaction, provided that the transaction's outcome, stage of completion, and the past and prospective costs are all reliably measurable. Otherwise such revenue is only recognised to the extent of the associated recognised recoverable expenses.

The stage of completion of a construction contract is determined by comparing the cost incurred to date with the estimated total cost of the contract.

## Note 2 Summary of significant accounting policies (continued)

### 2.3 Income (continued)

***Sale of assets and goods***
Revenue from the sale of assets or other goods is recognised when control and the significant risks and rewards of ownership have passed to the buyer and the past and prospective transaction costs are reliably measurable.

**(ii) Investment revenue**

***Interest revenue***
Interest revenue is recognised as interest accrues using the effective interest method, which uses a rate that exactly discounts a financial instrument's expected future cash receipts through the expected life of the financial instrument (or shorter period) to the net carrying amount of the instrument. Interest revenue includes all earnings from deposits with Westpac Banking Corporation and 11am Call Deposits.

***Rental income***
Rental income is recognised on a straight-line basis over the lease term. Fees received under an arrangement that is in the legal form of a lease but that is not, in substance, a lease under AASB 117 *Leases*, are recognised as revenue over the term of the lease.

**(iii) Government contributions**
Contributions are received from the NSW Government towards the cost of providing certain agreed services and capital expenditure.

Contributions are recognised when control of the cash or other asset (or the right to receive it) is obtained.

The presentation of the Statement of Comprehensive Income includes subtotals for the result from operations before Government Contributions and the result from operations before Capital Expenditure Contributions. That presentation has been adopted as it is a more informative representation of the operating result with reference to RailCorp's sources of funding.

## Note 2 Summary of significant accounting policies (continued)

### 2.4 Depreciation and amortisation

#### (i) Depreciation

Each item of property, plant and equipment (except land) is depreciated on a straight-line basis over its estimated useful life commencing when the item is available for use. A capital spare is depreciated over the useful life of the asset or class of assets to which it relates.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately, except for rolling stock which is depreciated as a discrete asset.

In determining an asset's useful life consideration is given to its expected usage, its expected wear and tear, technical or commercial obsolescence and legal or similar limits on its use.

The expected useful lives of items of property, plant and equipment are as follows:

| | Years |
|---|---|
| Stations and buildings | 15-200 |
| Station services and facilities | 15-25 |
| Track, including sleepers and ballast | 15-100 |
| Turnouts | 15-50 |
| Bridges and tunnels | 100 |
| Electrical overhead wiring and structures | 15-100 |
| Substations | 10-50 |
| Signalling equipment | 20-50 |
| Rolling stock | 32-44 |
| Plant and machinery | 3-30 |
| Heavy plant and machinery | 30-60 |
| Earthworks | 47-250 |

Each asset's useful life, residual value and depreciation method are reviewed each year and any resulting adjustments are accounted for as a change in accounting estimate.

#### (ii) Amortisation

Each intangible asset is amortised on a straight-line basis over its estimated useful life commencing when the item is available for use. Useful lives are all finite. Residual values are assumed to be zero, due to the absence of active markets for disposing of the assets.

In determining an asset's useful life, consideration is given to its expected usage; technical, technological, commercial or other types of obsolescence; legal or similar limits on its use; and whether its life is dependent on the useful life of other assets.

The expected useful life of an item of software is 5 years.

Each intangible asset's useful life and amortisation method are reviewed each year and any resulting adjustments are accounted for as a change in accounting estimate.

The amortisation charge for each year is recognised in the Statement of Comprehensive Income as depreciation and amortisation expense unless it is included in the carrying amount of another asset.

## Note 2 Summary of significant accounting policies (continued)

### 2.5 Borrowing costs

Borrowing costs are capitalised in respect of constructed property, plant and equipment that meet the criteria of qualifying assets. Other borrowing costs are recognised as an expense in the period in which they are incurred.

### 2.6 Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position includes cash at bank and on hand, at call deposits, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Refer Note 5.

### 2.7 Trade and other receivables

Trade receivables are measured initially at fair value and subsequently at invoiced cost less an allowance for impairment, which is not materially different from amortised cost due to their short-term nature. A trade receivable is usually due for settlement within 30 days of invoicing. Collectability of trade receivables is reviewed on an ongoing basis.

A receivable is recognised when it is probable that the future cash inflows associated with it will be realised and it has a value that can be measured reliably. It is derecognised when the contractual rights to future cash inflows from it expire or are transferred.

If there is objective evidence at year end that a receivable may not be collectable, its carrying amount is reduced by means of an allowance for impairment and the resulting loss is recognised in the Statement of Comprehensive Income. Receivables are monitored during the year and bad debts are written off against the allowance when those are determined to be irrecoverable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that trade receivables are impaired.

Refer Note 6.

### 2.8 Non-current assets held for sale

Non-current assets are classified as held for sale, where their carrying amount will be recovered principally through a sale transaction, not through continuing use. This condition is regarded as met when the sale is highly probable; the asset is available for immediate sale in its present condition and is expected to be completed within 1 year from the date of classification.

Non-current assets held for sale are recognised at the lower of carrying amount and fair value less cost to sell. Such assets are presented separately from other assets in the Statement of Financial Position and are not depreciated or amortised while they are classified as held for sale.

## Note 2 Summary of significant accounting policies (continued)

### 2.9 Property, plant and equipment

#### (i) Recognition

An item of property, plant and equipment is recognised as an asset if it has service potential controlled by RailCorp, is expected at acquisition to be used for more than 1 year, has a cost or value that can be measured reliably and exceeds the capitalisation threshold.

A component is accounted for separately if it:
(a) has a useful life materially different from that of the prime asset and therefore requires separate replacement during the life of the prime asset,
(b) is material enough to justify separate tracking, and
(c) is capable of having a reliable value attributed to it.

A dedicated spare part does not normally have a useful life of its own. Dedicated spares purchased specifically for a particular asset, or class of assets, and which would become redundant if that asset or class were retired or use of that asset or class were discontinued, are considered to form part of the historical cost of that asset or class.

Expenditure on the acquisition, replacement or enhancement of property, plant and equipment is capitalised, provided it exceeds the capitalisation threshold or qualifies for recognition as a capital spare.

The capitalisation threshold for a network of property, plant and equipment items or for an individual (non-networked) item (other than a capital spare) is $5,000. A capital spare is only capitalised if it is part of a pool of rotable spares, primarily held for the overhaul of the asset to which it relates, and significant enough to warrant it being individually tracked. Expenditure below the capitalisation threshold or not qualifying for recognition as a capital spare is charged to the Statement of Comprehensive Income.

An item of property, plant and equipment in the course of construction is classified as capital work in progress.

An item leased to a lessee under an operating lease continues to be recognised as property, plant and equipment and to be classified according to the nature of the asset.

#### (ii) Measurement

An item of property, plant and equipment purchased or constructed is initially measured at its cost, which is its fair value on acquisition. This includes the purchase price and any costs directly attributable to bringing it to the location and condition necessary for it to be capable of operating as intended. An item of property, plant and equipment acquired at no cost, or for a nominal cost, is initially measured at its fair value.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of acquisition or construction or where applicable the amount attributed to that asset when initially recognised.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at measurement date or if such price is not observable or estimable from market evidence, its replacement costs. Replacement cost is the written-down cost of an optimised modern equivalent asset. Non-specialised assets with short useful lives such as minor plant and equipment are measured at depreciated historical cost as a proxy for fair value. RailCorp has assessed the difference between fair value and depreciated historical cost to be immaterial

## Note 2 Summary of significant accounting policies (continued)

### 2.9 Property, plant and equipment (continued)

#### (ii) Measurement (continued)

Property, plant and equipment is revalued, at least once every 5 years with the exception of land and buildings which is revalued every 3 years where the market approach is used having regard to its highest and best use in accordance with TPP 14-1 *Accounting Policy: Valuation of Physical Non-Current Assets at Fair Value* (TPP 14-1). As existing natural, legal, financial or socio-political restrictions on asset use or disposal generally prevent any alternative use being feasible within the next 5 years, highest and best use is taken to be existing use. An interim revaluation in accordance with TPP 14-1 will be undertaken as appropriate where a cumulative movement in indexes exceeds 12%.

Specialised assets are measured at depreciated replacement cost. Depreciated replacement cost is based on the incremental optimised replacement cost. Optimised replacement cost is the minimum cost in the normal course of business to replace the existing asset with a technologically modern equivalent asset with the same economic benefits after adjusting for over design, over capacity and redundant components.

If an item of property, plant and equipment is revalued, the entire class to which it belongs is revalued unless the revaluation is undertaken on a rolling basis.

When revaluing non-current assets by reference to current prices for assets newer than those being revalued (adjusted to reflect the present condition of the assets), the gross amount and the related accumulated depreciation are separately restated.

For other assets, any accumulated depreciation at the date of a revaluation is restated proportionately with the change in the gross carrying amount of the related asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Revaluation increments are credited directly to revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the Statement of Comprehensive Income, in which case the increment is recognised immediately as revenue in the Statement of Comprehensive Income.

Revaluation decrements are recognised immediately as expenses in the Statement of Comprehensive Income, except that, to the extent that a credit balance exists in the revaluation reserve in respect of the same class of assets, they are debited directly to the revaluation reserve.

As a not-for-profit entity, revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

#### (iii) Derecognition

An item of property, plant and equipment is derecognised either on disposal or when its service potential ceases and it is not expected to have any disposal value.

On derecognition of an item of property, plant and equipment, any gain or loss or any related compensation receivable is recognised in the Statement of Comprehensive Income. Any revaluation increase remaining in the asset revaluation reserve in respect of a derecognised asset is transferred to retained earnings.

Refer Note 7.

#### (iv) Impairment of property, plant and equipment

As RailCorp is a not-for-profit entity with no cash generating units, impairment under AASB 136 *Impairment of Assets* is unlikely to arise given that the recoverable amount test for non-cash generating assets is the higher of fair value less costs of disposal and depreciated replacement cost (where depreciated replacement cost is also the fair value).

## Note 2 Summary of significant accounting policies (continued)

### 2.10 Intangible assets

#### (i) Recognition

An identifiable, non-monetary asset without physical substance (such as computer software that is not integral to the related hardware) is recognised as an intangible asset if it has service potential controlled by RailCorp, is expected at acquisition to be used for more than 1 year, has a cost or value that can be measured reliably and exceeds the capitalisation threshold of $5,000.

The service potential is assessed using reasonable and supportable assumptions relating to the estimated conditions likely to exist over the useful life of the asset.

An intangible asset arising from development (or from the development phase of an internal project) is only recognised if it is likely to be completed and actually used and the development expenditure can be measured reliably. Expenditure on research (or on the research phase of an internal project) is not recognised as an intangible asset.

An intangible asset in the course of development is classified as intangible capital work in progress.

#### (ii) Measurement

An intangible asset that is purchased or internally developed is initially measured at its cost. This includes the purchase price and any costs directly attributable to preparing the asset for its intended use. An intangible asset acquired at no cost, or for a nominal cost, because it is transferred by the government is initially measured at its fair value, which is based on its amortised cost as recognised by the transferor. After initial recognition, such assets are accounted for under the cost model.

Due to the absence of active markets for intangible assets, they are not subsequently revalued but continue to be carried at cost less any accumulated amortisation.

#### (iii) Derecognition

An intangible asset is derecognised either on disposal or when its service potential ceases and it is not expected to have any disposal value. On derecognition, any gain or loss is recognised in the Statement of Comprehensive Income.

Refer Note 8.

## Note 2 Summary of significant accounting policies (continued)

### 2.11 Other assets

***(i) Service concession arrangements***

Airport Link Company (ALC) has a concession to build and operate 4 stations on the Airport Line until 2030. Under the concession arrangement, Sydney Trains is to provide train services to the stations. RailCorp will take over the 4 stations in 2030.

This right to receive certain station assets is accounted for as a premium on the ground lease of the station premises, which is a non-cancellable operating lease. The premium is recognised as rent revenue and a non-current asset (earned portion of right to receive Airport Line stations). It is measured as the estimated written-down replacement cost of the stations in 2030 and the value of the emerging asset is calculated by use of an annuity formula whereby the ultimate value of the right to receive the property is treated as the compound value of an annuity that accumulates as a series of equal annual receipts together with a notional compound interest thereon. The discount rate used is the NSW Government bond rate applicable to the purchaser at the commencement of the concession period - in this case 7%. The present value of the written-down replacement cost of the stations in 2030 is allocated over the term of the lease on the basis of a formula which calculates the annual annuity sum.

Refer Note 9 for the cumulative value as at 30 June 2017.

In October 2005 RailCorp and the ALC entered into a Restated Stations Agreement (RSA) as part of the overall restructuring of the ALC operations and related debt. The revised agreement included amended terms in respect of various matters including revenue sharing, fee arrangements and RailCorp's various performance obligations. In March 2011 the RSA was varied to remove the station access fee for passengers using Mascot and Green Square stations with RailCorp instead paying ALC a shadow station access fee. The RSA was varied further in August 2014 as a result of the impact of the introduction of Opal ticketing.

### 2.12 Trade and other payables

A payable is recognised on the Statement of Financial Position when a present obligation arises under a contract. It is derecognised when the obligation expires or is discharged, cancelled or substituted.

A payable is measured at original invoice amount, which is not materially different from amortised cost due to the short-term nature of trade payables.

Any gain or loss arising when a payable is settled or transferred is recognised in the Statement of Comprehensive Income.

Trade payables are unsecured and, unless otherwise agreed with the creditor, are due for settlement by the end of the month following the month in which the invoice is received.

Refer Note 10.

