Sydney Trains

Annual Report

Volume 2

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NSW GOVERNMENT

Sydney Trains

Financial Statements 2018-2019

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Statement by the Chief Executive

In relation to the Financial Statements for the year ended 30 June 2019

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 Sydney Trains as at 30 June 2019 and of its financial performance for the year ended 30 June 2019.

(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 the Treasurer's Directions.

(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.

Stewart Mills
Acting Chief Executive

20 September 2019

(Start of audited financial statements)

Statement of Comprehensive Income for the year ended 30 June 2019

	Note	2018-19 $'000	2017-18 $'000
Income			
Passenger services revenue		904,466	852,677
Non passenger revenue	3.1	1,147,699	1,258,339
Investment revenue	3.2	9,582	11,346
Income from operating activities		2,061,747	2,122,362
Expenses			
Operating expenses			
- Employee related expenses	4.1	1,336,702	1,249,205
- Personnel service expenses	4.3	132,465	123,263
- Other operating expenses	4.4	1,997,855	2,026,558
Depreciation and amortisation	9.2, 10.2	132,679	145,127
Finance costs	4.6	178,758	169,682
Total expenses		3,778,459	3,713,835
Deficit from operations before Government contributions		**(1,716,712)**	**(1,591,473)**
Government contributions	3.3	1,485,628	1,374,581
Deficit from operations for the year		**(231,084)**	**(216,892)**
Impairment losses on financial assets		**(87)**	-
Deficit for the year from continuing operations		**(231,171)**	**(216,892)**
Other Comprehensive Income			
Items that may be reclassified to surplus/deficit			
Net gain/(loss) in foreign exchange		911	1,093
Net gain/(loss) in commodity swaps		(4,682)	6,751
Hedge reserve reclassification		471	474
Items that will not be reclassified to surplus/deficit			
Revaluation of property, plant and equipment	9.2	(341,952)	(5,000)
Superannuation actuarial gains/(losses) on defined benefit schemes	20	(176,296)	12,260
Total Other Comprehensive Income for the year		(521,548)	15,578
Total Comprehensive Income for the year		**(752,719)**	**(201,314)**

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

Statement of Financial Position as at 30 June 2019

	Note	30.6.2019 $'000	30.6.2018 $'000
Assets			
Current assets			
Cash and cash equivalents	5.1	359,990	364,365
Trade and other receivables	6.1	257,546	286,652
Inventories	7	19,585	17,779
Derivative financial instruments		1,549	3,276
Other financial assets	8	100,000	200,000
Total current assets		738,670	872,072
Non-current assets			
Inventories	7	35,695	31,062
Property, plant and equipment	9	2,428,624	2,858,081
Intangible assets	10	139,115	155,691
Derivative financial instruments		393	1,621
Total non-current assets		2,603,827	3,046,455
Total assets		**3,342,497**	**3,918,527**
Liabilities			
Current liabilities			
Trade & other payables	11	449,723	495,696
Finance lease liabilities	12	857	-
Provisions	13	433,263	408,974
Derivative financial instruments		778	464
Total current liabilities		884,621	905,134
Non-current liabilities			
Finance lease liabilities	12	2,042,471	2,036,625
Provisions	13	689,317	497,103
Derivative financial instruments		507	5
Total non-current liabilities		2,732,295	2,533,733
Total liabilities		**3,616,916**	**3,438,867**
Net assets		**(274,419)**	**479,660**
Equity			
Contributed equity	14.1	1,174,904	1,176,359
Reserves		96,608	441,860
Retained earnings		(1,545,931)	(1,138,559)
Total equity		**(274,419)**	**479,660**

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 2019

	Note	Contributed equity $'000	Retained earnings $'000	Asset revaluation $'000	Other reserves $'000	Total $'000
Balance at 1 July 2018		**1,176,359**	**(1,138,559)**	**440,426**	**1,434**	**479,660**
Change in accounting policy	2.1.2	**-**	**95**	**-**	**-**	**95**
Restated balance at 1 July 2018		**1,176,359**	**(1,138,464)**	**440,426**	**1,434**	**479,755**
Surplus/(deficit) for the year		**-**	**(231,171)**	**-**	**-**	**(231,171)**
Other Comprehensive Income						
Net gain/(loss) in foreign exchange		-	-	-	1,382	1,382
Net gain/(loss) in commodity swaps		-	-	-	(4,682)	(4,682)
Increase/(decrease) in asset revaluation reserve		-	-	(341,952)	-	(341,952)
Superannuation actuarial gains/(losses) on defined benefit schemes		-	(176,296)	-	-	(176,296)
Total Other Comprehensive Income for the year		**-**	**(176,296)**	**(341,952)**	**(3,300)**	**(521,548)**
Total Comprehensive Income for the year		**-**	**(407,467)**	**(341,952)**	**(3,300)**	**(752,719)**
Transactions with owners in their capacity as owners		**-**	**-**	**-**	**-**	**-**
Increase/(decrease) in net assets from equity transfers (contribution by owners)	14.2	(1,455)	-	-	-	(1,455)
Balance at 30 June 2019		**1,174,904**	**(1,545,931)**	**98,474**	**(1,866)**	**(274,419)**

	Note	Contributed equity $'000	Retained earnings $'000	Asset revaluation $'000	Other reserves $'000	Total $'000
Balance at 1 July 2017		**1,184,739**	**(934,724)**	**446,223**	**(6,884)**	**689,354**
Surplus/(deficit) for the year		**-**	**(216,892)**	**-**	**-**	**(216,892)**
Reserves transferred to/(from) retained earnings		-	797	(797)	-	-
Other Comprehensive Income						
Net gain/(loss) in forward foreign exchange		-	-	-	1,567	1,567
Net gain/(loss) in commodity swaps		-	-	-	6,751	6,751
Increase/(decrease) in asset revaluation reserve		-	-	(5,000)	-	(5,000)
Superannuation actuarial gains/(losses) on defined benefit schemes		-	12,260	-	-	12,260
Total Other Comprehensive Income for the year		**-**	**12,260**	**(5,000)**	**8,318**	**15,578**
Total Comprehensive Income for the year		**-**	**(203,835)**	**(5,797)**	**8,318**	**(201,314)**
Transactions with owners in their capacity as owners		**-**	**-**	**-**	**-**	**-**
Increase/(decrease) in net assets from equity transfers (contribution by owners)	14.2	(8,380)	-	-	-	(8,380)
Balance at 30 June 2018		**1,176,359**	**(1,138,559)**	**440,426**	**1,434**	**479,660**

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 2019

	Note	2018-19 $'000	2017-18 $'000
Cash flows from operating activities			
Cash received			
Passenger services		993,320	934,844
Receipts from customers and others		1,379,998	1,466,097
Government contributions - operating		1,450,216	1,354,804
Interest received		11,660	12,734
Total cash received		3,835,194	3,768,479
Cash used			
Payments to suppliers and others		(2,407,339)	(2,231,146)
Payments to employees		(1,355,350)	(1,296,594)
Interest paid on finance lease		(171,736)	(160,348)
Total cash used		(3,934,425)	(3,688,088)
Net cash flows from/(used in) operating activities	5.2	**(99,231)**	**80,391**
Cash flow from investing activities			
Cash received			
Government contributions - capital		24,100	13,690
Bank deposits more than 90 days		100,000	-
Total cash received		124,100	13,690
Cash used			
Property, plant and equipment and intangible assets acquisitions		(29,244)	(18,119)
Total cash used		(29,244)	(18,119)
Net cash flows from/(used in) investing activities		**94,856**	**(4,429)**
Cash flows from financing activities			
Cash received			
Total cash received		-	-
Cash used			
Total cash used		-	-
Net cash flows from/(used in) financing activities		**-**	**-**
Net (decrease)/increase in cash and cash equivalents		**(4,375)**	**75,962**
Cash and cash equivalents at beginning of year		364,365	288,403
Cash and cash equivalents at end of year	5.1	**359,990**	**364,365**

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

Note 1 Reporting entity and financial statements

(a) Reporting entity

Sydney Trains is a Statutory Authority constituted on 7 December 2012 under the *Transport Administration Act 1988 (NSW)* and is a scheduled entity under the *Public Finance and Audit Act 1983 (NSW)*. It is domiciled in Australia and its principal office is at 477 Pitt Street Sydney, NSW 2000. Sydney Trains' objective is to deliver safe, customer focused, reliable and clean rail services in an efficient, effective and financially responsible manner. Sydney Trains is accredited under the Rail Safety National Law (NSW) as a rail transport operator.

Sydney Trains operates services across metropolitan Sydney and the area bounded by Berowra, Emu Plains, Macarthur and Waterfall. Sydney Trains is responsible for the maintenance of rail assets and has a contract with NSW Trains to maintain rolling stock, infrastructure and stations utilised by NSW Trains. Rail Corporation New South Wales (RailCorp) provides access to the rail network, stations, majority of property and certain rolling stock at no charge to Sydney Trains in accordance with the Rail Services Contract with Transport for NSW (TfNSW).

Sydney Trains 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.

(b) Comparative information

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

Where required, comparative information has been reclassified to align with the current year. The primary change relates to 'Inter entity charges' of $252.3m which has been reclassified to various Financial Statement line items in other operating expenses to better reflect the nature of the expenses. The reclassification has resulted in new Financial Statement line items namely 'Rental expenses' of $29.1m, 'Inter-agency support services' of $91.0m and 'Computer & communications' of $147.1m. The overall net impact to total other operating expenses is nil.

(c) Authorisation of the Financial Statements

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

(d) 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 (NSW)*, the Public Finance and Audit Regulation 2015 (NSW) and the Treasurer's Directions.

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 and derivative financial assets and liabilities are measured at fair value. Refer Notes 2.10(ii) and 2.11(ii). Certain liabilities are calculated on a present value basis such as leave entitlements and other provisions.

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

Sydney Trains 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.

Inter entity in the financial statements refers to transactions between Sydney Trains and transport entities.

2.1.1 Going concern

The Financial Statements have been prepared on a going concern basis which assumes that Sydney Trains 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 its operations. NSW Treasury has issued a letter of comfort to Sydney Trains in the current financial year to ensure its ongoing viability for at least 12 months from the date of issue of the accompanying Independent Auditor's Report.

2.1.2 Change in accounting policy

Sydney Trains has adopted AASB 9 *Financial Instruments* which has resulted in changes in accounting policies in respect to:

- recognition
- classification and measurement of financial assets and financial liabilities
- de-recognition of financial instruments
- impairment of financial assets and
- hedge accounting.

Sydney Trains has applied AASB 9 retrospectively however has not restated comparative information which is reported under AASB 139 *Financial Instruments: Recognition & Measurement* in accordance with NSW Treasury mandates. Any differences arising from the adoption of AASB 9 has been recognised directly in retained earnings at 1 July 2018.

Sydney Trains has applied the hedge accounting requirements of AASB 9 on a prospective basis.

Note 2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.2 Change in accounting policy (continued)

(a) Impact on the Statement of Financial Position

The impact of adopting AASB 9 on the Statement of Financial Position is set out below:

Statement of Financial Position (Extract)

	Restated $'000	Impact	1 July 2018 $'000
Total current assets	872,167	95	872,072
Total assets	3,918,622	95	3,918,527
Net assets	479,755	95	479,660
Retained earnings	(1,138,464)	95	(1,138,559)
Total equity	479,755	95	479,660

(b) Classification and measurement

At the transition date, Sydney Trains has assessed which business models apply to its financial assets and has categorised each financial instrument in accordance with AASB 9.

The assessment of whether contractual cash flows on the debt instruments are solely comprised of principal and interest was based on the facts and circumstances as at the initial recognition of the assets. The classification and measurement requirements of AASB 9 resulted in some minor reclassifications of financial assets in the current year. In particular, Trade and other receivables and Other Financial Assets classified as 'loans and receivables at amortised cost' under AASB 139 as at 30 June 2018 are held to collect contractual cash flows representing solely payments of principal and interest. At 1 July 2018, these are classified and measured as debt instruments at amortised cost. The reclassifications had no change on the measurement of the financial assets at 1 July 2018 which continue to be measured at amortised cost.

There are no changes in the classification and measurement of Sydney Trains' financial liabilities which continue to be measured at amortised cost or fair value through profit or loss (FVPL). The table below sets out the measurement category and carrying amounts under AASB 9 and AASB 139 at 1 July 2018:

	Measurement category		**Carrying amount**		
	AASB 139	**AASB 9**	**Original $'000**	**New $'000**	**Difference**
Financial assets					
Trade and other receivables	Loans & receivables at amortised cost	Amortised cost	225,411	225,411	-
Derivative financial instruments	FVPL	FVPL	4,897	4,897	-
Other financial assets	Loans & receivables at amortised cost	Amortised cost	200,000	200,000	-
Financial liabilities					
Trade and other payables	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	435,476	435,476	-
Finance leases	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	2,036,625	2,036,625	-
Derivative financial instruments	FVPL	FVPL	469	469	-

Note 2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.2 Change in accounting policy (continued)

(c) Impairment

The adoption of AASB 9 has changed Sydney Trains' accounting policies relating to impairment losses for financial assets from the previous incurred loss approach to the expected credit loss approach. Sydney Trains has recognised an allowance for expected credit losses for all debt instruments not held at fair value through the profit or loss. The impact to Sydney Trains as a result of adopting the new impairment model is approximately $0.1m.

A reconciliation of the closing and opening impairment allowances under AASB 139 and AASB 9 is set out below:

	Expected credit losses (under AASB 9) **Restated at 1 July 2018 $'000**	Re-measurement	**Allowance for impairment** (under AASB 139) **at 30 June 2018 $'000**
Loans & Receivables/ Financial assets at amortised cost	182	(105)*	287

*The balance includes GST of $10,000 and the adjustment of $95,000 recognised at 1 July 2018.

A summary of the overall impact of transitioning to AASB 9 on equity is as follows:

	Contributed equity	**Retained earnings**	**Asset revaluation reserve**	**Other reserves**	**Total equity**
Closing balance at 30 June 2018 (AASB 139)	**1,184,739**	**(934,724)**	**446,223**	**(6,884)**	**689,354**
Recognition of expected credit losses	-	95	-	-	95
Opening balance at 1 July 2018 (AASB 9)	**1,184,739**	**(934,629)**	**446,223**	**(6,884)**	**689,449**

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 9.3, Note 13 and Note 17.

Note 2 Summary of significant accounting policies (continued)

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) Passenger services revenue

Proceeds from OPAL train trips are reported as passenger services revenue. Revenue is recognised when the service is performed. OPAL card is managed by TfNSW. Remittance of OPAL passenger revenue is on the basis of journeys taken based on the output from the electronic ticketing system as agreed with TfNSW.

(ii) Non passenger revenue

Inter entity cost recovery
Inter entity cost recoveries are reimbursements from transport entities for costs incurred by Sydney Trains in providing services to the transport cluster. Revenue is recognised when the associated costs are incurred and recoverable.

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.

Fines and penalties
Fines and penalties are collected by the State Debt Recovery Office on behalf of Sydney Trains and are recognised by way of an estimate of the amount expected to be collected.

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. Refer Note 3.1.

Contribution from RailCorp
Sydney Trains receives a contribution from RailCorp. The contribution is recognised when Sydney Trains obtains control of the cash which is upon receipt.

(iii) Investment revenue

Interest revenue
Interest revenue is recognised as interest accrues and is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit impaired. For financial assets that become credit impaired, the effective interest rate is applied to the amortised cost of the asset (i.e. after deducting the loss allowance for expected credit losses).

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.

Note 2 Summary of significant accounting policies (continued)

2.3 Income (continued)

(iv) Government contributions

Contributions are received from the NSW Government towards the cost of providing certain agreed services, concessions and capital expenditure. The passenger revenue covers only a part of operating expenses and the shortfall is met by those contributions by the NSW Government for subsidies and concessions (refer Statement of Comprehensive Income).

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 and after Government Contributions. That presentation has been adopted as it is a more informative representation of the operating result with reference to Sydney Trains' sources of funding.

Personnel services benefit is the long service leave and superannuation on-costs provided free of charge by the Crown for staff employed by Transport Service of New South Wales (TS). Sydney Trains recognises the revenue when incurred.

2.4 Personnel services expenses

Personnel services expenses include salaries and wages, leave entitlements and superannuation for contract staff employed by TS. Sydney Trains recognises the expenses when incurred. Refer Note 4.3.

2.5 Depreciation and amortisation

(i) Depreciation

Each item of property, plant and equipment 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
Buildings	20-100
Rolling stock	32 - 35
Plant and machinery	4 - 22

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 ranges between 4 and 15 years.

Note 2 Summary of significant accounting policies (continued)

2.5 Depreciation and amortisation (continued)

(ii) Amortisation (continued)

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.

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, short-term deposits with a maturity of 90 days or less and highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Term deposits greater than 90 days are classified as Other Financial Assets.

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 / expected credit losses, 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. Trade receivables that do not contain a significant financing component are measured at the transaction price.

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 or allowance for expected credit losses 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.

AASB 139 (for comparative period ended 30 June 2018)
Subsequent measurement is at amortised cost using the effective interest method, less any impairment. Changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process.

AASB 9 (from 1 July 2018)
Sydney Trains holds receivables with the objective to collect the contractual cash flows and therefore measures them at amortised cost using the effective interest method subsequent to initial recognition. Changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process.

Refer Note 6.

Note 2 Summary of significant accounting policies (continued)

2.8 Inventories

Inventories comprise materials and supplies to be consumed in operations and construction works in progress for customers. Inventories held for distribution are measured at cost adjusted for any loss of service potential. Inventories held for sale are measured at the lower of cost and net realisable value.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing them to their present location and condition. This includes material, labour and attributable fixed and variable overhead costs.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned by using specific identification of their individual costs. The cost of remaining inventories is assigned by using the weighted average cost formula. Cost formulae are applied consistently to all inventories having a similar nature and use to the entity.

The carrying amount of inventories sold is recognised as an expense when the related revenue is recognised. The amount of any write-down of inventories to net realisable value and any loss relating to inventories is recognised as an expense in the year in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction of the expense relating to inventories in the year in which the reversal occurs.

Refer Note 7.

2.9 Other financial assets

Other financial assets are initially measured at fair value plus any transaction costs. Other financial assets comprise of term deposits with Westpac Banking Corporation.

AASB 139 (as at 30 June 2018)
Other financial assets subsequently measured at amortised cost using the effective interest method less any impairment. Any changes are recognised in the Statement of Comprehensive Income for the year when impaired or derecognised.

AASB 9 (from 1 July 2018)
Other financial assets are classified and subsequently measured at amortised cost as they are held for collection of contractual cash flows solely representing payments of principal and interest. Impairment losses (if any) are presented in the statement of comprehensive income.

Note 2 Summary of significant accounting policies (continued)

2.10 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 Sydney Trains, 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:
- has a useful life materially different from that of the prime asset and therefore requires separate replacement during the life of the prime asset
- is significant enough to justify separate tracking
- 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.

Day to day servicing costs or maintenance are expensed as incurred except where they relate to the replacement of a part or component of an asset in which case the costs are capitalised and depreciated.

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 is 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.

Note 2 Summary of significant accounting policies (continued)

2.10 Property, plant and equipment (continued)

(ii) Measurement (continued)

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 a price is not observable or estimable from market evidence its replacement cost. 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. Sydney Trains has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

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.

Property, plant and equipment is revalued, at least once every 5 years with the exception of buildings which is revalued every 3 years where the market approach is used or with sufficient regularity to ensure the carrying amount of the asset does not materially differ to its fair value in accordance with TPP14-1 *Accounting Policy: Valuation of Physical Non-Current Assets at Fair Value* (TPP14-1). 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 TPP14-1 will be undertaken as appropriate where a cumulative movement in indexes exceeds 12%.

If an item of property, plant and equipment is revalued, the entire class to which it belongs is revalued.

When revaluing non-current assets by reference to the cost approach 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 9.

Note 2 Summary of significant accounting policies (continued)

2.10 Property, plant and equipment (continued)

(iv) Impairment of property, plant and equipment

As Sydney Trains 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).

Sydney Trains assesses at each reporting date for any indication that an asset may be impaired. If an indication exists, Sydney Trains assesses the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to the recoverable amount.

Specialised assets held for continuing use of their service capacity are rarely sold and their cost of disposal is typically negligible. Their recoverable amount is expected to be materially the same as fair value, where they are regularly revalued under AASB 13 *Fair Value Measurement*.

An impairment loss is recognised in the Statement of Comprehensive Income to the extent the impairment loss exceeds the amount in the revaluation surplus for the class of asset. After an impairment loss has been recognised, it is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in other comprehensive income and is treated as a revaluation increase. However, to the extent that an impairment loss on the same class of asset was previously recognised in the Statement of Comprehensive Income, a reversal of that impairment loss is also recognised in the Statement of Comprehensive Income.

2.11 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 Sydney Trains, is expected at acquisition to be used for more than 1 year, and has a cost or value that:

- can be measured reliably
- exceeds the capitalisation threshold of $5,000 and
- has not previously been expensed.

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.

Note 2 Summary of significant accounting policies (continued)

2.11 Intangible assets (continued)

(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 10.

(iv) Impairment of intangible assets

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

Note 2 Summary of significant accounting policies (continued)

2.12 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 derivatives (forward foreign exchange contracts, and commodity swap contracts).

(i) Recognition

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

Financial assets are derecognised when the contractual rights to the associated cash flows expire or if Sydney Trains transfers its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either:

- Sydney Trains has transferred substantially all the risks and rewards of the assets
- Sydney Trains has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control.

When Sydney Trains has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

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. Derivatives are carried at fair value through the profit or loss.

The fair value of derivatives are determined at year end as the quoted offer price or the risk-adjusted market price of the instrument. It represents current market value.

Note 2 Summary of significant accounting policies (continued)

2.12 Financial instruments (continued)

(iii) Hedging

Derivative financial instruments are used to hedge against exposures to foreign currency risk on overseas purchase commitments and on commodity price risk on forecast distillate and electricity purchases (where applicable).

Forward foreign exchange contracts are used to hedge against currency risk on firm commitments for the purchase of goods or services from overseas suppliers. These contracts entail a right to receive a fixed amount of foreign currency at a specified future date, which is offset by an obligation to pay a fixed amount of domestic currency at that time.

Forward foreign exchange contracts and commodity swap contracts are used to hedge against commodity price risk on forecast purchases of distillate. The contracts effectively entail a right to buy a specified quantity of distillate at a fixed price on a future date, which is offset by an obligation to sell a similar quantity at its prevailing monthly average market price at that time.

Sydney Trains policy for electricity hedging is similar to distillate operations. Electricity hedging applies only to periods not under a fixed price contract. Hedges are subsequently closed out once a fixed price contract is in place.

(iv) Hedge accounting

Cash flow hedge accounting is adopted for all hedging relationships involving forward foreign exchange contracts and commodity swap contracts. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is initially recognised directly in the Hedging Reserve. When the cash flow in relation to the hedged item eventually occurs, the gain or loss is transferred from the Reserve to property, plant and equipment (in the case of equipment purchases) or to inventories (in the case of distillate purchases) where it is included in the cost of the hedged item. For other cash flow hedges, the deferred gain or loss is reclassified from the Hedging Reserve to the Statement of Comprehensive Income accordingly. If the hedge is ineffective the portion of the gain or loss on the ineffective portion of the hedging instrument is recognised immediately in the Statement of Comprehensive Income.

Hedge accounting is used on all Sydney Trains exposures. For all hedges:

- the hedging relationship is formally designated and documented at the inception of the hedge
- the hedge is expected to be highly effective
- the effectiveness is measurable, assessed on a quarterly basis and is actually achieved
- the hedged forecast transaction remains highly probable.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the forward foreign exchange and commodity swap contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date). Sydney Trains has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange and commodity swap contracts are identical to the hedged risk components. To test the hedge effectiveness, Sydney Trains compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Sydney Trains' hedges are 100% effective. Generally, hedge ineffectiveness can arise from:

- differences in the timing of the cash flows of the hedged items and the hedging instruments
- the counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- changes to the forecasted amounts of cash flows of hedged items and hedging instruments.