### 2.13 Borrowings

A borrowing is recognised when a present obligation arises under a debt instrument. It is classified as a current liability if settlement is due within twelve months after the reporting date. Otherwise it is classified as non-current. It is derecognised when the obligation expires or is discharged, cancelled or substituted.

A borrowing is initially measured at its fair value and subsequently measured at amortised cost, being its face value less unamortised discount or plus unamortised premium.

Discount or premium is amortised over the term of the borrowing on an effective interest rate basis and recognised as a loss or gain in the Statement of Comprehensive Income. Any difference between the carrying amount and the consideration paid on repayment or transfer of a borrowing is also recognised as a gain or loss.

Refer Note 11.

## Note 2 Summary of significant accounting policies (continued)

### 2.14 Provisions

#### (i) Provisions generally

Provisions are made for liabilities of uncertain amount or uncertain timing of settlement, e.g. employee benefits, workers' compensation claims, public liability claims, legal claims, Airport Line asset replacement, quarry site restoration, land and buildings remediation, restoration of leased premises and other charges.

A provision is recognised when:

a) there is a likely present legal or constructive obligation as a result of a past event;
b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
c) a reliable estimate can be made of the amount of the obligation.

The amount recognised is the best estimate of the expenditure required to settle the likely present obligation as at reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision. Where the effect of the time value of money is material, a provision is measured using the present value of the expenditures expected to be required to settle the obligation and using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Each provision is reviewed as at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that a settlement will be required, the provision is reversed. A provision is only used for its intended purpose.

#### (ii) Employee benefits

Superannuation is recognised as a provision when the obligations arise, which is usually through the rendering of service by employees. Expenditure creating such provisions is either expensed or capitalised, depending on its nature.

Superannuation is actuarially assessed prior to each reporting date and is measured at the present value of the estimated future payments.

The amount recognised for the superannuation provision is the net total of the present value of the defined benefit obligation at the reporting date, minus the fair value at that date of any plan assets out of which the obligations are to be settled directly. Investment credits are not netted off against the superannuation contribution tax when calculating the net defined benefit liability (asset) at balance date. However, any prepaid superannuation asset recognised cannot exceed the total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits that may be available in the form of refunds from the plan or reductions in future contributions to the plan.

The amount recognised in the Statement of Comprehensive Income for superannuation is the net total of current service cost and the net interest. Actuarial gains or losses for superannuation are recognised in the other comprehensive income.

The actuarial assessment of superannuation uses the Projected Unit Credit Method and reflects estimated future salary increases and the benefits set out in the terms of the plan. The liabilities are discounted using the market yield rate on government bonds of similar maturity to those obligations. Actuarial assumptions are unbiased and mutually compatible and financial assumptions are based on market expectations for the period over which the obligations are to be settled.

## Note 2 Summary of significant accounting policies (continued)

### 2.14 Provisions (continued)

#### (ii) Employee benefits (continued)

An asset relating to one superannuation plan is not offset against a liability relating to another plan because there is no legally enforceable right to do so.

Refer Note 19.

### 2.15 Contributed equity

In accordance with TPP 09-3 *Accounting Policy: Contribution by owners made to wholly-owned public sector entities* (TPP09-3), a transfer of assets (or liabilities) from (or to) another NSW public sector entity is treated as a contribution by (or distribution to) the Government and recognised as contributed equity.

Accordingly the transfer of cash from NSW Treasury to fund capital construction is treated as an equity contribution in accordance with TPP 09-3.

Refer Note 13.

### 2.16 Taxes

#### (i) Income tax equivalents

RailCorp is exempt from the National Tax Equivalent Regime (NTER) and the Tax Equivalent Regime (TER) and is not required to pay income tax.

#### (ii) Goods and Services Tax

Revenues, expenses and assets are generally recognised net of the amount of Goods and Services Tax (GST). However, receivables and payables are stated with the amount of GST included, and GST that is not recoverable from the Australian Taxation Office (ATO) is recognised as part of the relevant asset or expense.

The net amount of GST recoverable from (or payable to) the ATO is recognised as part of receivables (or payables) in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of any cash flow arising from investing activities that is recoverable from (or payable to) the ATO is classified as an operating cash flow.

#### (iii) State taxes

RailCorp being a statutory authority representing the Crown means that it is exempt from land tax levied after 2009.

### 2.17 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 dependant on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### (i) Operating leases

Various real estate leases have also been granted (including air space and advertising rights), sometimes covering long periods (up to 99 years). To the extent the initial term of the land lease is greater than 50 years then these leases are treated as finance leases – refer Note 2.17 (ii).

Lease rentals under an operating lease are recognised as income (or expense) on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

## Note 2 Summary of significant accounting policies (continued)

### 2.17 Leases (continued)

#### (i) Operating leases (continued)

Initial direct costs incurred, as lessor, in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

#### (ii) Finance leases

***As lessee***

Finance leases, which transfer to RailCorp substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease term at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease liability. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are capitalised in accordance with the accounting policy on borrowing costs.

Refer Note 2.5.

Finance leased assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that RailCorp will obtain ownership by the end of the lease term. Where there is reasonable certainty that RailCorp will obtain ownership of the asset after the lease term the asset is depreciated over its estimated useful life.

***As lessor***

RailCorp, as the lessor, classifies its long-term land leases (typically where the initial lease term exceeds 50 years), as finance leases if it transfers to the lessee substantially all the risks and rewards incidental to ownership of the land. The leased assets are recognised as current and non-current receivables at amounts equal to the net investment in the leases. The associated land is derecognised.

The lease receipt is recognised in two components, one as a reduction of the lease receivables and the other as finance income. The finance income is calculated relevant to the term of the lease.

Refer Note 6.

#### (iii) Arrangements in the form but not the substance of a lease

An arrangement comprising a series of transactions involving the legal form, but not the economic substance, of a lease is accounted for as one linked transaction rather than as a lease. Any fee resulting from the arrangement is recognised as income in the year it is received.

#### (iv) Accounting treatment for prepaid rentals

Prepaid rentals where the initial lease term exceeds 50 years are treated as sales in accordance with NSW Treasury policy, TPP 11-1, *Accounting Policy: Lessor Classification of Long Term Land Leases*.

### 2.18 Foreign currency translation

A foreign currency transaction is recognised and initially translated into Australian currency using the market rate at the date of the transaction. Outstanding transactions at any subsequent reporting date are translated at the market rate at that date.

## Note 2 Summary of significant accounting policies (continued)

### 2.19 Financial instruments

Financial instruments are contracts that give rise to both a financial asset of one entity and a financial liability (or equity instrument) of another entity. They include cash and cash equivalents, receivables, payables and borrowings.

#### (i) Recognition

A financial asset or financial liability is recognised when RailCorp becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual rights to the associated cash flows expire, are effectively transferred, or are otherwise lost. Financial liabilities are derecognised when the contractual obligation is discharged, cancelled, or expires.

Any applicable amortisation, impairment loss (or reversal), or fair value adjustment is recognised in the Statement of Comprehensive Income.

On derecognition, any difference between the items carrying amount and the consideration received or paid is recognised in the Statement of Comprehensive Income.

#### (ii) Measurement

On initial recognition, a financial asset or financial liability is measured at its fair value (which is usually its cost) plus any directly-attributable transaction costs.

After initial recognition, receivables and payables are carried in the Statement of Financial Position at amortised cost, which is a reasonable approximation of their fair value. Borrowings are carried at amortised cost. Their fair value at year end is disclosed in note 11.

#### (iii) Offsetting financial assets and liabilities

RailCorp does not offset its financial assets and liabilities and has no offsetting arrangements in place.

### 2.20 Impairment of financial assets

All financial assets are subject to an annual review for impairment. An allowance for impairment is established when there is objective evidence that RailCorp will not be able to collect all amounts due. The calculated impairment loss is recognised in the Statement of Comprehensive Income as an allowance to reduce the carrying amount of the financial asset.

When there is objective evidence that impairment no longer exists, previously recognised impairment losses are reversed through the Statement of Comprehensive Income so that the carried amount at amortised value does not exceed what the carrying amount would have been had there not been an impairment loss.

## Note 2 Summary of significant accounting policies (continued)

### 2.21 Fair value hierarchy

A number of the RailCorp accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring fair value, the valuation technique used maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Under AASB 13, RailCorp categorises, for disclosure purposes, the valuation techniques based on the inputs as follows:

- Level 1 - Derived from quoted market prices in active markets for identical assets/liabilities. Quoted market price represents the fair value determined based on the quoted prices on active markets as at the reporting date without any deduction of transaction costs.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable directly or indirectly
- Level 3 – Inputs that are not based on observable market data (unobservable inputs).

Refer Note 15 and Note 16.

### 2.22 Adoption of new and revised Accounting Standards

The Financial Statements have adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to RailCorp effective for the annual reporting period beginning on 1 July 2016. The adoption of these new and revised Standards and Interpretations has not resulted in any significant changes to RailCorp's accounting policies.

RailCorp did not early adopt any new Accounting Standards and Interpretations that are not yet effective in accordance with NSW Treasury mandates.

The following new Accounting Standards and Interpretations apply to RailCorp and have not been adopted and are not effective as at 30 June 2017. The standards are effective for annual reporting periods commencing on or after 1 January 2017.

| AASB / Amendment | Title | Issue Date | Application date of Standard |
|---|---|---|---|
| AASB 9 | Financial Instruments | Dec 2014 | 1 Jan 2018 |
| AASB 15 | Revenue from Contracts with Customers | Oct 2015 | 1 Jan 2018 |
| AASB 16 | Leases | Feb 2016 | 1 Jan 2019 |
| AASB 1058 | Income of Not-for-Profit Entities | Dec 2016 | 1 Jan 2019 |
| AASB 2014-1 | Amendments to Australian Accounting Standards [Operative dates: Parts A-C – 1 Jul 2014; Part D – 1 Jan 2016; Part E – 1 Jan 2018] | Jun 2014 | 1 Jan 2018 |
| AASB 2014-5 | Amendments to Australian Accounting Standards arising from AASB 15 | Dec 2014 | 1 Jan 2018 |
| AASB 2014-7 | Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) | Dec 2014 | 1 Jan 2018 |
| AASB 2015-8 | Amendments to Australian Accounting Standards – Effective Date of AASB 15 | Oct 2015 | 1 Jan 2017 |
| AASB 2016-2 | Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 | Mar 2016 | 1 Jan 2017 |
| AASB 2016-3 | Amendments to Australian Accounting Standards – Clarifications to AASB 15 | May 2016 | 1 Jan 2018 |
| AASB 2016-4 | Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities | Jun 2016 | 1 Jan 2017 |

## Note 2 Summary of significant accounting policies (continued)

### 2.22 Adoption of new and revised Accounting Standards (continued)

| AASB / Amendment | Title | Issue Date | Application date of Standard |
|---|---|---|---|
| AASB 2016-6 | Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts | Oct 2016 | 1 Jan 2018 |
| AASB 2016-7 | Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities | Dec 2016 | 1Jan 2017 |
| AASB 2016-8 | Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities | Dec 2016 | 1 Jan 2019 |
| AASB 2017-1 | Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments | Feb 2017 | 1 Jan 2019 |
| AASB 2017-2 | Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle | Feb 2017 | 1 Jan 2017 |

RailCorp has assessed the standards that will apply in the next reporting period:

- AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* and AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities* amend the mandatory date of application of AASB 15 to 1 January 2018 and 1 January 2019 (for not for profit entities). The impact of the standards is not significant other than a change to the effective date.

- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107* requires disclosures to enable financial statement users to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. The Standard will require additional disclosures in the next reporting period.

- AASB 2016-4 *Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities* clarifies that AASB 136 *Impairment of Assets* does not apply to non cash generating assets of not for profit entities that are regularly revalued to fair value under a revaluation model. The impact of the Standard is not significant.

The impact of the remaining standards will be considered in subsequent reporting periods.

## Note 3 Income

### 3.1 Income from operating activities

| | Note | 2016-17 $'000 | 2015-16 $'000 |
|---|---|---|---|
| Transport cluster recoveries | | 1,177 | 927 |
| Access and service fees | | 144,422 | 124,735 |
| Operating lease contingent rents | | 1,388 | 1,937 |
| Other income | | 12,668 | 20,525 |
| **Total Income from operating activities** | | **159,655** | **148,124** |

### 3.2 Investment revenue

| | | | |
|---|---|---|---|
| Rental income | | 30,841 | 30,680 |
| Interest | | 3,219 | 2,646 |
| **Total investment revenue** | | **34,060** | **33,326** |

### 3.3 Contributions for capital expenditure

| | | | |
|---|---|---|---|
| NSW Government capital grant | | 70,466 | 82,857 |
| NSW Government capital grant - non cash | | 198 | - |
| Other Government agencies - cash | | - | 491 |
| **Total contributions for capital expenditure** | | **70,664** | **83,348** |

### 3.4 Government subsidies

Government subsidies were received for superannuation payments of $15.4m (2016: $15.4m).

## Note 4 Expenses

### 4.1 Employee related expenses

Employee related expenses include the following items:

| | | | |
|---|---|---|---|
| Superannuation-defined benefit plan | 4.2 | 5,462 | 8,233 |
| Superannuation-defined contribution | | - | 104 |
| Workers compensation insurance | | (1,001) | (5,192) |
| Payroll tax | | 822 | 860 |
| **Total employee related expenses** | | **5,283** | **4,005** |

## Note 4 Expenses (continued)

### 4.2 Defined benefit superannuation plan expense/income

| | Note | 2016-17 $'000 | 2015-16 $'000 |
|---|---|---|---|
| Current service cost | | - | 21 |
| Net interest | | 5,462 | 8,212 |
| **Total defined benefit superannuation expense/(income)** | 19 | **5,462** | **8,233** |

### 4.3 Other operating expenses

| | | |
|---|---|---|
| Contractors | 1,949 | 3,492 |
| Operating lease non-contingent rents (including rail access fees) | 1,070 | 1,116 |
| Rail entity charges | 13,832 | 13,677 |
| Discounting of provisions | 1,063 | 2,164 |
| Auditor's remuneration - audit of the financial statements | 351 | 336 |
| Impairment of trade receivables | (376) | 279 |
| Other* | 33,169 | 33,236 |
| **Total other operating expenses** | **51,058** | **54,300** |

*Other expenses include property service fees and Airport Line contractual obligations.