Note 2 Summary of significant accounting policies (continued)

2.12 Financial instruments (continued)

(iv) Hedge accounting (continued)

Hedge accounting is discontinued when the hedging instrument expires, is sold, is terminated, is exercised, no longer meets the hedge accounting criteria, has its designation revoked, or if the hedged forecast transaction is no longer expected to occur. Generally, any associated cumulative gain or loss in the Hedging Reserve is only transferred out when the hedged cash flow eventually occurs. However, if the hedged transaction is no longer expected to occur, the gain or loss is immediately transferred to the Statement of Comprehensive Income. Refer Note 18.

2.13 Offsetting financial assets and liabilities

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

2.14 Impairment of financial assets

AASB 139 (for comparative period ended 30 June 2018)
All financial assets are subject to an annual review for impairment. An allowance for impairment is established when there is objective evidence that Sydney Trains 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.

AASB 9 (from 1 July 2018)
Sydney Trains recognises an allowance for expected credit losses for debt financial assets not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows and the cash flows that Sydney Trains expects to receive, discounted at the original effective interest rate.

For other financial assets, the expected credit losses are recognised in two stages. For credit exposures where there has not been a significant increase credit risk since initial recognition, the expected credit losses are based on default events possible within the next 12 months. If there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure irrespective of the timing of default. In general, Sydney Trains considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. Sydney Trains' term deposits are issued by financial institutions that have strong credit ratings and therefore considered to be low credit risk investments. Hence Sydney Trains measures any loss allowance for the term deposits at an amount equal to the 12 month expected credit loss. However where there is a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime expected credit losses. Sydney Trains uses ratings from external credit rating agencies to determine whether there has been a significant increase in credit risk on the term deposits in order to estimate the expected credit loss.

For trade and other receivables, Sydney Trains applies the simplified approach in calculating expected credit losses. Sydney Trains recognises a loss allowance based on lifetime expected credit losses at each reporting date. Sydney Trains has established a provision matrix based on its historical credit loss experience for trade receivables, adjusted for forward-looking factors specific to each receivable.

Trade debtors are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others a failure to make contractual payments for a period of greater than 90 days past due.

Note 2 Summary of significant accounting policies (continued)

2.15 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.

Exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge are recognised initially in equity to the extent that the hedge is effective. Exchange differences on other monetary items are recognised as income or expense.

2.16 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 11.

2.17 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, restoration of leased premises and ballast disposal.

A provision is recognised when:
- there is a likely present legal or constructive obligation as a result of a past event
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- 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.

Note 2 Summary of significant accounting policies (continued)

2.17 Provisions (continued)

(ii) Employee benefits

Employee benefit provisions represent the expected amounts payable in the future in respect of unused entitlements accumulated as at the reporting date.

Liabilities for short term employee benefits are measured at the present value of the amount expected to be paid when the liability is settled, provided it is expected to be settled wholly within twelve months of the end of the reporting period. Regardless of the expected timing of settlements, provisions made in respect of employee benefits are classified as a current liability unless there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non- current liability.

Superannuation, long service leave, annual leave, and award leave liabilities are recognised as provisions 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.

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts an offer of benefits in exchange for the termination of employment. Sydney Trains recognises termination benefits either when it can no longer withdraw the offer of those benefits or when it has recognised costs for restructuring within the scope of AASB137 *Provisions, Contingent Liabilities and Contingent Assets* that involves the payment of termination benefits. Benefits not expected to be settled wholly before 12 months after the end of the reporting period are discounted to present value.

Consequential costs to employment are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised. This includes payroll tax, superannuation and fringe benefits tax.

Provisions are not recognised for employee benefits that have already been settled (e.g. payments to First State Super, a fully funded superannuation scheme) that do not accumulate (e.g. allowances, non-monetary benefits, parental leave), that are unlikely to be settled beyond the current year's entitlement (e.g. sick leave), or that have little or no marginal cost (e.g. post-employment travel passes). Costs associated with, but that are not, employee benefits (such as payroll tax) are recognised separately.

Superannuation and long service leave provisions are actuarially assessed prior to each reporting date and are measured at the present value of the estimated future payments. All other employee benefit provisions (i.e. for benefits falling due within twelve months after reporting date) are assessed by management and are measured at the undiscounted amount 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 other comprehensive income.

Note 2 Summary of significant accounting policies (continued)

2.17 Provisions (continued)

(ii) Employee benefits (continued)

The actuarial assessment of superannuation and long service leave provisions 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.

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 13.

2.18 Leases

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

(i) Details of PPP finance leasing arrangements

An agreement is in place for a Rolling stock Public Private Partnership (PPP), which incorporates finance leases, whereby Reliance Rail would:

- Design, manufacture and commission a total of 626 carriages, together with simulators for training
- Design, manufacture and commission a maintenance facility on RailCorp land at Auburn. The land is leased to Reliance Rail for nil consideration over the term of the contract
- Make 72 eight car train sets available for Sydney Trains' use over the term of the contract (the term continues for 30 years after the delivery of the tenth last set, i.e. until 2044)
- Provide a maintenance facility for the sets over the term of the contract
- Decommission any sets which Sydney Trains does not wish to acquire at the end of the contract
- Handover the maintenance facility at the end of the contract.

In accordance with the PPP contract Sydney Trains was required to make certain milestone payments. These were treated as interest free advances pending satisfactory completion of the construction of carriages together with the simulators and maintenance facility.

(ii) Accounting treatment – operating leases

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.

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.

Note 2 Summary of significant accounting policies (continued)

2.18 Leases (continued)

(iii) Accounting treatment – finance leases

As lessee

Finance leases, which transfer to Sydney Trains 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 were capitalised in accordance with AASB 123 *Borrowing Costs*.

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 Sydney Trains will obtain ownership by the end of the lease term. Where there is reasonable certainty that Sydney Trains will obtain ownership of the asset after the lease term the asset is depreciated over its estimated useful life.

Refer Note 15.2.

(iv) 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.

Refer Note 2.3.

2.19 Contributed equity

In accordance with TPP 09-3 *Accounting Policy: Contribution by owners made to wholly-owned public sector entities*, 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.

Refer Note 14.

2.20 Taxes

(i) Income tax equivalents

Sydney Trains 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.

Note 2 Summary of significant accounting policies (continued)

2.21 Fair value hierarchy

A number of Sydney Trains' 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, Sydney Trains categorises, for disclosure purposes, the valuation techniques based on the inputs used in the valuation techniques 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).

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

Refer Notes 17 and 18.

Note 2 Summary of significant accounting policies (continued)

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 (AASB) that are relevant to Sydney Trains effective for the annual reporting periods ending 30 June 2019. The adoption of these new and revised Standards and Interpretations has not resulted in any significant changes to Sydney Trains accounting policies. Sydney Trains 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 Sydney Trains, however have not been adopted and are not effective at 30 June 2019. The standards are effective for annual reporting periods commencing on or after 1 January 2019.

AASB / Amendment	Title	Issue Date	Application date of Standard
AASB 15	Revenue from Contracts with Customers	Oct 2015	1 Jan 2019
AASB 16	Leases	Feb 2016	1 Jan 2019
AASB 17	Insurance Contracts	Jul 2017	1 Jan 2021
AASB 1058	Income of Not-for-Profit Entities	Dec 2016	1 Jan 2019
AASB 1059	Service Concession Arrangements: Grantors	Jul 2017	1 Jan 2020
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 2017-6	Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation	Dec 2017	1 Jan 2019
AASB 2018-1	Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle	Feb 2018	1 Jan 2019
AASB 2018-2	Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement [AASB 119]	Mar 2018	1 Jan 2019
AASB 2018-3	Amendments to Australian Accounting Standards – Reduced Disclosure Requirements	Aug 2018	1 Jan 2019
AASB 2018-4	Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors	Sep 2018	1 Jan 2019
AASB 2018-5	Amendments to Australian Accounting Standards – Deferral of AASB 1059	Oct 2018	1 Jan 2019
AASB 2018-6	Amendments to Australian Accounting Standards – Definition of a Business	Dec 2018	1 Jan 2020
AASB 2018-7	Amendments to Australian Accounting Standards – Definition of Material	Dec 2018	1 Jan 2020
AASB 2018-8	Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit entities	Dec 2018	1 Jan 2019
AASB 2019-1	Amendments to Australian Accounting Standards – References to Conceptual Framework	May 2019	1 Jan 2020

Note 2 Summary of significant accounting policies (continued)

2.22 Adoption of new and revised Accounting Standards (continued)

The following standards will be effective for next financial year and beyond:

- AASB 15 *Revenue from Contracts with Customers* is effective for annual reporting periods commencing on or after 1 January 2019. The standard establishes a five step model to account for revenue arising from contracts with customers. The standard will require revenue to be recognised when control of the goods or services is transferred to the customer that reflects the consideration Sydney Trains expects to be entitled for the exchange compared to the current risks and rewards recognition approach under AASB 118 *Revenue*. The standard will result in the identification of performance obligations that will not change the timing of revenue recognition. Sydney Trains will adopt AASB 15 on 1 July 2019 through application of the full retrospective transitional option. The standard will result in changes to Sydney Trains' accounting policies.

- AASB 16 *Leases* is effective for annual reporting periods commencing on or after 1 January 2019. The standard requires lessees to recognise a right of use asset and a right of use liability in the Statement of Financial Position at 1 July 2019. The impact of AASB 16 on total assets and liabilities is estimated to be approximately $85m at 1 July 2019. As a result, interest and depreciation expenses will increase by approximately $20m and operating lease rental expenses will decrease by $21m in the Statement of Comprehensive Income in the 2019-20 financial year. Sydney Trains will apply the partial retrospective approach at 1 July 2019 as if AASB 16 had always applied. Comparative information will not be restated.

- AASB 1058 *Income of Not-for-Profit Entities* is effective for reporting periods commencing on or after 1 January 2019 and will replace most of the existing requirements in AASB 1004 *Contributions*. The standard applies to considerations received that are below fair value principally to enable a not-for-profit entity to further its objectives. Under AASB 1058, Sydney Trains will be required to recognise liability for funding received where there is an outstanding obligation to construct a non-financial asset it controls. Sydney Trains will adopt AASB 1058 on 1 July 2019 through the application of the full retrospective transition approach. The recognition and measurement principles of the standard will be applied for the 2019-20 financial year and the comparative period as if the standard had always applied. The standard will result in changes to Sydney Trains' accounting policies. Capital funding is expended by Sydney Trains in the year it is received, hence the impact for Sydney Trains is minimal.

- AASB 1059 *Service Concession Arrangements: Grantors* is effective for annual reporting periods commencing on or after 1 January 2020. The standard applies to arrangements that involve an operator providing public services related to a service concession asset on behalf of a public sector grantor. The standard will require the grantor to recognise a service concession asset and liability in the Statement of Financial Position at initial recognition. The standard is applicable to Sydney Trains from 1 July 2020. At this stage, the impact of the standard is not yet known.

The above assessments are indicative only and the actual impacts will be reported in the next financial year and beyond. The impact of the other standards is not anticipated to be significant.

Note 3 Income

3.1 Non passenger revenue

	2018-19 $'000	2017-18 $'000
Inter entity cost recovery	644,658	675,439
Construction revenue RailCorp	367,615	453,540
Advertising revenue	32,214	30,379
Fines and penalties	7,188	8,432
Inter entity direct labour cost recovery	3,619	3,794
Contribution from RailCorp	61,050	62,500
Other revenue	31,355	24,255
Total non passenger revenue	**1,147,699**	**1,258,339**

3.2 Investment revenue

Interest	6,575	6,232
Interest income from financial assets at amortised cost	3,007	5,114
Total investment revenue	**9,582**	**11,346**

3.3 Government contributions

Operating	1,436,535	1,327,112
Capital	24,100	13,690
Redundancy	13,553	27,670
Personnel services benefit	11,312	6,087
Training	128	22
Total government contributions	**1,485,628**	**1,374,581**

Note 4 Expenses

4.1 Employee related expenses

Employee related expenses include the following items:

	Note	2018-19 $'000	2017-18 $'000
Salaries and wages		1,023,029	962,477
Annual leave		94,602	82,931
Long service leave		50,453	35,081
Superannuation-defined benefit plans	4.2	24,916	27,114
Superannuation-defined contribution plans		80,309	74,162
Workers compensation		18,187	14,158
Payroll tax and fringe benefits tax		68,854	67,240
Redundancy		5,590	16,212
Other payroll costs		44,229	36,521
Less: Employee related expenses allocated to capital expenditure		(1,062)	(384)
Less: Employee related expenses allocated to capital construction*		(72,405)	(66,307)
Total employee related expenses		**1,336,702**	**1,249,205**

*Capital construction is capital expenditure incurred by Sydney Trains on behalf of Rail Corporation NSW. Sydney Trains excludes the employee related expenses as it is included in other operating expenses (Note 4.4) and recovered as revenue (Note 3.1).