### 4.4 Maintenance expenses

From 1 July 2013, RailCorp no longer undertakes maintenance of rail assets. Sydney Trains is responsible for the maintenance of rail assets and in addition to recurrent maintenance expenditure it incurred it also charged RailCorp $203.0m (2016: $306.7m) major periodic maintenance that was capitalised which is reflected in Note 7.

### 4.5 Finance costs

| | | |
|---|---|---|
| Borrowing and interest charges | 61,912 | 61,421 |
| **Total finance costs** | **61,912** | **61,421** |

## Note 5 Cash and cash equivalents

### 5.1 Cash and cash equivalents

| | 30.6.2017 $'000 | 30.6.2016 $'000 |
|---|---|---|
| Cash at bank | 164,301 | 258,346 |
| Cash deposits with Tcorp | - | 938 |
| **Total cash and cash equivalents** | **164,301** | **259,284** |

The above cash and cash equivalents reconciles to the statement of cashflows.

### 5.2 Reconciliation of surplus/(deficit) for the year with net cashflows from operating activities

| | | |
|---|---|---|
| **(Deficit)/Surplus for the year** | **(974,692)** | **(845,460)** |
| Cash capital grants | (71,038) | (84,653) |
| Non cash capital grants | (198) | - |
| Derecognition and write off of assets | 159,899 | 70,055 |
| Airport Line lease premium | (6,638) | (6,204) |
| Depreciation and amortisation | 976,312 | 935,870 |
| Impaired trade receivables expense | (376) | 279 |
| Non cash financing activities | (27,140) | (16,753) |
| Termination of finance lease | - | (2,846) |
| Discounting of provisions | 1,063 | 2,164 |
| ***Net movements in assets and liabilities applicable to operating activities:*** | | |
| (Increase)/decrease in trade and other receivables | (15,040) | (12,178) |
| Increase/(decrease) in trade and other payables and provisions | (14,579) | (62,104) |
| **Net cashflows from operating activities** | **27,573** | **(21,830)** |

### 5.3 Credit standby arrangements and loan facilities

The credit standby arrangements and unused amounts available are:

| | 30.6.2017 Credit Facilities $'000 | 30.6.2017 Unused $'000 | 30.6.2016 Credit Facilities $'000 | 30.6.2016 Unused $'000 |
|---|---|---|---|---|
| Transaction negotiation authority | 152,000 | 152,000 | 151,000 | 151,000 |
| Borrowing facility | 2,512,200 | 66,107 | 2,512,200 | 117,666 |
| Come and Go facility | 100,000 | 100,000 | 100,000 | 100,000 |
| **Total** | **2,764,200** | **318,107** | **2,763,200** | **368,666** |

### 5.4 Non-cash investing activities

During 2016-17, RailCorp recognised a net equity decrease of $10.8m as a result of assets transferred to and from other entities (2016:$219.4m) and a non- cash grant of $0.2m. Refer Note 3.3 and Note 13.2.

## Note 6 Trade and other receivables

### 6.1 Trade and other receivables

| | Note | 30.6.2017 $'000 | 30.6.2016 $'000 |
|---|---|---|---|
| **Current trade and other receivables** | | | |
| Sale of goods and services | | 13,936 | 9,211 |
| Transport cluster receivables | | 223,607 | 9,014 |
| Retained taxes | | 333 | 12,907 |
| Other receivables | | 17,050 | 13,476 |
| Less: allowance for impairment | 6.2 | (188) | (609) |
| | | 254,738 | 43,999 |
| Prepayments | | 75 | 67 |
| Finance lease - minimum payments | 6.5 | 239 | 231 |
| **Total current trade and other receivables** | | **255,052** | **44,297** |
| **Non-current receivables** | | | |
| Finance lease - minimum payments | 6.5 | 32,260 | 32,499 |
| **Total non-current receivables** | | **32,260** | **32,499** |
| **Total trade and other receivables** | | **287,312** | **76,796** |

Movements in the allowance for impairment were as follows:

| | | |
|---|---|---|
| Balance at beginning of year | 609 | 332 |
| Allowance recognised in Statement of Comprehensive Income | (376) | 279 |
| Amount written off | - | (27) |
| GST movement | (45) | 25 |
| **Balance at end of year** | **188** | **609** |

### 6.2 Impaired trade and other receivables

The ageing of the impaired trade and other receivables is as follows:

| | | |
|---|---|---|
| 1 to 3 months | 3 | 112 |
| 3 to 6 months | 5 | 148 |
| over 6 months | 180 | 349 |
| **Balance at end of year** | **188** | **609** |

### 6.3 Past due but not impaired receivables

The ageing analysis of trade & transport cluster receivables that are past due but not impaired is as follows:

| | | |
|---|---|---|
| 1 to 3 months | 6,092 | 2,605 |
| 3 to 6 months | 4 | 1 |
| Over 6 months | 405 | 94 |
| **Balance at end of year** | **6,501** | **2,700** |

## Note 6 Trade and other receivables (continued)

### 6.4 Nature and extent of risk arising from receivables

Information about RailCorp's exposure to credit risk in relation to trade and other receivables is provided in Note 16. Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

### 6.5 Finance lease receivable

The gross investment and present values of receivables relating to future minimum lease payments under the finance lease agreements, for long term land lease with an initial term over 50 years are distributed as follows:

| | **30.6.2017 $'000** | **30.6.2016 $'000** |
|---|---|---|
| Not later than 1 year | 1,969 | 1,969 |
| Later than 1 year and not later than 5 years | 7,772 | 7,803 |
| Later than 5 years | 93,657 | 95,595 |
| Total gross receivable | 103,398 | 105,367 |
| Less: unearned finance charges | (70,899) | (72,637) |
| Present value minimum lease receivable | 32,499 | 32,730 |
| Split: | | |
| Current | 239 | 231 |
| Not-current | 32,260 | 32,499 |
| **Total finance lease receivable** | **32,499** | **32,730** |

## Note 7 Property, plant and equipment

### 7.1 Classes

| | 30.6.2017 $'000 | 30.6.2016 $'000 |
|---|---|---|
| **Land** | | |
| Gross carrying amount | 4,305,217 | 4,315,540 |
| **Buildings** | | |
| Gross carrying amount | 11,125,350 | 10,774,548 |
| Less accumulated depreciation | (4,426,716) | (4,237,878) |
| Net carrying amount - buildings | 6,698,634 | 6,536,670 |
| **Rolling stock** | | |
| Gross carrying amount | 5,286,154 | 5,222,823 |
| Less accumulated depreciation | (3,717,840) | (3,526,080) |
| Net carrying amount - rolling stock | 1,568,314 | 1,696,743 |
| **Plant and machinery** | | |
| Gross carrying amount | 329,482 | 292,901 |
| Less accumulated depreciation | (232,311) | (209,877) |
| Net carrying amount - plant and machinery | 97,171 | 83,024 |
| **Trackwork and infrastructure** | | |
| Gross carrying amount | 40,296,901 | 22,705,525 |
| Less accumulated depreciation | (23,562,539) | (10,094,852) |
| Net carrying amount - trackwork and infrastructure | 16,734,362 | 12,610,673 |
| **Capital work in progress** | | |
| Trackwork & infrastructure work in progress | 5,736,503 | 5,429,357 |
| Other work in progress | 781,892 | 625,131 |
| Total capital work in progress | 6,518,395 | 6,054,488 |
| **Total property, plant and equipment** | **35,922,093** | **31,297,138** |

## Note 7 Property, plant and equipment (continued)

### 7.2 Asset class movement

| | Land $000 | Buildings $000 | Rolling stock $000 | Plant and machinery $000 | Trackwork and infrastructure $000 | Capital works in progress $000 | Total $000 |
|---|---|---|---|---|---|---|---|
| Year ended 30 June 2017 | | | | | | | |
| **Net carrying amount at the beginning of the year** | **4,315,540** | **6,536,670** | **1,696,743** | **83,024** | **12,610,673** | **6,054,488** | **31,297,138** |
| Restatement of infrastructure assets* | - | - | - | - | 4,244,832 | - | 4,244,832 |
| **Net carrying amount at the beginning of the year (Restated)** | **4,315,540** | **6,536,670** | **1,696,743** | **83,024** | **16,855,505** | **6,054,488** | **35,541,970** |
| Additions | - | - | - | - | - | 1,522,521 | 1,522,521 |
| Completed capital work | 15,938 | 415,047 | 9,088 | 9,960 | 587,225 | (1,037,258) | - |
| Assets held for sale | 676 | - | - | - | - | - | 676 |
| Disposals/derecognition/ write-offs | (1,087) | (11,388) | (16) | (932) | (117,060) | (32,299) | (162,782) |
| Transfers to Transport cluster | (13,260) | - | - | - | - | - | (13,260) |
| Transfers from Transport cluster | - | - | 22,355 | - | - | 7,202 | 29,557 |
| Transfer to other entities | (27,103) | - | - | - | - | - | (27,103) |
| Revaluation due to transfers | 14,513 | (13,054) | - | - | - | - | 1,459 |
| Depreciation expense | - | (229,206) | (139,692) | (14,940) | (590,848) | - | (974,686) |
| Other movements | - | 565 | (20,164) | 20,059 | (460) | 3,741 | 3,741 |
| **Net carrying amount at the end of the year** | **4,305,217** | **6,698,634** | **1,568,314** | **97,171** | **16,734,362** | **6,518,395** | **35,922,093** |
| Year ended 30 June 2016 | | | | | | | |
| **Net carrying amount at the beginning of the year** | **4,295,411** | **6,316,611** | **1,830,219** | **190,040** | **11,706,057** | **4,786,563** | **29,124,901** |
| Additions | 3,337 | - | - | - | - | 2,011,612 | 2,014,949 |
| Completed capital work | 21,731 | 155,240 | 3,183 | 23,149 | 741,959 | (945,262) | - |
| Assets held for sale | (768) | - | - | - | - | - | (768) |
| Disposals/derecognition/ write-offs | (4,171) | (6,515) | (52) | (2,819) | (47,737) | (15,265) | (76,559) |
| Transfers to Transport cluster | - | - | - | - | - | (87,501) | (87,501) |
| Transfers from Transport cluster | - | - | - | - | - | 306,931 | 306,931 |
| Revaluation | - | - | - | - | 951,483 | - | 951,483 |
| Depreciation expense | - | (221,391) | (136,607) | (34,656) | (541,053) | - | (933,707) |
| Other movements | - | 292,725 | - | (92,690) | (200,036) | (2,590) | (2,591) |
| **Net carrying amount at the end of the year** | **4,315,540** | **6,536,670** | **1,696,743** | **83,024** | **12,610,673** | **6,054,488** | **31,297,138** |
| **Gross carrying amount** | | | | | | | |
| At 1 July 2015 | 4,295,411 | 10,316,595 | 5,229,084 | 538,272 | 21,113,577 | 4,786,563 | 46,279,502 |
| At 30 June 2016 | 4,315,540 | 10,774,548 | 5,222,823 | 292,901 | 22,705,525 | 6,054,488 | 49,365,825 |
| At 1 July 2016 | 4,315,540 | 10,774,548 | 5,222,823 | 292,901 | 40,079,257 | 6,054,488 | 66,739,557 |
| At 30 June 2017 | 4,305,217 | 11,125,350 | 5,286,154 | 329,482 | 40,296,901 | 6,518,395 | 67,861,499 |
| **Accumulated depreciation** | | | | | | | |
| At 1 July 2015 | - | (3,999,984) | (3,398,865) | (348,232) | (9,407,520) | - | (17,154,601) |
| At 30 June 2016 | - | (4,237,878) | (3,526,080) | (209,877) | (10,094,852) | - | (18,068,687) |
| At 1 July 2016 | - | (4,237,878) | (3,526,080) | (209,877) | (23,223,752) | - | (31,197,587) |
| At 30 June 2017 | - | (4,426,716) | (3,717,840) | (232,311) | (23,562,539) | - | (31,939,406) |
| **Net carrying amount** | | | | | | | |
| At 1 July 2015 | 4,295,411 | 6,316,611 | 1,830,219 | 190,040 | 11,706,057 | 4,786,563 | 29,124,901 |
| At 30 June 2016 | 4,315,540 | 6,536,670 | 1,696,743 | 83,024 | 12,610,673 | 6,054,488 | 31,297,138 |
| At 1 July 2016 | 4,315,540 | 6,536,670 | 1,696,743 | 83,024 | 16,855,505 | 6,054,488 | 35,541,970 |
| At 30 June 2017 | 4,305,217 | 6,698,634 | 1,568,314 | 97,171 | 16,734,362 | 6,518,395 | 35,922,093 |

* Refer Note 1 (c)

## Note 7 Property, plant and equipment (continued)

### 7.3 Valuation of property, plant and equipment

To confirm that the carrying value of property, plant and equipment materially reflects fair value as at 30 June 2017, independent valuers reviewed the appropriateness of the replacement costs as at 31 March 2017 for land, buildings, rolling stock, major plant and equipment, trackwork and infrastructure (excluding earthworks and tunnel boring assets) via indexation.