4.2 Defined benefit superannuation plan expense/(income)

	Note	2018-19 $'000	2017-18 $'000
Current service cost		13,308	15,533
Net interest		11,608	11,581
Total defined benefit superannuation expense/(income)	20	**24,916**	**27,114**

4.3 Personnel services expenses

	2018-19 $'000	2017-18 $'000
Salaries and wages	95,152	90,853
Annual leave	9,333	9,093
Long service leave	9,957	4,870
Superannuation-defined benefit plan	1,288	1,135
Superannuation-defined contribution	8,399	7,855
Workers compensation	319	236
Payroll and fringe benefit tax	7,052	6,306
Redundancy	3,569	5,579
Other payroll costs	59	58
Less: Personnel services expenses allocated to capital expenditure	(112)	(46)
Less: Personnel services expenses allocated to capital construction*	(2,551)	(2,676)
Total personnel services expenses	**132,465**	**123,263**

*Capital construction is capital expenditure incurred by Sydney Trains on behalf of Rail Corporation NSW. Sydney Trains excludes the personnel services expenses as it is included in other operating expenses (Note 4.4) and recovered as revenue (Note 3.1).

Note 4 Expenses (continued)

4.4 Other operating expenses

	2018-19 $'000	2017-18 $'000
Other contractors	619,741	539,688
Construction costs	367,615	453,540
External maintenance costs	277,967	263,751
Inter-agency support services	65,253	90,984
Materials	113,741	127,685
Electricity	138,201	137,512
Plant and equipment	59,739	59,113
Bus hire	40,679	42,147
Computer and communications	148,049	147,109
Rental expenses	19,416	29,076
Insurance	12,300	14,854
Security costs	24,051	25,602
Motor vehicle expenses	19,981	18,234
Printing & stationery	4,866	5,377
Consultants	3,172	3,781
Auditor's remuneration - audit of the financial statements	310	303
Cost of sales	28,786	24,955
Cost of inventory held for distribution	33,974	19,409
Impairment losses	-	224
Other	20,014	23,214
Total other operating expenses	**1,997,855**	**2,026,558**

4.5 Maintenance expenses

Included in total operating expenses are maintenance related costs as follows:

Labour	333,480	314,563
Contracted & other non-labour expenditure	871,886	780,870
Total maintenance expenses	**1,205,366**	**1,095,433**

In addition included in construction costs is $233.6m (2018: $186.3m) major periodic maintenance which is charged to RailCorp and capitalised in RailCorp.

4.6 Finance costs

Interest charges	178,758	169,682
Total finance costs	**178,758**	**169,682**

Note 5 Cash and cash equivalents

5.1 Cash and cash equivalents

	30.6.2019 $'000	30.6.2018 $'000
Cash at bank	359,990	364,365
Total cash and cash equivalents	**359,990**	364,365

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

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

Deficit for the year from continuing operations	**(231,171)**	**(216,892)**
Cash capital grants	(24,100)	(13,690)
Depreciation and amortisation	132,679	145,127
Impaired trade receivables expense	87	224
Derecognition and write off of assets	643	979
Other reclassification adjustments/discounting	790	474
Net movements in assets and liabilities applicable to operating activities:		
(Increase)/decrease in trade and other receivables	29,114	27,773
(Increase)/decrease in inventories	(6,439)	(4,291)
Increase/(decrease) in trade and other payables and provisions	(834)	140,687
Net cash flows from/(used in) operating activities	**(99,231)**	**80,391**

5.3 Credit standby arrangements and loan facilities

The credit standby arrangements and unused amounts available are:

	30.6.19 Credit Facilities $'000	30.6.19 Unused $'000	30.6.18 Credit Facilities $'000	30.6.18 Unused $'000
Transaction negotiation authority	130,150	130,150	130,150	130,150
Purchasing card facility *	30,000	2,414	30,000	4,366
Come and Go facility	30,000	30,000	30,000	30,000
Total	**190,150**	**162,564**	**190,150**	**164,516**

* As at 30 June 2019, the purchasing cards issued had a combined limit of $27.6m (2018: $25.6m) with a payable of $6.0m (2018: $8.1m).

5.4 Non-cash investing activities

In 2017-18, Sydney Trains transferred rolling stock of $8.4m to RailCorp.

Refer Note 14.2.

Note 6 Trade and other receivables

6.1 Trade and other receivables

	30.6.2019 $'000	30.6.2018 $'000
Current trade and other receivables		
Sale of goods and services	4,616	3,183
Inter entity receivables	215,851	224,517
Other receivables	33,469	55,233
Less: allowance for impairment*	-	(287)
Less: allowance for expected credit losses**	(279)	-
Prepayments	3,889	4,006
Total current trade and other receivables	**257,546**	**286,652**

*Movements in the allowance for impairment were as follows:

Balance at 1 July 2017		240
Bad debts expense		**(199)**
Allowance recognised in Statement of Comprehensive Income		224
GST movement		22
Balance at 30 June 2018		**287**

**Movements in the allowance for expected credit losses balance is as follows:

Balance at 30 June 2018 (under AASB 139)	287	
Amounts restated through opening retained earnings	(95)	
GST movement	(10)	
Restated balance at 1 July 2018 (under AASB 9)	182	
Amounts recovered during the year	-	
Amounts written off	-	
Allowance recognised in Statement of Comprehensive Income	87	
GST movement	10	
Balance at 30 June 2019	**279**	**-**

6.2 Impaired trade and other receivables

The ageing of the impaired trade and other receivables as at 30 June 2018 is as follows:

1 to 3 months	61
3 to 6 months	59
over 6 months	167
Balance at end of year	**287**

6.3 Past due but not impaired receivables

The ageing analysis of trade & transport cluster receivables as at 30 June 2018 that are past due but not impaired is as follows:

1 to 3 months	10,294
3 to 6 months	147
Over 6 months	94
Balance at end of year	**10,535**

Note 6 Trade and other receivables (continued)

6.4 Ageing analysis

The loss allowance for trade debtors as at 30 June 2019 and at 1 July 2018 on adoption of AASB 9 is determined as follows:

	Current $'000	<30 Days $'000	31-60 Days $'000	61-90 Days $'000	>91 Days $'000	Total $'000
30-Jun-19						
Expected average credit loss rate	1.0%	1.7%	6.9%	12.9%	36.2%	
Estimated total gross carrying amount of default	2,164	704	285	265	473	3,891
Expected credit loss	22	12	20	34	171	259
1-Jul-18						
Expected average credit loss rate	0.7%	1.5%	3.0%	11.9%	39.1%	
Estimated total gross carrying amount of default	1,596	311	252	101	336	2,596
Expected credit loss	11	5	8	12	131	167

Note: The analysis excludes statutory receivables, prepayments, as these are not within the scope of AASB 7 hence the 'total' will not reconcile to the receivables total in Note 6.1

Note 7 Inventories

	30.6.2019 $'000	30.6.2018 $'000
Materials and supplies, at cost	67,527	61,393
Work in progress	-	-
	67,527	61,393
Less: allowance for obsolete inventory	(12,247)	(12,552)
Total inventories	**55,280**	**48,841**
Total inventories are comprised of:		
Current inventories	19,585	17,779
Non-current inventories	35,695	31,062
Total	**55,280**	**48,841**

Note 8 Other financial assets

	30.6.2019 $'000	30.6.2018 $'000
Term deposits	100,000	200,000
Total other financial assets	**100,000**	200,000

Note 9 Property, plant and equipment

9.1 Classes

	30.6.2019 $'000	30.6.2018 $'000
Leased building		
Gross carrying amount	252,338	252,338
Less accumulated depreciation	(22,394)	(18,961)
Net carrying amount - leased building	229,944	233,377
Leased rolling stock		
Gross carrying amount	2,363,001	2,698,979
Less accumulated depreciation and impairment*	(458,059)	(444,694)
Net carrying amount - leased rolling stock	1,904,942	2,254,285
Leased plant and machinery		
Gross carrying amount	6,370	5,844
Less accumulated depreciation	(2,272)	(3,056)
Net carrying amount - leased plant and machinery	4,098	2,788
Rolling stock		
Gross carrying amount	471,977	559,392
Less accumulated depreciation	(209,474)	(226,233)
Net carrying amount - rolling stock	262,503	333,159
Plant and machinery		
Gross carrying amount	55,019	61,859
Less accumulated depreciation	(44,001)	(45,630)
Net carrying amount - plant and machinery	11,018	16,229
Capital work in progress		
Capital work in progress	16,119	18,243
Total - capital work in progress	16,119	18,243
Total property, plant and equipment	**2,428,624**	**2,858,081**

* Sydney Trains has recognised an impairment loss of $3m (2018: $5m) as a result of an incident to a set of leased rolling stock. Sydney Trains has impaired the asset as the rolling stock is not in service.

Note 9 Property, plant and equipment (continued)

9.2 Asset class movement

	Leased Building $000	Leased Rolling stock $000	Leased Plant and machinery $000	Rolling stock $000	Plant and machinery $000	Capital works in progress $000	Total $000
Year ended 30 June 2019							
Net carrying amount as at 1 July 2018	233,377	2,254,285	2,788	333,159	16,229	18,243	2,858,081
Additions	-	-	-	-	-	13,362	13,362
Completed capital work	-	14,124	-	1,362	-	(15,486)	-
Disposals/derecognition/write-offs	-	-	-	-	(15)	-	(15)
Revaluations	-	(287,777)	1,611	(57,563)	(253)	-	(343,982)
Depreciation expense	(3,433)	(77,720)	(301)	(14,455)	(4,835)	-	(100,744)
Transfer to RailCorp	-	-	-	-	(108)	-	(108)
Impairment loss reversal	-	2,030	-	-	-	-	2,030
Net carrying amount as at 30 June 2019	**229,944**	**1,904,942**	**4,098**	**262,503**	**11,018**	**16,119**	**2,428,624**
Year ended 30 June 2018							
Net carrying amount as at 1 July 2017	**233,857**	**2,343,674**	**3,182**	**358,999**	**19,960**	**18,911**	**2,978,583**
Additions	-	-	-	-	-	2,798	2,798
Completed capital work	3,076	144	-	-	246	(3,466)	-
Disposals/derecognition/ write-offs	-	-	-	-	(151)	-	(151)
Depreciation expense	(3,556)	(84,533)	(394)	(17,460)	(3,826)	-	(109,769)
Transfer to RailCorp	-	-	-	(8,380)	-	-	(8,380)
Impairment loss	-	(5,000)	-	-	-	-	(5,000)
Net carrying amount as at 30 June 2018	**233,377**	**2,254,285**	**2,788**	**333,159**	**16,229**	**18,243**	**2,858,081**
Gross carrying amount							
At 1 July 2017	249,262	2,698,835	5,844	609,175	64,817	18,911	3,646,844
At 30 June 2018	252,338	2,698,978	5,844	559,392	61,859	18,243	3,596,654
At 1 July 2018	252,338	2,698,978	5,844	559,392	61,859	18,243	3,596,654
At 30 June 2019	252,338	2,363,001	6,370	471,977	55,019	16,119	3,164,824
Accumulated depreciation							
At 1 July 2017	(15,405)	(355,161)	(2,662)	(250,175)	(44,857)	-	(668,260)
At 30 June 2018	(18,961)	(444,694)	(3,056)	(226,232)	(45,630)	-	(738,573)
At 1 July 2018	(18,961)	(444,694)	(3,056)	(226,232)	(45,630)	-	(738,573)
At 30 June 2019	(22,394)	(458,059)	(2,272)	(209,474)	(44,001)	-	(736,200)
Net carrying amount							
At 1 July 2017	233,857	2,343,674	3,182	358,999	19,960	18,911	2,978,583
At 30 June 2018	233,377	2,254,285	2,788	333,159	16,229	18,243	2,858,081
At 1 July 2018	233,377	2,254,285	2,788	333,159	16,229	18,243	2,858,081
At 30 June 2019	229,944	1,904,942	4,098	262,503	11,018	16,119	2,428,624

Note 9 Property, plant and equipment (continued)

9.3 Valuation of property, plant and equipment

Independent valuers performed a fair value assessment for each class of assets to confirm the carrying value materially reflects the fair value at 30 June 2019.

All the asset categories also include assets under finance lease arrangements.

The following table details information on the revaluation activities undertaken:

Category	Valuer	Valuation technique	Date of revaluation	Revaluation increment / (decrement)
Building	Advisian	Cost approach*	1 Nov 2014	$21m
Rolling stock	SNC Lavalin Rail & Transit Pty Ltd	Cost approach*	1 Nov 2018	($345m)
Plant & machinery	AON Risk Services Australia Limited	Cost approach*	1 Nov 2018	$1.6m

*The cost approach refers to depreciated replacement cost.

9.4 Leasing arrangements – certain rolling stock

Sydney Trains is the lessee to leasing arrangements for some of its rolling stock. Each arrangement is accounted for as a single linked transaction in accordance with its economic substance. The arrangements do not restrict Sydney Trains' use of the rolling stock in normal operations and have terms of up to 35 years. The leases include options for Sydney Trains to purchase the rolling stock on certain specified future dates.

Note 10 Intangible assets

10.1 Classes

	30.6.2019 $'000	30.6.2018 $'000
Software / Licenses		
Gross carrying amount	456,105	433,599
Less accumulated amortisation	(339,277)	(315,063)
Net carrying amount of software / licenses work in progress	116,828	118,536
Software / licenses works in progress	**22,287**	**37,155**
Total - intangible assets	**139,115**	**155,691**

10.2 Movements during the year

	Software / Licenses $'000	Software / Licenses works in progress $'000	Total $'000
2019			
Net carrying amount at start of year	118,536	37,155	155,691
Additions	-	15,987	15,987
Disposals/write-offs	(58)	(570)	(628)
Amortisation expense	(31,935)	-	(31,935)
Other movements	30,285	(30,285)	-
Net carrying amount at end of year	**116,828**	**22,287**	**139,115**
2018			
Net carrying amount at start of year	135,947	39,046	174,993
Additions	-	16,884	16,884
Disposals/write-offs	(299)	(529)	(828)
Amortisation expense	(35,358)	-	(35,358)
Other movements	18,246	(18,246)	-
Net carrying amount at end of year	**118,536**	**37,155**	**155,691**

Note 11 Trade and other payables

11.1 Trade and other payables

	30.6.2019 $'000	30.6.2018 $'000
Trade payables	155,678	150,357
Inter entity payables	15,231	31,230
Capital expenditure accruals	4,348	4,351
Accrued salaries, wages and oncosts	48,714	42,486
Other payables and accruals	223,530	262,033
Unearned revenue	2,222	5,239
Total trade and other payables	**449,723**	**495,696**

11.2 Fair value

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

11.3 Risk exposure

Information about Sydney Trains exposure to payables with a foreign exchange risk is provided in Note 18.

Note 12 Finance lease liabilities

12.1 Finance lease liabilities

	Note	30.6.2019 $'000	30.6.2018 $'000
Current			
Finance lease liabilities	15.2	857	-
		857	-
Non-current			
Finance lease liabilities	15.2	2,042,471	2,036,625
		2,042,471	2,036,625
Total finance lease liabilities		**2,043,328**	2,036,625

The finance lease relates to the provision of a maintenance facility, simulators and 78 sets of trains under a Public Private Partnership (PPP) for rolling stock.

12.2 Changes in liabilities arising from financing activities

	1.7.2018 $'000	Cash flows $'000	Non cash changes $'000	30.6.2019 $'000
Finance leases	2,036,625	-	6,703	2,043,328
Derivative liability	469	-	816	1,285
Total liabilities from financing activities	2,037,094	-	7,519	2,044,613

	1.7.2017 $'000	Cash flows $'000	Non cash changes $'000	30.6.2018 $'000
Finance leases	2,027,291	-	9,334	2,036,625
Derivative liability	3,764	-	(3,295)	469
Total liabilities from financing activities	2,031,055	-	6,039	2,037,094

Note 13 Provisions

13.1 Provisions

	Note	30.6.2019 $'000	30.6.2018 $'000
Current provisions			
Annual leave (see note (a) below)		149,466	137,369
Long service leave (see note (a) below)	13.2	249,122	223,246
Pay in lieu of certain holidays worked (see note (a) below)		10,266	9,515
Workers' compensation	13.4	9,545	7,431
Redundancy	13.8	7,776	12,870
Total employee benefits and related on-costs		426,175	390,431
Public liability claims	13.5	3,251	3,340
Legal claims	13.6	2,757	3,000
Ballast disposal	13.7	1,080	1,529
Restoration of leased premises	13.9	-	5,674
Provision for repair	13.10	-	5,000
Total other provisions		7,088	18,543
Total current provisions		**433,263**	**408,974**
Non-current provisions			
Superannuation	20.0	630,898	446,386
Long service leave (see note (a) below)	13.2	20,807	21,401
Workers' compensation	13.4	31,119	25,501
Total employee benefits and related on-costs		682,824	493,288
Restoration of leased premises	13.9	6,493	3,815
Total other provisions		6,493	3,815
Total non-current provisions		**689,317**	**497,103**
Total provisions			
Superannuation	20.0	630,898	446,386
Annual leave		149,466	137,369
Long service leave	13.2	269,929	244,647
Pay in lieu of certain holidays worked		10,266	9,515
Workers' compensation	13.4	40,664	32,932
Redundancy	13.8	7,776	12,870
Total employee benefits and related on-costs		**1,108,999**	**883,719**
Public liability claims	13.5	3,251	3,340
Legal claims	13.6	2,757	3,000
Ballast disposal	13.7	1,080	1,529
Restoration of leased premises	13.9	6,493	9,489
Provision for repair	13.10	-	5,000
Total other provisions		**13,581**	**22,358**
Total provisions		**1,122,580**	**906,077**

(a) In accordance with Australian Accounting Standards all annual leave, pay in lieu of certain holidays worked and unconditional long service leave is classified as a current liability in the Statement of Financial Position because Sydney Trains does not have an unconditional right to defer settlement. Only conditional long service leave is shown as a non current liability. However, on the basis of past payment experience, leave is expected to be settled in the following pattern:

Note 13 Provisions (continued)

13.1 Provisions (continued)

	Within 12 months $'000	Later than 12 months $'000	Total $'000
2019			
Long service leave	26,464	243,465	269,929
Annual leave	100,822	48,644	149,466
Pay in lieu of certain holidays worked	10,266	-	10,266
	137,552	**292,109**	**429,661**
2018			
Long service leave	16,225	228,422	244,647
Annual leave	104,640	32,729	137,369
Pay in lieu of certain holidays worked	9,515	-	9,515
	130,380	**261,151**	**391,531**

13.2 Long service leave

Long service leave is recognised as an expense and a provision when the obligations arises, which is usually through the rendering of service by an employee.

Long service leave is measured at present value in accordance with AASB 119 *Employee Benefits*. This is based on the application of certain factors to employees with five or more years of service, using current rates of pay.

The liability for long service leave was assessed by Mercer Consulting (Australia) Pty Limited. The actuary assumed an interest rate of 1.18% (2018: 2.60%) and a salary growth rate of 3.0% (2018: 3.0%) per annum.

Note 13 Provisions (continued)

13.3 Movements in provisions (other than employee benefit provisions)

	Carrying amount at start of year $'000	Increase in provision $'000	Discounting adjustment $'000	Subtotal $'000	Payment of claims $'000	Unused amount reversed $'000	Carrying amount at end of period $'000
2019							
Public liability claims	3,340	2,399	-	5,739	(2,458)	(30)	3,251
Legal claims	3,000	-	-	3,000	(243)	-	2,757
Ballast disposal	1,529	4,610	-	6,139	(5,059)	-	1,080
Restoration of leased premises	9,489	2,763	(85)	12,167	(5,674)	-	6,493
Provision for repair	5,000	-	-	5,000	(5,000)	-	-
2018							
Public liability claims	2,013	4,022	-	6,035	(2,331)	(364)	3,340
Legal claims	1,500	1,625	-	3,125	(125)	-	3,000
Ballast disposal	1,364	6,754	-	8,118	(6,589)	-	1,529
Restoration of leased premises	10,420	-	141	10,561	(59)	(1,013)	9,489
Provision for repair	-	5,000	-	5,000	-	-	5,000

13.4 Workers' compensation

Workers' compensation insurance is in place to cover any claim exceeding $1.5m as at 1 January 2019 (2018: $1m) and the workers' compensation provision is maintained for smaller claims, for which Sydney Trains is a licensed self-insurer.

The workers' compensation liability at year end was assessed by Marsh Pty Ltd assuming a discount rate ranging from 1.0% to 1.3% per annum over the next 15 years (2018: 1.9% to 4.0% per annum over the next 10 years) and a future wage inflation rate of 2.5% to 3.3% per annum over the next 15 years (2018: 2.5% to 3.5% per annum over the next 10 years).

The actuary has advised that no allowance was made for asbestos related claims. It is not anticipated that Sydney Trains will have asbestos related claims.

13.5 Public liability claims

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

Any claim recoverable from Sydney Trains' insurer is also recognised as a receivable or disclosed as a contingent asset, depending on its probability of settlement. Refer Notes 6 and 16.

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 timing of the liability is inherently uncertain due to disputes over the quantum of individual claims.

13.6 Legal claims

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

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

Note 13 Provisions (continued)

13.7 Ballast disposal provision

The ballast disposal provision recognises Sydney Trains' legal obligation in relation to the disposal of non-recyclable landfill and materials arising from its ballast recycling operations.

The liability was assessed at 30 June 2019 (2018: 9 April 2018) by management after investigation of stockpiles at the Chullora site. The timing of the liability is inherently uncertain due to the timing of future disposal.

13.8 Redundancy

A provision has been established for the cost of Sydney Trains' redundancy programs. Sydney Trains has various initiatives and reform activity that will result in redundancies. The exact timing and the amount of the payment is uncertain.

13.9 Restoration of leased premises

The provision recognises Sydney Trains' obligation to restore premises leased from external parties to their original condition at the end of the lease term. The liability at year end is management's assessment of the costs to settle the obligation. The exact timing and amount of the liability is not certain.

13.10 Provision for repair

In the prior year, Sydney Trains recognised a provision for repair of $5m. The related repair work has since been completed at year-end.

Note 14 Contributed equity

14.1 Contributed equity

	Note	30.6.2019 $'000	30.6.2018 $'000
Contributed equity at start of the year		1,176,359	1,184,739
Net assets contributed by Government	14.2	(1,455)	(8,380)
Contributed equity at end of the year		**1,174,904**	**1,176,359**

14.2 Contributed equity movements

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

In the current year, NSW Trains transferred leave entitlements of $1.3m to Sydney Trains. In the prior year, Sydney Trains transferred rolling stock of $8.4m to RailCorp.

Assets transferred to/ from other entities		
Property, plant and equipment	(108)	(8,380)
Total assets	**(108)**	**(8,380)**
Provisions (current)	(1,347)	-
Total liabilities	**(1,347)**	**-**
Net assets transferred	**(1,455)**	**(8,380)**
Contributed equity	**(1,455)**	**(8,380)**

Note 15 Expenditure commitments

15.1 Expenditure commitments

Future minimum rentals payables under non-cancellable operating lease as at 30 June are as follows:

	30.6.2019 $'000	30.6.2018 $'000
Operating leases		
Within 12 months	21,862	18,440
12 months or longer but not longer than 5 years	49,578	49,404
Longer than 5 years	2,370	861
Total operating leases	**73,810**	**68,705**
Total property, plant & equipment (including intangible assets)	**1,976**	**6,933**
Total committed	**75,786**	**75,638**

The expenditure commitments include any associated Goods and Services Tax. Related input tax credits of $4.3m (2018: $3.5m) are expected to be recoverable from the Australian Taxation Office. For more details on rolling stock PPP contract commitments refer Note 15.2.