**(a) Land**

Land, other than land identified as available for sale, was valued by independent valuers (Land and Property Information Valuation Services) on the basis of existing use as at 1 September 2014. Each area was valued taking into account adjacent land use values, discounted to reflect limited existing use of the subject land, and its physical attributes.

An increase in the value of this class of asset, totalling $341m was credited to the asset revaluation reserve in 2014-15. Land identified as available for sale has been valued at estimated selling prices less costs to sell.

A fair value assessment was undertaken in the current year to confirm the carrying value materially reflects the fair value at 30 June 2017.

**(b) Buildings**

Buildings were valued by an independent valuer (Advisian) as at 1 November 2014 on the following basis:

- Railway stations/commercial/industrial type buildings and leased properties are portions of railway property generally adjacent to the corridor, the majority of which is used for railway purposes, and which land is not intended to be sold. Such properties were classed as specialised buildings and were valued at the replacement cost of the assets' remaining economic benefits based on a modern equivalent asset. Indirect costs, professional and builders' fees were added to direct costs. An additional allowance is made for heritage buildings to replicate the heritage appearance.
- Residences are severable, stand alone, properties that may be sold and, therefore, were classed as non specialised buildings and were valued at market value.

An increase in the value of this class of asset, totalling $714m was credited to the asset revaluation reserve in 2014-15.

A fair value assessment was undertaken in the current year to confirm the carrying value materially reflects the fair value at 30 June 2017.

**(c) Trackwork and infrastructure**

Trackwork and infrastructure was valued by an independent valuer (Advisian) as at 1 December 2015, and at 31 March 2017 (E3 Advisory) for earthworks and tunnel boring assets, at depreciated replacement cost. Valuation inputs to arrive at replacement cost are categorised in level 3 of the fair value hierarchy and are predominantly an assessment of the construction costs such as materials, labour and overhead. Replacement cost is measured by reference to the lowest cost of replacing the economic benefits with a technologically modern equivalent optimised asset, having regard to differences in the quality and quantity of outputs and operating costs, and adjusting for over design, over capacity and redundant components.

An increase in the value of this class of asset, totalling $951.5m was credited to the asset revaluation reserve in 2015-16. On 1 July 2016, RailCorp recognised tunnel boring assets and earthworks of $4.2b. Refer Note 1 (c).

A fair value assessment was undertaken in the current year to confirm the carrying value materially reflects the fair value at 30 June 2017.

## Note 7 Property, plant and equipment (continued)

### 7.3 Valuation of property, plant and equipment (continued)

**(d) Rolling stock**

Rolling stock was valued by an independent valuer (Interfleet Technologies Pty Limited) as at 31 December 2013 at depreciated replacement cost based on replacement costs of both domestic and international vehicles adjusted by an optimisation factor to reflect the technical and functional obsolescence and attractiveness of the fleet sub types relative to the modern equivalent. Sydney Trains and TfNSW engineers confirmed technical data and the remaining life of rolling stock.

An increase in the value of this class of asset, totalling $56.1m was credited to the asset revaluation reserve in 2013-14 and also includes the revaluation of fleet wagons.

A fair value assessment was undertaken in the current year to confirm the carrying value materially reflects the fair value at 30 June 2017.

**(e) Major Plant and Equipment**

Major plant and equipment, a sub class of plant and machinery was valued by an independent valuer (Rod Hyman Asset Services Pty Limited) as at 31 December 2013 by obtaining current replacement cost from major suppliers and determining economic life and remaining life to obtain a depreciated replacement cost.

A decrease in the value of this sub-class of asset, totalling $16.2m was debited to the asset revaluation reserve in 2013-14.

A fair value assessment was undertaken in the current year to confirm the carrying value materially reflects the fair value at 30 June 2017.

### 7.4 Heritage rolling stock

Heritage rolling stock, which includes locomotives and carriages, is held for its historical significance. It is recorded at nominal value.

### 7.5 Derecognition and disposal of assets

Infrastructure renewal activities resulted in the derecognition of $101.7m of assets and $27.5m of TfNSW work in progress, as well as $22.6m for the Wickham station rebuild / Rozelle land transfer. The total assets derecognised or disposed during the year was $159.9m (2016: $70.1m).

## Note 8 Intangible assets

### 8.1 Classes

| | 30.6.2017<br>$'000 | 30.6.2016<br>$'000 |
|---|---|---|
| **Software / Licences** | | |
| Gross carrying amount | 15,054 | 14,643 |
| Less accumulated amortisation | (12,085) | (10,460) |
| Net carrying amount of software / licences | 2,969 | 4,183 |
| **Software / licences works in progress** | **378,418** | **192,146** |
| **Total intangible assets** | **381,387** | **196,329** |

## Note 8 Intangible assets (continued)

### 8.2 Movements during the year

| | Software/ licenses $'000 | Software/licenses work in progress $'000 | Total $'000 |
|---|---|---|---|
| **2017** | | | |
| Carrying amount at start of year | 4,183 | 192,146 | 196,329 |
| Additions | - | 190,424 | 190,424 |
| Amortisation expense | (1,625) | - | (1,625) |
| Other movements | 411 | (4,152) | (3,741) |
| **Carrying amount at end of year** | **2,969** | **378,418** | **381,387** |
| 2016 | | | |
| Carrying amount at start of year | 745 | 33,278 | 34,023 |
| Additions | - | 162,310 | 162,310 |
| Amortisation expense | (2,163) | - | (2,163) |
| Other movements | 5,601 | (3,442) | 2,159 |
| **Carrying amount at end of year** | **4,183** | **192,146** | **196,329** |

## Note 9 Other assets

| | Note | 30.6.2017 $'000 | 30.6.2016 $'000 |
|---|---|---|---|
| Earned portion of right to receive Airport Line stations | 2.11 | 69,346 | 62,708 |
| **Total other assets** | | **69,346** | **62,708** |

## Note 10 Trade and other payables

### 10.1 Current trade and other payables

| | | |
|---|---|---|
| Trade payables | 35 | 622 |
| Transport cluster payables | 2,757 | 6,440 |
| Transport cluster capital expenditure accruals | 82,174 | 119,513 |
| Other payables and accruals | 39,253 | 22,802 |
| Deferred revenue | 2,610 | 2,056 |
| **Total current trade and other payables** | **126,829** | **151,433** |

### 10.2 Fair value

Due to the short-term nature of current trade and other payables, their carrying value is deemed to approximate their fair value.

## Note 11 Borrowings

| | Note | 30.6.2017 $'000 | 30.6.2016 $'000 |
|---|---|---|---|
| **Current** | | | |
| TCorp borrowings | | 205,866 | 777,166 |
| | | 205,866 | 777,166 |
| **Non-current** | | | |
| TCorp borrowings | | 2,240,227 | 1,617,368 |
| | | 2,240,227 | 1,617,368 |
| | | | |
| **Total borrowings** | | **2,446,093** | **2,394,534** |

RailCorp's borrowings are approved under the *Public Authorities (Financial Arrangements) Act 1987* and have an associated Government guarantee. The current borrowings are due to mature in the next 12 months and are expected to be refinanced on maturity. The liability is current as RailCorp does not have an unconditional right to defer settlement for at least 12 months.

## Note 12 Provisions

### 12.1 Provisions

| | | | |
|---|---|---|---|
| **Current provisions** | | | |
| Workers' compensation | 12.3 | 5,717 | 7,122 |
| Public liability claims | 12.4 | 2,327 | 5,329 |
| Legal claims | 12.5 | - | - |
| Airport Line asset replacement | 12.6 | 2,458 | 2,440 |
| Land and building remediation | 12.8 | 10,909 | 11,796 |
| Total other provisions | | 21,411 | 26,687 |
| **Total current provisions** | | **21,411** | **26,687** |
| **Non-current provisions** | | | |
| Superannuation | 19 | 220,892 | 281,774 |
| Total employee benefits and related on-costs | | 220,892 | 281,774 |
| Workers' compensation | 12.3 | 40,041 | 47,578 |
| Airport Line asset replacement | 12.6 | 3,062 | 3,491 |
| Quarry restoration | 12.7 | 4,058 | 3,974 |
| Land and building remediation | 12.8 | 5,127 | 9,127 |
| Total other provisions | | 52,288 | 64,170 |
| **Total non-current provisions** | | **273,180** | **345,944** |
| **Total provisions** | | | |
| Superannuation | 19 | 220,892 | 281,774 |
| **Total employee benefits and related on-costs** | | **220,892** | **281,774** |
| Workers' compensation | 12.3 | 45,758 | 54,700 |
| Public liability claims | 12.4 | 2,327 | 5,329 |
| Legal claims | 12.5 | - | - |
| Airport Line asset replacement | 12.6 | 5,520 | 5,931 |
| Quarry restoration | 12.7 | 4,058 | 3,974 |
| Land and building remediation | 12.8 | 16,036 | 20,923 |
| **Total other provisions** | | **73,699** | **90,857** |
| **Total provisions** | | **294,591** | **372,631** |

## Note 12 Provisions (continued)

### 12.2 Movements in provisions (other than employee benefit provisions)

| | Carrying amount at start of year $'000 | Administrative restructures - transfers out $'000 | Increase in provision $'000 | Discounting adjustment $'000 | Payments $'000 | Unused amount reversed $'000 | Carrying amount at end of year $'000 |
|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | |
| Workers Compensation | 54,700 | - | - | 875 | 8,765 | 1,052 | 45,758 |
| Public liability claims | 5,329 | - | 176 | - | 2,208 | 970 | 2,327 |
| Legal Claims | - | - | - | - | - | - | - |
| Airport Line Asset replacement | 5,931 | - | - | 91 | 502 | - | 5,520 |
| Quarry restoration | 3,974 | - | 104 | (20) | - | - | 4,058 |
| Land & buildings remediation | 20,923 | - | 3,516 | 117 | 4,947 | 3,573 | 16,036 |
| 2016 | | | | | | | |
| Workers Compensation | 63,363 | - | - | 1,203 | 4,674 | 5,192 | 54,700 |
| Public liability claims | 8,936 | - | 1,543 | - | 3,984 | 1,166 | 5,329 |
| Legal Claims | 410 | - | - | - | 209 | 201 | - |
| Airport Line Asset replacement | 6,651 | - | - | 618 | 1,338 | - | 5,931 |
| Quarry restoration | 3,907 | - | 52 | 15 | - | - | 3,974 |
| Land & buildings remediation | 47,417 | - | 6,229 | 328 | 28,353 | 4,698 | 20,923 |

## Note 12 Provisions (continued)

### 12.3 Workers' compensation

Workers' compensation insurance is in place to cover any claim exceeding $1m and the workers' compensation provision is maintained for smaller claims, for which RailCorp is a licensed self-insurer.

The workers' compensation liability at year end was assessed by McMahon Actuarial Services assuming a discount rate ranging from 1.7% to 4.0% per annum over the next 10 years (2016: ranging from 1.6% to 4.0% per annum) and a future wage inflation rate of 2.5% for year 1, 3.0% for year 2 and 3.5% per annum up to year 10 (2016: 3.5% per annum over the next 10 years).

The actuary has advised that no allowance was made for asbestos related claims (2016: nil). Liabilities for such claims prior to July 1996 were vested to the Crown. Post 1996 exposure to asbestos is low, highly uncertain and, therefore, cannot be quantified with any reliability.

### 12.4 Public liability claims

The public liability claims provision recognises claims against RailCorp that arise from personal injuries or property damage occurring on its premises or involving its assets.

Any claim recoverable from RailCorp's insurer is also recognised as a receivable or disclosed as a contingent asset, depending on its probability of settlement. Refer Notes 6 and 14.

The liability at year end was assessed by management. The likely amount to be settled was assessed on the basis of past experience. The likely timing of settlement was assessed by reviewing individual claims. The liability is inherently uncertain due to disputes over the existence or quantum of individual claims.

### 12.5 Legal claims

The legal claims provision recognises claims against RailCorp arising from legislative or contractual breaches or other matters.

The liability at year end was assessed by management by reviewing individual claims. The liability is inherently uncertain due to disputes over the existence or quantum of individual claims.

### 12.6 Airport Line asset replacement

The Airport Line asset replacement provision recognises RailCorp's contractual obligation to fund the renewal of major track and tunnel assets on the Airport Line, by the line's maintenance contractor during the term of the contract to 2030. Any unused balance of the provision remaining in 2030 will be shared equally with the maintenance contractor.

The liability at year end is the unused portion of the contractually specified maximum sum to be provided. The timing of payments are inherently uncertain as they are based on unpredictable future claims by the maintenance contractor. This provision has been discounted to a present value that reflects the time value of money.

### 12.7 Quarry restoration

The quarry restoration provision recognises RailCorp's legal obligation to restore quarry sites when operations cease.

The liability at year end was assessed by an independent expert undertaking site inspections to estimate the minimum cost of the necessary restoration work. The liability is inherently uncertain due to the time likely to elapse before the restoration is required.

## Note 12 Provisions (continued)

### 12.8 Land and buildings remediation provision

This provision is comprised of $8.0m (2016: $13.0m) for remediation of asbestos/other hazardous materials and $8.0m (2016:$7.9m) for remediation of contaminated land.

## Note 13 Contributed equity

### 13.1 Contributed equity

| | Note | 30.6.2017 $'000 | 30.6.2016 $'000 |
|---|---|---|---|
| Contributed equity at start of year | | 15,248,702 | 13,182,219 |
| Net assets / liabilities contributed by Government | 13.2 | 1,658,436 | 2,066,483 |
| **Contributed equity at end of year** | | **16,907,138** | **15,248,702** |

### 13.2 Contributed equity movements

The transfer of assets or (liabilities) from (or to) another NSW public sector entity are considered to be a contribution by the owner.

- NSW Treasury transferred cash of $1,669.2m to RailCorp for capital constructions (2016: $1,847m).
- RailCorp transferred land of $27.1m to Hunter Development Corporation and $13.3m to RMS.
- Sydney Trains transferred rolling stock of $22.4m and NSW Trains transferred work in progress of $7.2m in the current year. In the prior year, TfNSW transferred work in progress of $219.4m to RailCorp.

## Note 13 Contributed equity (continued)

### 13.2 Contributed equity movements (continued)

| | 30.6.2017 $'000 | 30.6.2016 $'000 |
|---|---|---|
| **Assets transferred from/(to) other entities** | | |
| Cash assets | 1,669,241 | 1,847,053 |
| Property, plant and equipment (net) | (10,805) | 219,430 |
| **Total assets** | **1,658,436** | **2,066,483** |
| **Total liabilities** | **-** | - |
| **Total net assets / liabilities transferred** | **1,658,436** | **2,066,483** |
| **Net assets / liabilities contributed by Government** | **1,658,436** | **2,066,483** |

## Note 14 Contingent liabilities and contingent assets

Contingent liabilities are possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of RailCorp.

The contingent liabilities are present obligations arising from past events which are not recognised because it is not probable that resources will be required to settle the obligation or the amount of the obligation cannot be reliably measured.

Contractual and other claims against RailCorp arise in the ordinary course of operations. The existence or quantum of each claim is usually in dispute and the outcome cannot be measured reliably.

RailCorp by virtue of its operations has a range of possible contamination in land and buildings. RailCorp is engaged in an ongoing process of identifying necessary remediation of land and buildings the final amount of which is contingent on further investigation and cannot be accurately calculated at the date of preparation of these Financial Statements. Land and buildings remediation, where there is a legal or constructive obligation to undertake remediation and the cost of which can be reliably estimated has been provided for. Refer Note 12.8.

Contingent assets represent matters that are unconfirmed (pending the occurrence or non-occurrence of an uncertain future event), or not reliably measurable or unlikely to be settled.

Contractual and other recoveries represent claims made by RailCorp against others in relation to contractual breaches and insurance claims in relation to other matters. The existence or quantum of each claim is usually in dispute.

## Note 15 Fair value measurements of non-financial assets

### 15.1 Fair value measurements of non-financial assets

RailCorp measures and recognises the following assets at fair value on a recurring basis:

- Land
- Building
- Rolling stock
- Plant and machinery
- Track work and infrastructure
- Other assets

Due to the specialised nature of RailCorp assets apart from some plant and machinery items such as forklifts and loaders, all others are not traded in active markets.

RailCorp has also measured assets of $0.02m (2016:$1.5m) at fair value on a non-recurring basis as a result of classifying the assets as held for sale.

Fair value measurements recognised in the Statement of Financial Position are categorised into the following levels at 30 June 2017.

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total fair value $'000 |
|---|---|---|---|---|
| **2017** | | | | |
| Land | - | - | 4,305,217 | 4,305,217 |
| Building | - | - | 6,698,634 | 6,698,634 |
| Rolling stock | - | - | 1,568,314 | 1,568,314 |
| Plant and equipment | - | 645 | 96,526 | 97,171 |
| Track work and infrastructure | - | - | 16,734,362 | 16,734,362 |
| Other assets | - | - | 69,346 | 69,346 |
| **Total recurring fair value measurements** | **-** | **645** | **29,472,399** | **29,473,044** |
| **2016** | | | | |
| Land | - | - | 4,315,540 | 4,315,540 |
| Building | - | - | 6,536,670 | 6,536,670 |
| Rolling stock | - | - | 1,696,743 | 1,696,743 |
| Plant and equipment | - | 903 | 82,121 | 83,024 |
| Track work and infrastructure | - | - | 12,610,673 | 12,610,673 |
| Other assets | - | - | 62,708 | 62,708 |
| **Total recurring fair value measurements** | **-** | **903** | **25,304,455** | **25,305,358** |

Level 2 fair value inputs include inputs other than quoted prices being known sales of comparable items to those assessed on a market evidence basis.

Level 3 fair value inputs include prices observed for recent transactions adjusted for market participant assumptions such as optimisation and obsolescence using the cost approach.

Plant and Equipment had some level 2 market based evidence whilst all other categories have been based on level 3 inputs.

RailCorp's policy is to recognise transfers into and transfers out of the fair value hierarchy as at the end of the reporting period. There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

For recurring and non-recurring fair value measurements, the highest and best use of non-financial assets is generally its current use.

## Note 15 Fair value measurements of non-financial assets (continued)

### 15.2 Valuation techniques used to derive level 2 and 3 fair values

**Recurring fair value measurements**

The fair value of non-financial assets that are not traded in an active market such as land, buildings, rolling stock, trackwork, infrastructure and specialised plant and equipment are determined using valuation techniques. The valuation techniques adapted involve the use of the cost approach in view of the specialised nature of the assets and the not for profit nature of RailCorp. The fair value measurement reflected the lowest cost amount to replace the service capacity with a technologically modern equivalent optimised asset adjusted for obsolescence and depreciation. The cost approach was consistent with the previous valuations of the assets. In arriving at the fair value for rolling stock and major plant and equipment where level 2 inputs other than quoted prices were used for similar assets that were observable with adjustments made to account for their operational suitability to RailCorp assets.

The fair value of RailCorp's right to receive the four stations is determined using the present value technique and is disclosed in 'other non-current assets' in the Statement of Financial Position. Inputs considered include the concession period, useful lives of the four stations, replacement costs, discount rates and escalation factors.

All of the resulting fair value estimates are included in levels 2 and 3 of the fair value hierarchy.

## Note 15 Fair value measurements of non-financial assets (continued)

### 15.3 Fair value measurements using significant unobservable inputs (level 3)

The following table is a reconciliation of level 3 items:

| | Land $'000 | Building $'000 | Rolling stock $'000 | Plant and equipment $'000 | Track work and infrastructure $'000 | Other assets $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Fair value at 1 July 2016 | 4,315,540 | 6,536,670 | 1,696,743 | 82,121 | 12,610,673 | 62,708 | 25,304,455 |
| Restatement of infrastructure assets** | - | - | - | - | 4,244,832 | - | 4,244,832 |
| Fair value at 1 July 2016 (Restated) | 4,315,540 | 6,536,670 | 1,696,743 | 82,121 | 16,855,505 | 62,708 | 29,549,287 |
| Transfers from Sydney Trains and NSW Trains | - | - | 22,355 | - | - | - | 22,355 |
| Assets held for Sale | 676 | - | - | - | - | - | 676 |
| Additions/transfers in | 15,938 | 415,612 | 9,088 | 30,019 | 587,225 | - | 1,057,882 |
| Disposals/transfers out | (41,450) | (11,388) | (20,180) | (932) | (117,520) | - | (191,470) |
| Gains/(losses) recognised in the Statement of Comprehensive Income* | - | (229,206) | (139,692) | (14,682) | (590,848) | 6,638 | (967,790) |
| Gains/(losses) recognised in Other Comprehensive Income | 14,513 | (13,054) | - | - | - | - | 1,459 |
| **Fair value at 30 June 2017** | **4,305,217** | **6,698,634** | **1,568,314** | **96,526** | **16,734,362** | **69,346** | **29,472,399** |
| | | | | | | | |
| Fair value at 1 July 2015 | 4,295,411 | 6,316,611 | 1,830,219 | 189,027 | 11,706,057 | 56,504 | 24,393,829 |
| Assets held for Sale | (768) | - | - | - | - | - | (768) |
| Additions/transfers in | 25,068 | 447,965 | 3,183 | 23,149 | 741,959 | - | 1,241,324 |
| Disposals/transfers out | (4,171) | (6,515) | (52) | (95,509) | (247,773) | - | (354,020) |
| Gains/(losses) recognised in the Statement of Comprehensive Income* | - | (221,391) | (136,607) | (34,546) | (541,053) | 6,204 | (927,393) |
| Gains/(losses) recognised in Other Comprehensive Income | - | - | - | - | 951,483 | - | 951,483 |
| **Fair value at 30 June 2016** | **4,315,540** | **6,536,670** | **1,696,743** | **82,121** | **12,610,673** | **62,708** | **25,304,455** |

* Gains/losses recognised in the Statement of Comprehensive Income relates to depreciation only with the exception of Other assets.

** Refer Note 1 (c)

For recurring level 3 fair value measurements, the change in unrealised gains/ losses for the period included in the surplus for the year for assets held at the end of the reporting period is nil in the current and prior year.

## Note 15 Fair value measurements of non-financial assets (continued)

### 15.3 Fair value measurements using significant unobservable inputs (level 3) (continued)

**Valuation inputs and relation to fair value**

Valuation inputs are consistently applied and have taken account of observable inputs which have then been adjusted for obsolescence and there has been no material change.

Unobservable inputs for rolling stock and major plant relate to functional obsolescence, technical obsolescence and qualitative attractiveness applied to replacement cost. Other inputs for rolling stock assets to derive optimised replacement cost include prices from relevant contracts awarded for the rolling stock manufacture. Certain level 2 inputs such as international prices and exchange rates which apply to rolling stock assets are adjusted for international transportation costs/structural modifications and are subsequently classified as level 3 inputs.

Unobservable inputs for infrastructure and buildings relate to raw materials and labour rates after considering historical data, existing assets and current railway infrastructure technologies. The inputs are categorised in level 3 of the fair value hierarchy and are unobservable due to the specialised nature of RailCorp assets. Other inputs include pricing, construction methodology, structural foundations, and other specific allowances were considered to establish the optimised replacement cost of each asset.

Unobservable inputs for other non-current assets include the replacement cost of the four stations in 2030, the discount rate and escalation factor.

There were no significant inter-relationships between unobservable inputs that materially affect fair value.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurement:

| Description | Significant Unobservable Input | Range of Inputs (probability or weighted average) | Relationship of unobservable inputs to fair value |
|---|---|---|---|
| Rolling Stock | Qualitative attractiveness is part of obsolescence, and is based on the age of fleet of 10-30 years and above. Qualitative attractiveness represents the discount to cost for an older item and is known as the indifference rental.<br><br>Other optimisation factors include: traction package; brake controller costs; air conditioning costs; disability compliance costs; passenger information system costs; video surveillance system costs and digital voice announcement system costs. | 5-20% based on fleet age<br><br>$152m<br><br>$72m | The older the fleet the greater the obsolescence attributed to qualitative attractiveness, and the lower the fair value. A 1% increase/decrease will change fair value by $1.5m.<br><br>The higher the obsolescence factors, the lower the fair value. A 1% increase/decrease will change fair value by $0.72m. |
| Plant & machinery | Physical & technical obsolescence | $1.5m (attributed to overhaul costs) | Impact to fair value is not material |
| Other assets | Replacement cost<br><br>Discount rate<br><br>Escalation rate | $212m<br><br>7%<br><br>2.5% | The fair value will increase/ (decrease) if the estimated:<br>• replacement cost increases/ (decreases)<br>• discount rate decreases (increases)<br>• escalation rate increases/ (decreases) |

## Note 15 Fair value measurements of non-financial assets (continued)

### 15.3 Fair value measurements using significant unobservable inputs (level 3) (continued)

**Valuation inputs and relation to fair value (continued)**

| Description | Significant Unobservable Input | Range of Inputs (probability or weighted average) | Relationship of unobservable inputs to fair value |
|---|---|---|---|
| Buildings | Contractor in-directs are based on past related index movements and consist mainly of preliminaries, overhead, margin and professional fees | 38-51% based on simple, semi-complex or complex site classifications | The higher the contractor in-directs, the higher the fair value. A 5% increase/decrease will change fair value by $77.6m. |
| | Other model in-directs are based on current industry standards / similar project outcomes and consist mainly of corporate overhead and project management. | 25% | The higher the in-directs, the higher the fair value. A 5% increase / decrease will change fair value by approximately $43.6m |
| Track work & infrastructure | Optimisation based on the percentage equivalent function, legacy equipment compared to a modern engineering equivalent replacement, construction or asset condition. | 10-100% | The higher the optimisation the higher the fair value. A 1% increase/decrease will change fair value by $117m. |
| | Mark-ups are based on current industry standards and similar project outcomes. | 102-126% | The higher the mark-ups, the higher the fair value. A 1% increase/decrease will change the fair value by $61m. |
| Land | Discount factor applied to adjacent land use values | 40-60% (station and maintenance areas)<br>60% (corridors)<br>90% (underground stations)<br>95% (underground corridors) | The higher the discount factor the lower the fair value. A 1% increase / decrease will change fair value by $102m. |

## Note 16 Financial instruments

### 16.1 Financial instruments

RailCorp holds the following financial instruments:

| | 30.6.2017 $'000 | 30.6.2016 $'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 164,301 | 259,284 |
| Trade and other receivables* | 264,197 | 60,541 |
| **Total financial assets** | **428,498** | **319,825** |
| **Financial liabilities** | | |
| Trade and other payables** | 115,065 | 148,556 |
| Borrowings | 2,446,093 | 2,394,534 |
| **Total financial liabilities** | **2,561,158** | **2,543,090** |

* Trade and other receivables exclude statutory receivables and prepayments, i.e. not within the scope of AASB 7 *Financial Instruments: Disclosures*

** Trade and other payables exclude statutory payables and unearned income, i.e. not within the scope of AASB 7 *Financial Instruments: Disclosures*

### 16.2 Financial risks

The operational activities of RailCorp expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk). A risk management program focuses on financial performance and seeks to minimise potential adverse effects from financial market price movements. Methods used to measure risk include sensitivity analysis in the case of interest rate and an ageing analysis for credit risk.