Note 15 Expenditure commitments (continued)

15.2 Rolling stock PPP contract commitments

The Sydney Trains contract with Reliance Rail constitutes a finance lease, refer Note 2.18. These assets and associated finance lease liabilities were recognised on completion and delivery of the assets.

The leased asset includes the following assets:

- 78 sets of Rolling Stock achieved Final Completion on 8 March 2016. Milestone payments made in respect of design and development of the rolling stock have been applied to the rolling stock lease liability. The lease liability, inclusive of the application of the milestone payment and accrued interest at 30 June 2019 was $1,772.8m (2018: $1,766.0m),
- The Auburn Maintenance Facility (AMF) reached practical completion on 18 June 2010. The lease liability, inclusive of accrued interest, at 30 June 2019 was $265.5m (2018: $265.7m), and
- The Simulators achieved practical completion on 30 September 2010. The lease liability, inclusive of accrued interest, at 30 June 2019 was $5.0m (2018: $4.9m).

Payments under the Rolling Stock Public Private Partnership (PPP) contract are being made via a series of Standard Availability Unit (SAUs) payments by Sydney Trains to Reliance Rail. The SAU payments are indexed to CPI.

The total payments to be made by Sydney Trains to Reliance Rail, including milestone payments and financing costs, over the term of the contract are estimated to be $7,844m (2018: $8,130m) in nominal dollars. The weighted average discount rate at 30 June 2019 for the finance lease liabilities were 9.11% (2018: 9.29%).

Interest of $6.7m (2018: $9.3m) has been accrued in respect to the finance lease liability for the rolling stock, maintenance facility and simulators.

Note 15 Expenditure commitments (continued)

15.2 Rolling stock PPP contract commitments (continued)

The commitment under this contract is as follows, excluding GST:

	Note	30.6.2019 $'000	30.6.2018 $'000
Finance lease liabilities			
Within 12 months		176,300	172,055
12 months or longer but no longer than 5 years		740,335	725,759
Longer than 5 years		4,294,376	4,485,252
Total minimum lease payments		5,211,011	5,383,066
Less amount representing finance charges		(3,167,683)	(3,346,441)
Present value of net future minimum lease payments (included in the Financial Statements as finance lease liabilities)		**2,043,328**	**2,036,625**
Classified as:			
Current	12	857	-
Non-current	12	2,042,471	2,036,625
Total		**2,043,328**	**2,036,625**
Other PPP contract commitments			
Within 12 months		100,119	92,405
12 months or longer but no longer than 5 years		376,775	371,680
Longer than 5 years		2,155,750	2,283,631
Total other PPP contract commitments		**2,632,644**	**2,747,716**

Other PPP contract commitments represent future payments relating to maintenance and other future payments as at 30 June 2019.

Note 16 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 Sydney Trains.

Conversely, they are present obligations arising from past events which are not recognised because it is uncertain or not probable that resources will be required to settle the obligation or the amount of the obligation cannot be reliably measured. However their probability of settlement is not remote.

Contractual and other claims against Sydney Trains 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.

Sydney Trains has certain obligations under the contract for the rolling stock PPP and the NSW Government guarantees the performance of those obligations. However, there is no expectation that those guarantees will be exercised.

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 Sydney Trains 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 17 Fair value measurements of non-financial assets

17.1 Fair value measurements of non-financial assets

Sydney Trains measures and recognises rolling stock, buildings, plant and machinery at fair value on a recurring basis.

Sydney Trains does not have any assets measured at fair value on a non-recurring basis.

Fair value measurements recognised in the Statement of Financial Position are categorised into the following levels at 30 June 2019.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2019				
Plant and machinery	-	-	15,116	15,116
Rolling stock	-	-	2,167,445	2,167,445
Building	-	-	229,944	229,944
Total recurring fair value measurements	**-**	**-**	**2,412,505**	**2,412,505**
2018				
Plant and machinery	-	336	18,682	19,018
Rolling stock	-	-	2,587,443	2,587,443
Building	-	-	233,377	233,377
Total recurring fair value measurements	**-**	**336**	**2,839,502**	**2,839,838**

All the asset categories also include assets under finance lease arrangements.

Level 2 fair value inputs include inputs other than quoted prices.

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

Sydney Trains' 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. There were no transfers in and out of level 3 measurements.

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

17.2 Valuation techniques used to derive level 3 fair values

Recurring fair value measurements

The fair value of non-financial assets such as passenger rolling stock, buildings and plant & machinery that are not traded in an active market is determined using valuation techniques. The valuation techniques adapted the use of the cost approach in view of the specialised nature of the assets and the not for profit nature of Sydney Trains. 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 prior to vesting to Sydney Trains. In arriving at the fair value for rolling stock inputs other than quoted prices for similar assets that were observable was used with adjustments made to account for their operational suitability to Sydney Trains assets. All of the resulting fair value estimates are included either in level 2 or in level 3.

Note 17 Fair value measurements of non-financial assets (continued)

17.3 Fair value measurements using significant unobservable inputs (level 3)

The following table is a reconciliation of level 3 items for the period ended 30 June 2019.

	Plant and machinery $'000	Rolling stock $'000	Building $'000	Total $'000
2019				
Fair value at 1 July 2018	18,682	2,587,443	233,377	2,839,502
Additions	-	15,486	-	15,486
Disposals/transfers out	(15)	-	-	(15)
Gains/(losses) recognised in the Statement of Comprehensive Income*	(5,162)	(92,174)	(3,433)	(100,769)
Gains/(losses) recognised in Other Comprehensive Income**	1,611	(343,310)	-	(341,699)
Fair value at 30 June 2019	**15,116**	**2,167,445**	**229,944**	**2,412,505**
2018				
Fair value at 1 July 2017	22,605	2,702,673	233,857	2,959,135
Additions vested to RailCorp	-	(8,380)	-	(8,380)
Additions	246	142	3,076	3,464
Disposals/transfers out	(151)	-	-	(151)
Gains/(losses) recognised in the Statement of Comprehensive Income*	(4,018)	(101,992)	(3,556)	(109,566)
Gains/(losses) recognised in Other Comprehensive Income**	-	(5,000)	-	(5,000)
Fair value at 30 June 2018	**18,682**	**2,587,443**	**233,377**	**2,839,502**

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

** Gains/losses recognised in Other Comprehensive Income relates to the asset revaluation reserve.

There were no transfers from levels 1 and 2 during the reporting period.

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 year.

Valuation inputs and relations to fair value

Valuation inputs are based on market comparable approach for recent transaction prices for similar assets consistently applied. These 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 buildings include contractor and model indirect costs which are based on past index movements, current industry standards and similar project outcomes.

Note 18 Financial instruments

18.1 Financial instruments

Sydney Trains holds the following financial instruments:

	Category	30.6.2019 $'000	30.6.2018 $'000
Financial assets			
Cash and cash equivalents	N/A	359,990	364,365
Trade and other receivables*	Loans & receivables at amortised cost/Amortised cost***	228,265	225,411
Derivative financial assets	Financial assets at fair value through profit or loss	1,943	4,897
Other financial assets	Loans & receivables at amortised cost/Amortised cost***	100,000	200,000
Total financial assets		**690,198**	**794,673**
Financial liabilities			
Trade and other payables**	Financial liabilities measured at amortised cost	367,369	435,476
Finance leases	Financial liabilities measured at amortised cost	2,043,328	2,036,625
Derivative financial liabilities	Financial liabilities measured at fair value through profit or loss	1,285	469
Total financial liabilities		**2,411,982**	**2,472,570**

* 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*

*** The 'Amortised cost' category applies to 30 June 2019 only. The category 'Loans & receivables at amortised cost' applies to the prior year.

18.2 Financial risks

The operational activities of Sydney Trains expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and commodity price risk in respect of distillate and electricity purchases). A risk management program focuses on financial performance and seeks to minimise potential adverse effects from financial market price movements. Sydney Trains uses derivative instruments to hedge financial exposures. Sydney Trains does not enter into or trade financial instruments for speculative reasons. Methods used to measure risk include sensitivity analysis in the case of interest rate, foreign exchange and other commodity price risks, and an ageing analysis for credit risk.

Risk management is carried out under approved policies. Sydney Trains' Treasury Management Policy establishes a prudential framework covering policies, best practice internal controls and reporting systems for the management of financial risks within Sydney Trains' operation. The policy covers specific areas such as foreign exchange risk, interest rate risk, commodity risk, credit risk, use of derivative financial instruments and investment of excess funds. Sydney Trains 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 financial instruments is in accordance with NSW Treasury Accounting policy (TPP19-05 *Accounting Policy: Accounting for Financial Instruments*).

Sydney Trains Treasury identifies, evaluates and hedges financial risk in close cooperation with Sydney Trains' operating groups. Treasury instruments approved for the management of financial risk are still in accordance with the *Public Authorities (Financial Arrangements) Act 1987.*

Note 18 Financial instruments (continued)

18.3 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 Sydney Trains' foreign exchange, interest rate and commodity price hedging instruments. Sensitivity analysis on market risk is based on price variability taking into account the economic environment in which Sydney Trains 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.

18.3.1 Foreign exchange risk

Sydney Trains is exposed to foreign exchange risk arising from currency exposures which is managed in accordance with TPP18-03 *NSW Government Foreign Exchange Risk Policy*. Foreign exchange risk arises from contractual commercial transactions denominated in a foreign currency. The risk is measured using sensitivity analysis.

The Sydney Trains Treasury Management Policy covers all elements of financial risk including foreign exchange risk. The policy requires 100% hedging of all material foreign exchange exposures.

Purchases involving foreign currency risk exposure that exceeds an aggregate of AUD 100,000, are required to be reviewed prior to signing to assess the financial risk and formulate strategies to manage the risk. Sydney Trains confirms a budget rate with project managers based on current forward prices and hedging strategies implemented. Counterparty risk is minimised by conducting all foreign exchange transactions with eligible counterparties, refer Note 18.4.

Sydney Trains' foreign currency contracts outstanding at period end were:

	Weighted Average Exchange Rate		Contract Value		Fair Value	
Maturity Profiles	**2019**	**2018**	**2019 S'000**	**2018 S'000**	**2019 S'000**	**2018 S'000**
Contracts denominated in US Dollars						
Not later than 3 months	0.7338	0.7372	4,546	3,299	4,753	3,308
Later than 3 months and not later than 12 months	0.7341	0.7326	10,509	9,523	10,950	9,474
Later than 12 months	0.7347	0.7629	6,714	5,697	6,968	5,869
Total hedged US Dollar contracts			21,769	18,519	22,671	18,651
Contracts denominated in Euros						
Not later than 3 months	0.6162	0.6327	8,232	1,811	8,252	1,799
Later than 3 months and not later than 12 months	0.6241	0.6141	2,600	2,506	2,665	2,462
Later than 12 months	0.6081	-	586	-	593	-
Total hedged Euros contracts			11,418	4,317	11,510	4,261
Contracts denominated in Pounds Sterling						
Not later than 3 months	0.5332	-	231	-	223	-
Later than 3 months and not later than 12 months	-	0.5600	-	1,168	-	1,164
Later than 12 months	-	-	-	-	-	-
Total hedged Pounds Sterling contracts			231	1,168	223	1,164
Net present value adjustment					(9)	(8)
Total hedged purchase *			**33,418**	**24,004**	**34,395**	**24,068**

* The total includes the impact of discounting on an aggregate level.

Note 18 Financial instruments (continued)

18.3 Market risk (continued)

18.3.1 Foreign exchange risk (continued)

Foreign exchange risk sensitivity analysis
The following table shows the effect on Other Comprehensive Income at the reporting date of a 10% movement in exchange rates, with all other variables being held constant. All underlying exposures and related hedges are taken into account.