Risk management is carried out under approved policies. RailCorp's Treasury Management Policy establishes a prudential framework covering policies, best practice internal controls and reporting systems for the management of financial risks within RailCorp's operation. The policy covers specific areas such as interest rate risk, credit risk, and investment of excess funds. The RailCorp Treasury Management Policy is reviewed annually.

The primary objective of the Treasury Management policy is to achieve management of all financial risks in strict compliance with internal policies and guidelines within the broad framework of the NSW Treasury Management Policy (TPP07-7 *Commercial Policy Framework: Treasury Management Policy).* Accounting for Treasury Instruments is in accordance with the NSW Treasury accounting policy (TPP08-1 *Accounting Policy: Accounting for Financial Instruments*).

RailCorp identifies and evaluates financial risk. Treasury instruments approved for the management of financial risk are in accordance with the *Public Authorities (Financial Arrangements) Act 1987.*

### 16.3 Market risk

Market risk relates to fluctuations in the fair value of future cash flows of financial instruments because of changes in market prices. This applies to RailCorp's interest rate.

Sensitivity analysis on market risk is based on price variability taking into account the economic environment in which RailCorp operates and the time frame for assessment, that is, until the end of the next reporting period. The sensitivity analysis is based on financial instruments held at the balance date. The analysis assumes that all other variables remain constant.

## Note 16 Financial instruments (continued)

### 16.3 Market risk (continued)

#### 16.3.1 Interest rate risk

Interest rate risk refers to the market value of financial instruments or cash flows associated with the instruments fluctuating due to changes in market yields. RailCorp's main interest rate risk relates primarily to borrowings with TCorp.

**Debt**
RailCorp adopts a continuously diversified approach to managing its debt portfolio. Debt maturity is spread across the yield curve, comprising both short-term TCorp borrowing and long-term semi government bonds. A neutral benchmark measures the performance of the debt portfolio.

RailCorp's Treasury Management Policy requires the face value of short term debt (less than 12 months) to be a maximum of 10% of the total face value of the debt portfolio. The Weighted Average Life (duration) will be used to measure the debt portfolio. The debt portfolio is managed through a restructuring facility offered by TCorp. Borrowings issued at variable rates expose RailCorp to cash flow risk.

| | Interest Rate | | Principal Amount | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **%** | % | **$'000** | $'000 |
| **Financial assets** | | | | |
| **Not later than 1 year** | | | | |
| Cash at bank | **1.50** | 1.75 | **164,301** | 258,346 |
| Deposits on Call - TCorp Investment | **-** | 1.70 | **-** | 938 |
| Total financial assets | | | **164,301** | **259,284** |
| **Financial liabilities** | | | | |
| **Not later than 1 year** | | | | |
| Borrowings | **1.70** | 1.92 | **205,866** | 777,166 |
| **Between 1 and 5 years** | | | | |
| Borrowings | **2.74** | 2.80 | **1,618,484** | 742,198 |
| **Later than 5 years** | | | | |
| Borrowings | **3.02** | 3.09 | **621,743** | 875,170 |
| Total financial liabilities | | | **2,446,093** | 2,394,534 |
| **Net exposure** | | | **(2,281,792)** | **(2,135,250)** |

## Note 16 Financial instruments (continued)

### 16.3 Market risk (continued)

#### 16.3.1 Interest rate risk (continued)

**Interest rate sensitivity analysis**

Exposure to interest rate risk arises primarily through RailCorp's interest bearing liabilities. A change of +/- 1% is used, consistent with current trends in interest rates, to measure RailCorp's financial sensitivity to interest rate movements. RailCorp's exposure to interest rate risk is set out below:

| | Carrying amount $'000 | Surplus/deficit $'000 | | Equity $'000 | |
|---|---|---|---|---|---|
| | | -1% | +1% | -1% | +1% |
| **2017** | | | | | |
| Bank deposits | 164,301 | (1,643) | 1,643 | (1,643) | 1,643 |
| Borrowings | 2,446,093 | 24,461 | (24,461) | 24,461 | (24,461) |
| **2016** | | | | | |
| TCorp investments and bank deposits | 259,284 | (2,593) | 2,593 | (2,593) | 2,593 |
| Borrowings | 2,394,534 | 23,945 | (23,945) | 23,945 | (23,945) |

### 16.4 Credit risk

Credit risk arises where there is the possibility of RailCorp's debtors defaulting on their contractual obligations, resulting in a financial risk to RailCorp.

Credit risk can arise from financial assets of RailCorp, including cash and cash equivalents, deposits with banks as well as credit exposure to customers, including outstanding receivables and committed transactions. RailCorp holds bank guarantees for significant customers as well as property bonds for some leased premises. RailCorp has not granted any financial guarantees. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

RailCorp's credit risk policy is aimed at minimising the potential for counter party default. RailCorp uses the Standard & Poor's rating system in assessing credit risk.

Credit risk associated with RailCorp's financial assets, other than receivables, is managed through the sound selection of counterparties and establishment of minimum credit rating standards. The *Public Authorities (Financial Arrangements) Act 1987* requires RailCorp to transact all debt management and investment activities with TCorp, which has an AAA credit rating from Standard & Poor's due to their financial arrangements and obligations being guaranteed by the NSW Government.

RailCorp held $164.3m (2016: $259.3m) in cash at bank and investments at 30 June 2017. This was held with Westpac Banking Corporation.

## Note 16 Financial instruments (continued)

### 16.4 Credit risk (continued)

**Trade receivables**
The maximum credit risk exposure in relation to receivables is the carrying amount, less the allowance for impaired debts. Where necessary to support approval of a credit application for customers, security may need to be obtained in the form of an unconditional bank guarantee and/or security deposit.

RailCorp is not obliged to extend credit. RailCorp is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors.

**Investments**
RailCorp held funds on deposit with Westpac Banking Corporation at 30 June 2017. The deposits at balance date were earning an average interest rate of 1.5% (2016: 1.75%) while over the year the weighted average interest rate was 1.53% (2016: 2.00%) on an average balance during the year of $213.4m (2016: $131.3m).

### 16.5 Liquidity risk

Liquidity risk refers to RailCorp being unable to meet its payment obligations when they fall due. RailCorp manages risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Credit standby arrangements are shown at Note 5.3.

During the current and prior years, there have been no defaults or breaches on any loans payable. No assets have been pledged as collateral. RailCorp exposure to liquidity risk is deemed insignificant based on prior period data and current assessment of risk.

Liabilities are recognised for amounts due to be paid in the future for goods and services received, whether or not invoiced. If trade terms are not specified, payment is generally made no later than the end of the month following the month in which an invoice or a statement is received.

The following table reflects the maturity band for all contractual obligations including the payment of principal and interest resulting from recognised financial liabilities at reporting date excluding the impact of netting.

## Note 16 Financial instruments (continued)

### 16.5 Liquidity risk (continued)

| | Carrying Amount $'000 | Contract Cash flow $'000 | Less than 1 Year $'000 | Between 1 and 5 Years $'000 | Over 5 Years $'000 |
|---|---|---|---|---|---|
| **30 June 2017** | | | | | |
| **Financial assets** | | | | | |
| Cash & cash equivalents | 164,301 | 164,301 | 164,301 | - | - |
| Trade and other receivables | 264,197 | 264,197 | 231,937 | 921 | 31,339 |
| | **428,498** | **428,498** | **396,238** | **921** | **31,339** |
| **Financial liabilities** | | | | | |
| Trade and other payables | 115,065 | 115,065 | 115,065 | - | - |
| Borrowings | 2,446,093 | 2,735,755 | 305,976 | 1,781,696 | 648,083 |
| Finance lease liability | - | - | - | - | - |
| | **2,561,158** | **2,850,820** | **421,041** | **1,781,696** | **648,083** |
| Forward exchange contracts outflow | - | - | - | - | - |
| Commodity swap contracts outflow | - | - | - | - | - |
| Commodity swap contracts inflow | - | - | - | - | - |
| | **-** | **-** | **-** | **-** | **-** |
| **30 June 2016** | | | | | |
| **Financial assets** | | | | | |
| Cash & cash equivalents | 259,284 | 259,284 | 259,284 | **-** | **-** |
| Trade and other receivables | 60,541 | 60,541 | 28,042 | 931 | 31,568 |
| | **319,825** | **319,825** | **287,326** | **931** | **31,568** |
| **Financial liabilities** | | | | | |
| Trade and other payables | 148,556 | 148,556 | 148,556 | - | - |
| Borrowings | 2,394,534 | 2,667,973 | 843,965 | 926,731 | 897,277 |
| | **2,543,090** | **2,816,529** | **992,521** | **926,731** | **897,277** |

### 16.6 Fair value compared to carrying amount

The fair values of financial instrument assets and liabilities are determined as follows:

- the fair value of financial instrument assets and liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial instrument assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

RailCorp considers that the carrying amount of financial instrument assets and liabilities recorded in the Financial Statements to be a fair approximation of their fair values, because of the short-term nature of the financial instruments and the expectation that they will be paid in full.

The fair values of most of the contractual financial assets and liabilities are the same as the carrying amounts.

Financial liabilities recognised at fair value after initial recognition include borrowings in the current year. The fair value of borrowings is estimated by discounting the future contractual cash flows at the current market interest rates that are available to RailCorp for similar financial instruments. As at 30 June 2017, the market rates were determined to be between 1.69% to 3.10% (2016: 1.92% to 2.45%). The financial liabilities are recognised on a recurring basis in the Statement of Financial Position.

## Note 16 Financial instruments (continued)

### 16.6 Fair value compared to carrying amount (continued)

There were no transfers between levels 1 and 2, and levels 2 and 3 during the year.

The fair value of financial assets and liabilities recognised in the Statement of Financial Position is as follows:

| | Fair value $'000 | Carrying value $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 |
|---|---|---|---|---|---|
| **Fair value at 30 June 2017** | | | | | |
| **Financial liabilities** | | | | | |
| Borrowings | 2,505,099 | 2,446,093 | - | 2,505,099 | - |
| **Total financial liabilities** | **2,505,099** | **2,446,093** | **-** | **2,505,099** | **-** |
| **Fair value at 30 June 2016** | | | | | |
| **Financial liabilities** | | | | | |
| Borrowings | 2,490,842 | 2,394,534 | - | 2,490,842 | - |
| **Total financial liabilities** | **2,490,842** | **2,394,534** | **-** | **2,490,842** | - |

## Note 17 Related parties

### 17.1 Key management personnel compensation

During 2016-17, RailCorp did not incur any expenses in respect of key management personnel services.

### 17.2 Transactions & outstanding balances with key management personnel

During 2016-17, the Acting Chief Executive and Chief Financial Officer who are executives of Sydney Trains provided their services to RailCorp at no charge.

## Note 17 Related parties (continued)

### 17.3 Transactions with government related entities during the year

RailCorp entered into transactions and held balances with other entities that are controlled or jointly controlled by the NSW Government. All of the activities were undertaken in the ordinary course of business operations.

The following transactions are significant either individually or in aggregate:

| Nature of Transaction | Agency | Value $'000 |
|---|---|---|
| Access rights to rail network , stations and property | Sydney Trains<br>NSW Trains | No charge |
| Routine maintenance services for RailCorp assets | Sydney Trains | No charge |
| Transfer (out) of land at fair value of $27.1m | Hunter Development Corporation | Ten dollars |
| Rolling stock transfer in at fair value of $22.4m | Sydney Trains | Nil |
| Transfer (out) of land at fair value of $13.3m | RMS | Nil |
| Work in progress transfer in at fair value of $7.2m | NSW Trains | Nil |
| Car park facility transfer in at fair value of $0.2m | TfNSW | Nil |
| Capital grants to fund capital activities | TfNSW | 70,466 |
| Capital funding via equity | NSW Treasury | 1,669,241 |
| Approved borrowings for capital projects | T-Corp | 2,446,093 |

### 17.4 Transactions and outstanding balances with other related parties

During 2016-17, RailCorp did not engage in any transactions / have outstanding balances with other related parties.

Other related parties may include close family members of key management personnel, private entities controlled or jointly controlled by close family members and private entities controlled or jointly controlled by key management personnel.

## Note 18 Joint operation

RailCorp has a participating 50% interest in the AK Car Joint Arrangement which operates an inspection railcar as a jointly controlled operation. The arrangement commenced on 1 February 2006. The aggregate amount of RailCorp's assets employed in the joint operation is $0.1m (2016: $0.2m).

The purpose of joint operation is to maximise the efficient use of AK Car in undertaking track conditioning monitoring services. The principal place of operation is the maintenance service centre in Granville.

## Note 19 Superannuation

**Overview**
Employer contributions are made to 3 defined-benefit superannuation schemes. An underfunded scheme is recognised as a provision and an overfunded scheme is recognised as an asset. Details of both the provisions and assets are disclosed below.

**Nature of the benefits provided by the fund**
The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:
- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal.

All the schemes are closed to new members.

**Description of the regulatory framework**
The schemes in the Pooled Fund are established and governed by the following NSW legislation: Superannuation Act 1916, State Authorities Superannuation Act 1987, State Authorities Non-Contributory Superannuation Scheme Act 1987, and their associated regulations.

The schemes in the Pooled Fund are exempt public sector superannuation schemes under the Commonwealth Superannuation Industry (Supervision) Act 1993 (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2015. The next actuarial investigation will be performed as at 30 June 2018.

**Description of other entities' responsibilities for the governance of the fund**
The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of fund beneficiaries. The Trustee has the following roles:
- Administration of the fund and payment to the beneficiaries from fund assets when required in accordance with the fund rules;
- Management and investment of the fund assets; and
- Compliance with other applicable regulations.

## Note 19 Superannuation (continued)

**Description of risks**
There are a number of risks to which the Fund exposes the Employer. The more significant risks relating to the defined benefits are:

- **Investment risk** - The risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall.
- **Longevity risk** – The risk that pensioners live longer than assumed, increasing future pensions.
- **Pension indexation risk** – The risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- **Salary growth risk** - The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- **Legislative risk** - The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

**Description of significant events**
There were no fund amendments, curtailments or settlements during the year.

### 30 June 2017

The following is the 30 June 2017 superannuation position from the Pillar Administration Letter:

| **Member Numbers** | SASS 30-Jun-17 | SANCS 30-Jun-17 | SSS 30-Jun-17 | TOTAL 30-Jun-17 |
|---|---|---|---|---|
| Contributors | - | - | - | |
| Deferred benefits | - | - | - | |
| Pensioners | 391 | - | 20 | |
| Pensions fully commuted | - | - | - | |
| Superannuation Position for AASB 119 purposes | $'000 | $'000 | $'000 | $'000 |
| Accrued liability (Note 1) | 313,074 | 556 | 42,556 | 356,186 |
| Estimated reserve account balance | (120,200) | 3,153 | (18,247) | (135,294) |
| 1. Deficit/(surplus) | 192,874 | 3,709 | 24,309 | 220,892 |
| 2. Future Service Liability (Note 2) | - | - | - | - |
| 3. Surplus in excess of recovery available from schemes (- 1. - 2. and subject to a minimum of zero) | - | - | - | - |
| 4. Net (asset)/liability to be recognised in statement of financial position (1. + 3.) | 192,874 | 3,709 | 24,309 | 220,892 |

Note 1:
The accrued liability includes a contribution tax provision. This is calculated based on grossing up the deficit/(surplus) less the allowance for past service expenses and insurable death and disability liabilities at a contribution tax rate of 15%.
Note 2:
The Future Service Liability (FSL) does not have to be recognised by an employer. It is only used to determine if an asset ceiling limit should be imposed (AASB 119 para 64). Under AASB 119, any prepaid superannuation asset recognised cannot exceed the present value of any economic benefits that may be available in the form of refunds from the plan or reductions in future contributions to the plan. Where the "surplus in excess of recovery" is zero, no asset ceiling limit is imposed. (Note: this also includes a contribution tax provision).

## Note 19 Superannuation (continued)

**Reconciliation of the Net Defined Benefit Liability/(Asset) - Para 140(a)**

| Financial Year to 30 June 2017 | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| **Net Defined Benefit Liability/(Asset) at start of year** | **247,007** | **4,915** | **29,852** | **281,774** |
| Current service cost | 0 | - | - | 0 |
| Net Interest on the net defined benefit liability/(asset) | 4,780 | 88 | 594 | 5,462 |
| Past service cost | - | - | - | - |
| (Gains)/losses arising from settlements | - | - | - | - |
| Actual return on Fund assets less Interest income | (7,206) | (99) | (1,275) | (8,580) |
| Actuarial (gains)/losses arising from changes in demographic assumptions | - | - | 0 | 0 |
| Actuarial (gains)/losses arising from changes in financial assumptions | (28,014) | - | (4,154) | (32,168) |
| Actuarial (gains)/losses arising from liability experience | (10,139) | (195) | (708) | (11,042) |
| Adjustment for effect of asset ceiling | - | - | - | - |
| Employer contributions | (13,554) | (1,000) | - | (14,554) |
| Effects of transfers in/out due to business combinations and disposals | - | - | - | - |
| **Net Defined Benefit Liability/(Asset) at end of year** | **192,874** | **3,709** | **24,309** | **220,892** |

**Reconciliation of the Fair Value of Fund Assets – Para 140(a)(i)**

| Financial Year to 30 June 2017 | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| **Fair value of Fund assets at beginning of the year** | **106,191** | **(4,178)** | **17,917** | **119,930** |
| Interest income | 2,159 | (73) | 344 | 2,430 |
| Actual return on Fund assets less Interest income | 7,206 | 99 | 1,275 | 8,580 |
| Employer contributions | 13,554 | 1,000 | - | 14,554 |
| Contributions by participants | - | - | - | - |
| Benefits paid | (12,841) | 8 | (1,577) | (14,410) |
| Taxes, premiums & expenses paid | 3,931 | (9) | 288 | 4,210 |
| Transfers in/out due to business combinations and disposals | - | - | - | - |
| Contributions to accumulation section | - | - | - | - |
| Settlements | - | - | - | - |
| Exchange rate changes | - | - | - | - |
| **Fair value of Fund assets at end of the year** | **120,200** | **(3,153)** | **18,247** | **135,294** |

## Note 19 Superannuation (continued)

**Reconciliation of the Defined Benefit Obligation – Para 140(a)(ii)**

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| **Present value of defined benefit obligations at beginning of the year** | **353,198** | **737** | **47,769** | **401,704** |
| Current service cost | 0 | - | - | 0 |
| Interest cost | 6,940 | 15 | 938 | 7,893 |
| Contributions by participants | - | - | - | - |
| Actuarial (gains)/losses arising from changes in demographic assumptions | - | - | - | - |
| Actuarial (gains)/losses arising from changes in financial assumptions | (28,014) | - | (4,154) | (32,168) |
| Actuarial (gains)/losses arising from liability experience | (10,139) | (195) | (708) | (11,042) |
| Benefits paid | (12,842) | 8 | (1,577) | (14,411) |
| Taxes, premiums & expenses paid | 3,931 | (9) | 288 | 4,210 |
| Transfers in/out due to business combinations and disposals | - | - | - | - |
| Contributions to accumulation section | - | - | - | - |
| Past service cost | - | - | - | - |
| Settlements | - | - | - | - |
| Exchange rate changes | - | - | - | - |
| **Present value of defined benefit obligations at end of the year** | **313,074** | **556** | **42,556** | **356,186** |

**Reconciliation of the effect of the Asset Ceiling - Para 140(a)(iii)**

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| **Adjustment for effect of asset ceiling at beginning of the year** | **-** | **-** | **-** | **-** |
| Change in the effect of asset ceiling | **-** | **-** | **-** | **-** |
| **Adjustment for effect of asset ceiling at end of the year** | **-** | **-** | **-** | **-** |

The adjustment for the effect of asset ceiling has been determined based on the maximum economic benefit available to the entity in the form of reductions in future employer contributions.

## Note 19 Superannuation (continued)

**Fair value of Fund assets - Para 142**

All Pooled Fund assets are invested by SAS Trustee Corporation (STC) at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund.

| As at 30 June 2017<br>Asset category | Total<br>$'000 | Quoted prices in active markets for identical assets Level 1<br>$'000 | Significant unobservable inputs Level 2<br>$'000 | unobservable inputs Level 3<br>$'000 |
|---|---|---|---|---|
| Cash | 3,087,307 | 3,077,362 | 9,945 | - |
| Australian Fixed Interest | 2,500,725 | 997 | 2,499,728 | - |
| International Fixed Interest | 480,991 | - | 480,991 | - |
| Australian Equities | 9,446,079 | 8,947,483 | 498,572 | 24 |
| International Equities | 12,053,503 | 9,033,497 | 1,869,112 | 1,150,894 |
| Property | 3,453,107 | 926,105 | 533,190 | 1,993,812 |
| Alternatives | 9,066,056 | 390,899 | 5,068,137 | 3,607,020 |
| **Total^** | **40,087,768** | **22,376,343** | **10,959,675** | **6,751,750** |

The percentage invested in each asset class at the reporting date is:

| As at | 30-Jun-17 |
|---|---|
| Cash | 7.7% |
| Australian Fixed Interest | 6.2% |
| International Fixed Interest | 1.2% |
| Australian Equities | 23.6% |
| International Equities | 30.1% |
| Property | 8.6% |
| Alternatives | 22.6% |
| **Total** | **100.0%** |

Level 1 - quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares; listed unit trusts.

Level 2 - inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government, semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities.

Level 3 - inputs for the asset or liability that are not based on observable market data. The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cashflow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such managers make limited use of derivatives.

**Fair value of entity's own financial instruments - Para 143**

The fair value of the Pooled Fund assets as at 30 June 2017 include $354.0 million in NSW government bonds.

Of the direct properties owned by the Pooled Fund:

SAS Trustee Corporation occupies part of a property 100% owned by the Pooled Fund with a fair value of $250 million (30 June 2016: $222 million).

Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of $261 million (30 June 2016: $243 million).

## Note 19 Superannuation (continued)

**Significant Actuarial Assumptions at the Reporting Date - Para 144**

| | |
|---|---|
| Discount rate | 2.62% |
| Salary increase rate (excluding promotional increases) | 2.50% 2017/2018 and 2018/2019; 3.50% 2019/2020 and 2020/2021; 3.00% pa 2021/2022 to 2025/2026; 3.50% pa thereafter |
| Rate of CPI increase | 2.00% 2017/2018; 2.25% 2018/2019; 2.50% pa thereafter |
| Pensioner mortality | The pensioner mortality assumptions are as per the 2015 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age. |

**Sensitivity Analysis - Para 145**

The entity's total defined benefit obligation as at 30 June 2017 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2017.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

| | Base case | Scenario A -1.0% Discount rate | Scenario B +1.0% Discount rate |
|---|---|---|---|
| Discount rate | as above | as above -1.0% pa | as above +1.0% pa |
| Rate of CPI increase | as above | as above | as above |
| Salary inflation rate | as above | as above | as above |
| Defined benefit obligation ($'000) | 356,186 | 408,139 | 313,129 |

| | Base case | Scenario C +0.5% rate of CPI increase | Scenario D -0.5% rate of Discount rate |
|---|---|---|---|
| Discount rate | as above | as above | as above |
| Rate of CPI increase | as above | above rates plus 0.5% pa | above rates less 0.5% pa |
| Salary inflation rate | as above | as above | as above |
| Defined benefit obligation ($'000) | 356,186 | 381,352 | 333,071 |

| | Base case | Scenario E +0.5% salary increase rate | Scenario F -0.5% salary increase rate |
|---|---|---|---|
| Discount rate | as above | as above | as above |
| Rate of CPI increase | as above | as above | as above |
| Salary inflation rate | as above | above rates plus 0.5% pa | above rates less 0.5% pa |
| Defined benefit obligation ($'000) | 356,186 | 356,186 | 356,186 |

| | Base case | Scenario G Lower Mortality* | Scenario H Higher Mortality** |
|---|---|---|---|
| Defined benefit obligation ($'000) | 356,186 | 364,314 | 350,885 |

*Assumes the short term pensioner mortality improvement factors for years 2017-2021 also apply for years after 2021

**Assumes the long term pensioner mortality improvement factors for years post 2021 also apply for years 2017 to 2021

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

## Note 19 Superannuation (continued)

**Asset-Liability matching strategies - Para 146**
The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cashflows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.

**Funding arrangements - Para 147(a)**
Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2015. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

**Surplus/deficit**
The following is a summary of the 30 June 2017 financial position of the Fund calculated in accordance with AASB 1056 Accounting Standard "Superannuation Entities":

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| Accrued benefits* | 169,182 | - | 22,269 | 191,451 |
| Net market value of Fund assets | (120,200) | 3,153 | (18,247) | (135,294) |
| **Net (surplus)/deficit** | **48,982** | **3,153** | **4,022** | **56,157** |

*There is no allowance for a contribution tax provision within the Accrued Benefits figure for AASB 1056. Allowance for contributions tax is made when setting the contribution rates.

**Contribution recommendations**
Recommended contribution rates for the entity are:

| | SASS multiple of member contributions | SANCS % member salary | SSS multiple of member contributions |
|---|---|---|---|
| | #N/A | #N/A | #N/A |

**Economic assumptions**
The economic assumptions adopted for the 30 June 2017 AASB 1056 Accounting Standard "Superannuation Entities":

| **Weighted-Average Assumptions** | |
|---|---|
| Expected rate of return on Fund assets backing current pension liabilities | 7.4% pa |
| Expected rate of return on Fund assets backing other liabilities | 6.4% pa |
| Expected salary increase rate (excluding promotional salary increases) | 2.7% to 30 June 2019 then 3.2% pa thereafter |
| Expected rate of CPI increase | 2.2% pa |

**Expected contributions - Para 147(b)**

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| Expected employer contributions | 10,093 | - | - | 10,093 |

**Maturity profile of defined benefit obligation - Para 147(c)**
The weighted average duration of the defined benefit obligation is 12.6 years.