Although currency markets have been volatile in the current reporting period, a sensitivity of 10 per cent has been selected for use at the reporting date, as this is considered reasonable, based on the current Australian dollar (AUD) level and the historical volatility of the AUD against other currencies. Based on the value of the AUD at the reporting date as compared with the currencies below, adverse or favourable movements in the foreign exchange rates would result in an increase or decrease in the AUD fair value respectively.

Based on the financial instruments held at 30 June 2019, had the AUD spot price weakened/strengthened by 10% against currencies in which contracts are held, with all other variables held constant, the impact on Comprehensive Income is shown in the table below.

An adverse movement in exchange rates implies an increase in the AUD against the hedged currency. A favourable movement represents a fall in the AUD against the hedged currency.

Decrease of 10%	Surplus / deficit Higher/(Lower)		Equity Higher/(Lower)	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
US Dollars	-	-	(2,074)	(1,702)
Euros	-	-	(1,040)	(384)
Pounds Sterling	-	-	(20)	(105)
Total	**-**	**-**	**(3,134)**	**(2,191)**

Increase of 10%	Surplus/deficit Higher/(Lower)		Equity Higher/(Lower)	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
US Dollars	-	-	2,535	2,079
Euros	-	-	1,272	469
Pounds Sterling	-	-	25	129
Total	**-**	**-**	**3,832**	**2,677**

Note 18 Financial instruments (continued)

18.3 Market risk (continued)

18.3.2 Commodity price risk

Sydney Trains is exposed to a range of commodity price risks, principally from distillate and electricity purchases.

Australian dollar costs under the supply agreements price mechanism for distillate are reflective of movements in Singapore Gas Oil prices and AUD/USD exchange rates. Sydney Trains Treasury Management Policy requires 100% of exposures be hedged in year 1, year 2 up to 60% and year 3 up to 40% hedged given the continuous nature of the exposure. Sydney Trains hedges its distillate exposure by entering into Singapore Gas Oil swap and USD forward contracts.

Sydney Trains purchases its electricity under a fixed price contract. Sydney Trains has entered into a 4 year fixed term contract ending 30 June 2021. Sydney Trains' policy for electricity hedging is similar to distillate operations however electricity hedging applies only to periods not under contract. 50 - 100% of exposures are required to be hedged in year 1. Up to 60% of exposures can be hedged in year 2 and up to 40% in year 3. Hedges are subsequently closed out once a fixed price contract is in place.

At 30 June 2019 there were only commodity hedge contracts in place for distillate purchases.

Maturity profiles	Contract Value 2019 $'000	Contract Value 2018 $'000	Fair Value 2019 $'000	Fair Value 2018 $'000
Not later than 1 year				
Favourable	6,448	9,945	7,229	12,927
Non-favourable	8,938	2,573	8,210	2,531
	15,386	12,518	**15,439**	15,458
Between 1 and 5 years				
Favourable	2,411	5,868	2,550	7,377
Non-favourable	4,558	-	4,040	-
	6,969	5,868	**6,590**	7,377
Net present value adjustment			4	(87)
Total commodity swap contracts *	**22,355**	**18,386**	**22,033**	**22,748**

* The total includes the impact of discounting on an aggregate level

Note 18 Financial Instruments (continued)

18.3 Market risk (continued)

18.3.2 Commodity price risk (continued)

Commodity price risk sensitivity analysis
Based on contracts in place at 30 June 2019, had the Singapore Gas Oil spot price weakened/strengthened by 10%, with all other variables held constant, the impact on Comprehensive Income is shown in the table below:

	Change in unit price	Surplus/deficit 2019 $'000	Surplus/deficit 2018 $'000	Equity 2019 $'000	Equity 2018 $'000
Commodity	-10%	-	-	(2,236)	(2,297)
Commodity	+10%	-	-	2,236	2,297

Significant assumptions used in the commodity price exposure sensitivity analysis include reasonably possible movements in commodity price rates, determined based on a review of the last 2 years historical movements and economic forecasts.

18.3.3 Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The PPP maintenance facility finance lease recognised on Sydney Trains' Statement of Financial Position is not exposed to interest rate risk. Amounts payable under the leasing arrangement are fixed, based on the achievement of certain milestones and key performance indicators by Reliance Rail. The interest rate charged on the lease liability is that which is implicit within the lease and will not be impacted by market interest rate fluctuations.

Exposure to interest rate risk at year end is set out below:

	Interest Rate 2019 %	Interest Rate 2018 %	Principal Amount 2019 $'000	Principal Amount 2018 $'000
Financial assets				
Not later than 1 year				
Cash at bank	1.25	1.50	359,990	364,365
Other financial assets	2.70	2.55	100,000	200,000
Total financial assets			459,990	564,365
Financial liabilities				
Not later than 1 year				
Finance lease	-	-	857	-
Between 1 and 5 years				
Finance lease	-	-	19,642	5,902
Later than 5 years				
Finance lease	-	-	2,022,829	2,030,723
Total financial liabilities			2,043,328	2,036,625
Net exposure			**2,503,318**	**2,600,990**

Interest rate risk is not applicable to the finance lease

Note 18 Financial instruments (continued)

18.3 Market risk (continued)

18.3.3 Interest rate risk (continued)

Interest rate sensitivity analysis

Exposure to interest rate risk arises primarily through Sydney Trains' interest bearing liabilities. A change of +/- 1% is used to measure Sydney Trains' financial sensitivity to interest rate movements. Sydney Trains exposure to interest rate risk is set out below:

	Carrying Amount $'000	Surplus/deficit $'000		Equity $'000	
		-1%	+1%	-1%	+1%
2019					
Cash at bank	359,990	(3,600)	3,600	(3,600)	3,600
Other financial assets	100,000	(1,000)	1,000	(1,000)	1,000
2018					
Cash at bank	364,365	(3,644)	3,644	(3,644)	3,644
Other financial assets	200,000	(2,000)	2,000	(2,000)	2,000

18.4 Credit risk

Credit risk arises where there is the possibility of Sydney Trains’ debtors defaulting on their contractual obligations, resulting in a financial risk to Sydney Trains.

Credit risk can arise from financial assets of Sydney Trains, including cash and cash equivalents, derivative financial instruments, deposits with banks, as well as credit exposure to customers, including outstanding receivables and committed transactions. Sydney Trains 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 or allowance for expected credit losses).

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

Credit risk associated with Sydney Trains’ 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 (NSW)* requires Sydney Trains 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.

Sydney Trains held $360.0m (2018: $364.4m) in cash at bank at 30 June 2019. This was held with Westpac Banking Corporation.

Note 18 Financial instruments (continued)

18.4 Credit risk (continued)

Derivatives
In relation to foreign exchange contracts and commodity swap transactions, Sydney Trains only transacts with counterparties with a Standard & Poor's long-term credit rating of A or greater. Sydney Trains held $1.9m (2018: $4.9m) in derivative financial assets and $1.3m (2018: $0.5m) in derivative financial liabilities.

Further, no counterparty may have more than 50% of Sydney Trains' total contract value in regards to foreign currency and commodity transactions.

Sydney Trains also holds "International Swap Dealers Association" Master Agreements with all counterparties which is an industry standard.

Trade receivables
The maximum credit risk exposure in relation to receivables is the carrying amount, less the allowance for impaired debts/expected credit losses. 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.

Sydney Trains considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, Sydney Trains may also consider a financial asset to be in default when internal or external information indicates that Sydney Trains is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the debtor.

Sydney Trains applies the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade debtors. To measure the expected credit losses, Trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on historical observed loss rates. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Sydney Trains has identified various factors to be relevant and has accordingly adjusted the historical loss rates.

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

Investment
Sydney Trains held funds with Westpac Banking Corporation for operational purposes at 30 June 2019. The facility is designated at cost. Therefore any changes in price impacts on surplus and deficit (rather than comprehensive income). The deposits at balance date were earning an average interest rate of 1.58% (2018: 1.87%) while over the year the average interest rate was 1.72% (2018: 1.85%) on an average balance during the year of $556.0m (2018: $615.2m). There were no indicators for impairment on the term deposits during the year.

Note 18 Financial instruments (continued)

18.5 Liquidity risk

Liquidity risk refers to Sydney Trains being unable to meet its payment obligations when they fall due. Sydney Trains 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 year, there have been no defaults or breaches on any loans payable. No assets have been pledged as collateral. Sydney Trains 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 18 Financial instruments (continued)

18.5 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 2019					
Financial liabilities					
Trade and other payables	367,369	367,369	367,369	-	-
Finance lease liability	2,043,328	5,211,011	176,300	740,335	4,294,376
	2,410,697	5,578,380	543,669	740,335	4,294,376
Derivatives					
Forward exchange contracts outflow	(34,404)	(33,418)	(26,118)	(7,300)	-
Forward exchange contracts inflow	-	-	-	-	-
Commodity swap contracts outflow	(22,030)	(22,355)	(15,386)	(6,969)	-
Commodity swap contracts inflow	-	-	-	-	-
	(56,434)	(55,773)	(41,504)	(14,269)	-
30 June 2018					
Financial liabilities					
Trade and other payables	435,476	435,476	435,476	-	-
Finance lease liability	2,036,625	5,383,066	172,055	725,759	4,485,252
	2,472,101	5,818,542	607,531	725,759	4,485,252
Derivatives					
Forward exchange contracts outflow	(24,077)	(24,004)	(18,307)	(5,697)	-
Forward exchange contracts inflow	-	-	-	-	-
Commodity swap contracts outflow	(22,835)	(18,386)	(12,518)	(5,868)	-
Commodity swap contracts inflow	-	-	-	-	-
	(46,912)	(42,390)	(30,825)	(11,565)	-

Note 18 Financial Instruments (continued)

18.6 Hedging

The impact of hedged items on the Statement of Financial position is as follows:

30 June 2019	Change in fair value used for measuring ineffectiveness	Cash flow hedge reserve*	Cost of hedging reserve**
Forward exchange contracts	N/A	911	2,523
Commodity swaps	N/A	(4,682)	-

**The cash flow hedge reserve includes the hedge reserve balances for continuing hedges only.*

***The cost of hedging reserve includes the hedge reserve balances for hedging relationships where hedge accounting is no longer applied.*

The effect of the cash flow hedge on the Statement of Comprehensive Income is as follows:

30 June 2019	Gains/(loss recognised in Other Comprehensive Income	Hedge Ineffectiveness recognised surplus / deficit	Line item in the Statement of Comprehensive Income	Cost of hedging recognised in Other Comprehensive Income	Amount reclassified from Other Comprehensive Income to surplus/deficit	Line item in the Statement of Comprehensive Income
Forward exchange contracts	911	-	N/A	471	471	Other operating expenses - External maintenance costs
Commodity swaps	(4,682)	-	N/A	-	-	-

The impact of hedging on equity is outlined below. A reconciliation of each component of equity and the analysis of other comprehensive income is as follows:

	Cash flow hedge reserve	Cost of hedging reserve
As at 1 July 2018	(4,428)	2,994
Forward exchange contracts	(911)	(471)
Commodity swaps	4,682	-
As at 30 June 2019	(657)	2,523

18.7 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.

Sydney Trains 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.

Note 18 Financial instruments (continued)

18.7 Fair value compared to carrying amount (continued)

Financial assets and liabilities recognised at fair value after initial recognition include foreign exchange contracts and commodity swap contracts. Foreign exchange and commodity hedging instruments (assets and liabilities) are categorised within level 2 and are calculated from current market prices / exchange rates that are observable either directly or indirectly and appropriately adjusted for credit. The financial assets and liabilities are recognised on a recurring basis in the statement of financial position.

There were no transfers between levels 1 and 2 and levels 2 and 3 during the current period.