## Note 19 Superannuation (continued)

**Profit or Loss Impact**

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| Current service cost | - | - | - | - |
| Net interest | 4,780 | 88 | 594 | 5,462 |
| Past service cost | - | - | - | - |
| (Gains)/Loss on settlement | - | - | - | - |
| **Profit or loss component of the Defined Benefit Cost** | **4,780** | **88** | **594** | **5,462** |

**Other Comprehensive Income**

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| Actuarial (gains) losses on liabilities | (38,153) | (195) | (4,862) | (43,210) |
| Actual return on Fund assets less Interest income | (7,206) | (99) | (1,275) | (8,580) |
| Change in the effect of asset ceiling | - | - | - | - |
| **Total remeasurement in Other Comprehensive Income** | **(45,359)** | **(294)** | **(6,137)** | **(51,790)** |

## Note 19 Superannuation (continued)

**30 June 2016**

The following is the 30 June 2016 superannuation position from the Pillar Administration Letter:

| **Member Numbers** | SASS 30-Jun-16 | SANCS 30-Jun-16 | SSS 30-Jun-16 | TOTAL 30-Jun-16 |
|---|---|---|---|---|
| Contributors | - | - | - | |
| Deferred benefits | - | - | - | |
| Pensioners | 392 | - | 20 | |
| Pensions fully commuted | - | - | - | |
| Superannuation Position for AASB 119 purposes | $'000 | $'000 | $'000 | $'000 |
| Accrued liability (Note 1) | 353,198 | 737 | 47,769 | 401,704 |
| Estimated reserve account balance | (106,191) | 4,178 | (17,917) | (119,930) |
| 1. Deficit/(surplus) | 247,007 | 4,915 | 29,852 | 281,774 |
| 2. Future Service Liability (Note 2) | - | - | - | - |
| 3. Surplus in excess of recovery available from schemes (- 1. - 2. and subject to a minimum of zero) | - | - | - | - |
| 4. Net (asset)/liability to be recognised in statement of financial position (1. + 3.) | 247,007 | 4,915 | 29,852 | 281,774 |

Note 1:
The accrued liability includes a contribution tax provision. This is calculated based on grossing up the deficit/(surplus) less the allowance for past service expenses and insurable death and disability liabilities at a contribution tax rate of 15%.
Note 2:
The Future Service Liability (FSL) does not have to be recognised by an employer. It is only used to determine if an asset ceiling limit should be imposed (AASB 119 para 64). Under AASB 119, any prepaid superannuation asset recognised cannot exceed the present value of any economic benefits that may be available in the form of refunds from the plan or reductions in future contributions to the plan. Where the “surplus in excess of recovery” is zero, no asset ceiling limit is imposed. (Note: this also includes a contribution tax provision).

## Note 19 Superannuation (continued)

**Reconciliation of the Net Defined Benefit Liability/(Asset)**

| Financial Year to 30 June 2016 | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| **Net Defined Benefit Liability/(Asset) at start of year** | **250,787** | **4,431** | **22,304** | **277,522** |
| Current service cost | 15 | 6 | - | 21 |
| Net Interest on the net defined benefit liability/(asset) | 7,402 | 134 | 676 | 8,212 |
| Past service cost | - | - | - | - |
| (Gains)/losses arising from settlements | - | - | - | - |
| Actual return on Fund assets less Interest income | 551 | (111) | (19) | 421 |
| Actuarial (gains)/losses arising from changes in demographic assumptions | (33,062) | - | 1,300 | (31,762) |
| Actuarial (gains)/losses arising from changes in financial assumptions | 38,152 | - | 5,704 | 43,856 |
| Actuarial (gains)/losses arising from liability experience | (3,850) | 455 | (113) | (3,508) |
| Adjustment for effect of asset ceiling | - | - | - | - |
| Employer contributions | (12,988) | - | - | (12,988) |
| Effects of transfers in/out due to business combinations and disposals | - | - | - | - |
| **Net Defined Benefit Liability/(Asset) at end of year** | **247,007** | **4,915** | **29,852** | **281,774** |

**Reconciliation of the Fair Value of Fund Assets**

| Financial Year to 30 June 2016 | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| **Fair value of Fund assets at beginning of the year** | **106,845** | **(3,693)** | **18,867** | **122,019** |
| Interest income | 3,129 | (121) | 548 | 3,556 |
| Actual return on Fund assets less Interest income | (551) | 111 | 19 | (421) |
| Employer contributions | 12,988 | - | - | 12,988 |
| Contributions by participants | - | - | - | - |
| Benefits paid | (13,992) | (355) | (1,619) | (15,966) |
| Taxes, premiums & expenses paid | (2,228) | (120) | 102 | (2,246) |
| Transfers in/out due to business combinations and disposals | - | - | - | - |
| Contributions to accumulation section | - | - | - | - |
| Settlements | - | - | - | - |
| Exchange rate changes | - | - | - | - |
| **Fair value of Fund assets at end of the year** | **106,191** | **(4,178)** | **17,917** | **119,930** |

## Note 19 Superannuation (continued)

**Reconciliation of the Defined Benefit Obligation**

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| **Present value of defined benefit obligations at beginning of the year** | **357,632** | **738** | **41,171** | **399,541** |
| Current service cost | 15 | 6 | - | 21 |
| Interest cost | 10,531 | 13 | 1,223 | 11,767 |
| Contributions by participants | - | - | - | - |
| Actuarial (gains)/losses arising from changes in demographic assumptions | (33,062) | - | 1,299 | (31,763) |
| Actuarial (gains)/losses arising from changes in financial assumptions | 38,153 | - | 5,705 | 43,858 |
| Actuarial (gains)/losses arising from liability experience | (3,850) | 454 | (113) | (3,509) |
| Benefits paid | (13,992) | (355) | (1,619) | (15,966) |
| Taxes, premiums & expenses paid | (2,229) | (119) | 103 | (2,245) |
| Transfers in/out due to business combinations and disposals | - | - | - | - |
| Contributions to accumulation section | - | - | - | - |
| Past service cost | - | - | - | - |
| Settlements | - | - | - | - |
| Exchange rate changes | - | - | - | - |
| **Present value of defined benefit obligations at end of the year** | **353,198** | **737** | **47,769** | **401,704** |

**Reconciliation of the effect of the Asset Ceiling**

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| **Adjustment for effect of asset ceiling at beginning of the year** | **-** | **-** | **-** | **-** |
| Change in the effect of asset ceiling | **-** | **-** | **-** | **-** |
| **Adjustment for effect of asset ceiling at end of the year** | **-** | **-** | **-** | **-** |

The adjustment for the effect of asset ceiling has been determined based on the maximum economic benefit available to the entity in the form of reductions in future employer contributions.

## Note 19 Superannuation (continued)

**Fair value of Fund assets**

All Pooled Fund assets are invested by SAS Trustee Corporation (STC) at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund.

| As at 30 June 2016<br>Asset category | Total<br>$'000 | Quoted prices in active markets for identical assets Level 1<br>$'000 | Significant unobservable inputs Level 2<br>$'000 | unobservable inputs Level 3<br>$'000 |
|---|---|---|---|---|
| Short Term Securities | 2,050,414 | 2,044,454 | 5,960 | - |
| Australian Fixed Interest | 2,720,590 | 2,725 | 2,717,865 | - |
| International Fixed Interest | 834,374 | (1,357) | 835,731 | - |
| Australian Equities | 9,720,877 | 9,171,766 | 549,087 | 24 |
| International Equities | 12,093,667 | 9,026,207 | 2,078,766 | 988,694 |
| Property | 3,650,267 | 1,113,253 | 618,946 | 1,918,068 |
| Alternatives | 7,115,949 | 470,130 | 3,122,185 | 3,523,634 |
| **Total^** | **38,186,138** | **21,827,178** | **9,928,540** | **6,430,420** |

The percentage invested in each asset class at the reporting date is:

| As at | 30-Jun-16 |
|---|---|
| Short Term Securities | 5.4% |
| Australian Fixed Interest | 7.1% |
| International Fixed Interest | 2.2% |
| Australian Equities | 25.5% |
| International Equities | 31.7% |
| Property | 9.6% |
| Alternatives | 18.6% |
| **Total** | **100.0%** |

^Additional to the assets disclosed above, at 30 June 2016 the Pooled Fund has provisions for receivables/(payables) estimated to be around $2.83 billion. This gives total estimated assets of $41.01 billion.

Level 1 - quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares; listed unit trusts.

Level 2 - inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government, semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities.

Level 3 - inputs for the asset or liability that are not based on observable market data. The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cashflow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such managers make limited use of derivatives.

**Fair value of entity's own financial instruments**

The fair value of the Pooled Fund assets as at 30 June 2016 include $189.6 million in NSW government bonds.

Of the direct properties owned by the Pooled Fund:

- SAS Trustee Corporation occupies part of a property 100% owned by the Pooled Fund with a fair value of $222 million (30 June 2015: $159 million).
- Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value of $243 million (30 June 2015: $204 million).

## Note 19 Superannuation (continued)

**Significant Actuarial Assumptions at the Reporting Date**

| | |
|---|---|
| Discount rate | 2% |
| Salary increase rate (excluding promotional increases) | 2.50% 2016/2017 to 2018/2019; 3.50% 2019/2020 and 2020/2021; 3.00% pa 2021/2022 to 2025/2026; 3.50% pa thereafter |
| Rate of CPI increase | 1.5% 2015/2016; 1.75% 2016/2017; 2.25% 2017/2018; 2.50% pa thereafter |
| Pensioner mortality | The pensioner mortality assumptions are as per the 2015 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age. |

**Sensitivity Analysis**

The entity's total defined benefit obligation as at 30 June 2016 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2016.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

| | Base case | Scenario A -1.0% Discount rate | Scenario B +1.0% Discount rate |
|---|---|---|---|
| Discount rate | 1.99% | 0.99% | 2.99% |
| Rate of CPI increase | as above | as above | as above |
| Salary inflation rate | as above | as above | as above |
| Defined benefit obligation (A$) | 401,704 | 463,669 | 350,874 |

| | Base case | Scenario C +0.5% rate of CPI increase | Scenario D -0.5% rate of Discount rate |
|---|---|---|---|
| Discount rate | as above | as above | as above |
| Rate of CPI increase | as above | above rates plus 0.5% pa | above rates less 0.5% pa |
| Salary inflation rate | as above | as above | as above |
| Defined benefit obligation (A$) | 401,704 | 431,421 | 374,533 |

| | Base case | Scenario E +0.5% salary increase rate | Scenario F -0.5% salary increase rate |
|---|---|---|---|
| Discount rate | as above | as above | as above |
| Rate of CPI increase | as above | as above | as above |
| Salary inflation rate | as above | above rates plus 0.5% pa | above rates less 0.5% pa |
| Defined benefit obligation (A$) | 401,704 | 401,704 | 401,704 |

| | Base case | Scenario G Higher Mortality* | Scenario H Lower Mortality** |
|---|---|---|---|
| Defined benefit obligation (A$) | 401,704 | 395,758 | 410,933 |

*Assumes the long term pensioner mortality improvement factors for years post 2021 also apply for years 2016 to 2021

**Assumes the short term pensioner mortality improvement factors for years 2016-2021 also apply for years after 2021

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

## Note 19 Superannuation (continued)

**Asset-Liability matching strategies**
The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cashflows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.

**Funding arrangements**
Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2015. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

**Surplus/deficit**
The following is a summary of the 30 June 2016 financial position of the Fund calculated in accordance with AAS 25 "Financial Reporting by Superannuation Plans":

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| Accrued benefits* | 171,037 | - | 22,331 | 193,368 |
| Net market value of Fund assets | (106,191) | 4,178 | (17,917) | (119,930) |
| **Net (surplus)/deficit** | **64,846** | **4,178** | **4,414** | **73,438** |

*There is no allowance for a contribution tax provision within the Accrued Benefits figure for AAS 25. Allowance for contributions tax is made when setting the contribution rates.

**Contribution recommendations**
Recommended contribution rates for the entity are:

| | SASS multiple of member contributions | SANCS % member salary | SSS multiple of member contributions |
|---|---|---|---|
| | #N/A | #N/A | #N/A |

**Economic assumptions**
The economic assumptions adopted for the 30 June 2015 actuarial investigation of the Pooled Fund are:

| **Weighted-Average Assumptions** | |
|---|---|
| Expected rate of return on Fund assets backing current pension liabilities | 7.8% pa |
| Expected rate of return on Fund assets backing other liabilities | 6.8% pa |
| Expected salary increase rate (excluding promotional salary increases) | 3.0% to 30 June 2019 then 3.5% pa thereafter |
| Expected rate of CPI increase | 2.5% pa |

**Expected contributions**

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| Expected employer contributions | - | - | - | 15,393 |

**Maturity profile of defined benefit obligation**
The weighted average duration of the defined benefit obligation is 13.5 years.

## Note 19 Superannuation (continued)

**Profit or Loss Impact**

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| Current service cost | 15 | 6 | - | 21 |
| Net interest | 7,402 | 134 | 676 | 8,212 |
| Past service cost | - | - | - | - |
| (Gains)/Loss on settlement | - | - | - | - |
| **Profit or loss component of the Defined Benefit Cost** | **7,417** | **140** | **676** | **8,233** |

**Other Comprehensive Income**

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| Actuarial (gains) losses on liabilities | 1,240 | 455 | 6,889 | 8,584 |
| Actual return on Fund assets less Interest income | 551 | (111) | (19) | 421 |
| Effects of transfers in/out due to business combinations and disposals | - | - | - | - |
| Change in the effect of asset ceiling | - | - | - | - |
| **Total remeasurement in Other Comprehensive Income** | **1,791** | **344** | **6,870** | **9,005** |

## Note 20 Events occurring after reporting date

From 1 July 2017, Sydney Trains and NSW Trains are no longer public subsidiary corporations of RailCorp under the *Transport Administration Amendment (Transport Entities) Act 2017 No 12.*

***(End of audited Financial Statements)***

# INDEPENDENT AUDITOR'S REPORT

**Rail Corporation New South Wales**

To Members of the New South Wales Parliament

## Opinion

I have audited the accompanying financial statements of Rail Corporation New South Wales (RailCorp), which comprise the statement of financial position as at 30 June 2017, the statement of 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.

In my opinion, the financial statements:

- give a true and fair view of the financial position of RailCorp as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

## Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of RailCorp in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

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

## The Chief Executive's Responsibility for the Financial Statements

The Chief Executive is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Chief Executive must assess RailCorp's ability to continue as a going concern except where RailCorp will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

## Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that RailCorp carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

Margaret Crawford
Auditor-General of NSW

19 October 2017
SYDNEY

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