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 2019					
Financial assets					
Foreign exchange contracts	31,279	30,240	-	31,279	-
Commodity swap contracts	9,780	8,858	-	9,780	-
Total financial assets	**41,059**	**39,098**	**-**	**41,059**	**-**
Financial liabilities					
Foreign exchange contracts	3,125	3,178	-	3,125	-
Commodity swap contracts	12,250	13,496	-	12,250	-
Total financial liabilities	**15,375**	**16,674**	**-**	**15,375**	**-**
Fair value at 30 June 2018					
Financial assets					
Foreign exchange contracts	11,876	11,372	-	11,876	-
Commodity swap contracts	20,304	15,813	-	20,304	-
Total financial assets	**32,180**	**27,185**	**-**	**32,180**	-
Financial liabilities					
Foreign exchange contracts	12,201	12,632	-	12,201	-
Commodity swap contracts	2,531	2,573	-	2,531	-
Total financial liabilities	**14,732**	**15,205**	**-**	**14,732**	-

The fair value does not reflect net present value adjustments

Note 19 Related parties

19.1 Key management personnel compensation

During 2018-19, Sydney Trains incurred $5.3m (2018: $6.1m) in respect of key management personnel services provided by Transport Service NSW.

19.2 Transactions & outstanding balances with key management personnel

During 2018-19 Sydney Trains did not enter into transactions with its key management personnel including the key management personnel of the parent (2018: nil).

19.3 Transactions with government related entities during the year

During the year, Sydney Trains 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
2018-19		
Access rights to rail network, stations, rolling stock and property	RailCorp	No charge
Routine maintenance services	RailCorp	No charge
Operating subsidies	TfNSW	1,436,535
Contribution to fund operating activities	RailCorp	61,050
Cost recoveries for services provided to transport entities including maintenance activities for NSW Trains	NSW Trains RailCorp TfNSW RMS Sydney Metro	644,658
Construction revenue	RailCorp	367,615
Defined benefit superannuation liability	SAS Trustee Corporation	630,898
Letter of comfort to Sydney Trains	NSW Treasury	No charge
2017-18		
Access rights to rail network, stations, rolling stock and property	RailCorp	No charge
Routine maintenance services	RailCorp	No charge
Operating subsidies	TfNSW	1,327,112
Rolling stock transferred out at fair value of $8.4m	RailCorp	No charge
Contribution to fund operating activities	RailCorp	62,500
Cost recoveries for services provided to transport entities including maintenance activities for NSW Trains	NSW Trains RailCorp TfNSW RMS	675,439
Construction revenue	RailCorp	453,540
Defined benefit superannuation liability	SAS Trustee Corporation	446,386

19.4 Transactions and outstanding balances with other related parties

During 2018-19, Sydney Trains did not engage in any transactions / have outstanding balances with other related parties (2018: nil).

Note 20 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 provisions and assets are given 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 2018. The next actuarial investigation will be performed at 30 June 2021.

Unless otherwise indicated, the paragraph references in Note 20 refer to AASB 119 *Employee Benefits*.

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.

20 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 2019

The following is the 30 June 2019 superannuation position:

Member Numbers	SASS 30-Jun-19	SANCS 30-Jun-19	SSS 30-Jun-19	TOTAL 30-Jun-19
Contributors	1,097	1,098	1	
Deferred benefits	-	-	-	
Pensioners	249	-	3	
Pensions fully commuted	-	-	-	
Superannuation Position for AASB 119 purposes	$'000	$'000	$'000	$'000
Accrued liability (Note 1)	1,332,426	107,258	9,080	1,448,764
Estimated reserve account balance	(754,168)	(60,808)	(2,890)	(817,866)
1. Deficit/(surplus)	578,258	46,450	6,190	630,898
2. Future Service Liability (Note 2)	25,146	26,530	182	51,858
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.)	578,258	46,450	6,190	630,898

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 20 Superannuation (continued)

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

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Net Defined Benefit Liability/(Asset) at start of year	**407,239**	**34,194**	**4,953**	**446,386**
Current service cost	9,793	3,491	24	13,308
Net Interest on the net defined benefit liability/(asset)	10,570	907	131	11,608
Past service cost	-	-	-	-
(Gains)/losses arising from settlements	-	-	-	-
Actual return on Fund assets less Interest income	(38,290)	(3,248)	(158)	(41,696)
Actuarial (gains)/losses arising from changes in demographic assumptions	997	150	10	1,157
Actuarial (gains)/losses arising from changes in financial assumptions	184,562	9,580	1,809	195,951
Actuarial (gains)/losses arising from liability experience	20,087	1,376	(579)	20,884
Adjustment for effect of asset ceiling	-	-	-	-
Employer contributions	(16,700)	-	-	(16,700)
Effects of transfers in/out due to business combinations and disposals	-	-	-	-
Net Defined Benefit Liability/(Asset) at end of year	**578,258**	**46,450**	**6,190**	**630,898**

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

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Fair value of Fund assets at beginning of the year	**729,480**	**63,767**	**3,286**	**796,533**
Interest income	18,592	1,550	84	20,226
Actual return on Fund assets less Interest income	38,290	3,248	158	41,696
Employer contributions	16,700	-	-	16,700
Contributions by participants	7,301	-	16	7,317
Benefits paid	(55,863)	(7,915)	(668)	(64,446)
Taxes, premiums & expenses paid	(332)	158	14	(160)
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	**754,168**	**60,808**	**2,890**	**817,866**

Note 20 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	**1,136,719**	**97,961**	**8,239**	**1,242,919**
Current service cost	9,793	3,491	24	13,308
Interest cost	29,162	2,457	216	31,835
Contributions by participants	7,301	-	16	7,317
Actuarial (gains)/losses arising from changes in demographic assumptions	997	150	10	1,157
Actuarial (gains)/losses arising from changes in financial assumptions	184,562	9,582	1,808	195,952
Actuarial (gains)/losses arising from liability experience	20,087	1,376	(579)	20,884
Benefits paid	(55,863)	(7,915)	(668)	(64,446)
Taxes, premiums & expenses paid	(332)	156	14	(162)
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	**1,332,426**	**107,258**	**9,080**	**1,448,764**

Note 20 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 2019 Asset category	Total $'000	Quoted prices in active markets for identical assets Level 1 $'000	Significant observable inputs Level 2 $'000	Unobservable inputs Level 3 $'000
Short Term Securities	4,042,116	2,135,561	1,906,555	-
Australian Fixed Interest	2,294,672	4,993	2,289,679	-
International Fixed Interest	1,968,094	6,827	1,952,396	8,871
Australian Equities	8,368,928	7,818,302	547,571	3,055
International Equities	11,387,439	8,795,299	2,592,132	8
Property	3,588,230	698,607	717,079	2,172,544
Alternatives	10,558,180	327,328	5,758,094	4,472,758
Total	**42,207,659**	**19,786,917**	**15,763,506**	**6,657,236**

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

As at	30-Jun-19
Short Term Securities	9.6%
Australian Fixed Interest	5.4%
International Fixed Interest	4.7%
Australian Equities	19.8%
International Equities	27.0%
Property	8.5%
Alternatives	25.0%
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 2019 includes $99.5 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 $316 million (30 June 2018: $280 million).
Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of $331 million (30 June 2018: $287 million).

Note 20 Superannuation (continued)

Significant Actuarial Assumptions at the Reporting Date - Para 144

Discount rate	1.32% pa
Salary increase rate (excluding promotional increases)	3.2% pa
Rate of CPI increase	1.75% for 2018/19 and 2019/20, 2.00% for 2020/21; 2.25% for 2021/22 and 2022/23; 2.50% pa thereafter.
Pensioner mortality	The pensioner mortality assumptions are as per the 2018 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 2019 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 2019.

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)	1,448,764	1,645,309	1,291,760

	Base case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above +0.5% pa	as above -0.5% pa
Salary inflation rate	as above	as above	as above
Defined benefit obligation ($'000)	1,448,764	1,508,194	1,394,948

	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	as above +0.5% pa	as above -0.5% pa
Defined benefit obligation ($'000)	1,448,764	1,476,667	1,422,017

	Base case	Scenario G Higher Mortality*	Scenario H Lower Mortality**
Defined benefit obligation ($'000)	1,448,764	1,473,224	1,437,553

*Assumes the short term pensioner mortality improvement factors for years 2019-2023 also apply for years after 2023.

**Assumes the long term pensioner mortality improvement factors for years post 2023 also apply for the years 2019 to 2023.

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

Note 20 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. 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 2019 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*	779,977	74,045	3,425	857,447
Net market value of Fund assets	(754,168)	(60,808)	(2,890)	(817,866)
Net (surplus)/deficit	**25,809**	**13,237**	**535**	**39,581**

*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 member contributions
	N/A	N/A	N/A

Economic assumptions

The economic assumptions adopted for 30 June 2019 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)	3.2% pa
Expected rate of CPI increase	2.2% pa

Expected contributions - Para 147(b)

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Expected employer contributions	16,700	-	-	16,700

Maturity profile of defined benefit obligation - Para 147(c)

The weighted average duration of the defined benefit obligation is 12 years.

Note 20 Superannuation (continued)

Profit or Loss Impact

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Current service cost	9,793	3,491	24	13,308
Net interest	10,570	907	131	11,608
Past service cost	-	-	-	-
(Gains)/Loss on settlement	-	-	-	-
Profit or loss component of the Defined Benefit Cost	**20,363**	**4,398**	**155**	**24,916**

Other Comprehensive Income

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Actuarial (gains) losses on liabilities	205,646	11,108	1,238	217,992
Actual return on Fund assets less Interest income	(38,290)	(3,248)	(158)	(41,696)
Change in the effect of asset ceiling	-	-	-	-
Total remeasurement in Other Comprehensive Income	**167,356**	**7,860**	**1,080**	**176,296**

30 June 2018

The following is the 30 June 2018 superannuation position:

Member Numbers	SASS 30-Jun-18	SANCS 30-Jun-18	SSS 30-Jun-18	TOTAL 30-Jun-18
Contributors	1,190	1,191	1	
Deferred benefits	-	-	-	
Pensioners	211	-	3	
Pensions fully commuted	-	-	-	
Superannuation Position for AASB 119 purposes	$'000	$'000	$'000	$'000
Accrued liability (Note 1)	1,136,719	97,961	8,239	1,242,919
Estimated reserve account balance	(729,480)	(63,767)	(3,286)	(796,533)
1. Deficit/(surplus)	407,239	34,194	4,953	446,386
2. Future Service Liability (Note 2)	28,662	25,230	161	54,053
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.)	407,239	34,194	4,953	446,386

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 20 Superannuation (continued)

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

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Net Defined Benefit Liability/(Asset) at start of year	**407,304**	**35,917**	**5,011**	**448,232**
Current service cost	11,545	3,918	70	15,533
Net Interest on the net defined benefit liability/(asset)	10,561	886	134	11,581
Past service cost	-	-	-	-
(Gains)/losses arising from settlements	-	-	-	-
Actual return on Fund assets less Interest income	(32,735)	(1,438)	(200)	(34,373)
Actuarial (gains)/losses arising from changes in demographic assumptions	32,764	(1,383)	58	31,439
Actuarial (gains)/losses arising from changes in financial assumptions	(2,852)	(138)	(38)	(3,028)
Actuarial (gains)/losses arising from liability experience	(2,648)	(3,568)	(82)	(6,298)
Adjustment for effect of asset ceiling	-	-	-	-
Employer contributions	(16,700)	-	-	(16,700)
Effects of transfers in/out due to business combinations and disposals	-	-	-	-
Net Defined Benefit Liability/(Asset) at end of year	**407,239**	**34,194**	**4,953**	**446,386**

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

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Fair value of Fund assets at beginning of the year	**731,731**	**70,864**	**3,024**	**805,619**
Interest income	18,382	1,782	75	20,239
Actual return on Fund assets less Interest income	32,735	1,438	200	34,373
Employer contributions	16,700	-	-	16,700
Contributions by participants	8,149	-	57	8,206
Benefits paid	(77,211)	(10,451)	(67)	(87,729)
Taxes, premiums & expenses paid	(1,006)	134	(3)	(875)
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	**729,480**	**63,767**	**3,286**	**796,533**

Note 20 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	**1,139,035**	**106,781**	**8,035**	**1,253,851**
Current service cost	11,545	3,918	70	15,533
Interest cost	28,943	2,668	209	31,820
Contributions by participants	8,149	-	57	8,206
Actuarial (gains)/losses arising from changes in demographic assumptions	32,764	(1,383)	58	31,439
Actuarial (gains)/losses arising from changes in financial assumptions	(2,852)	(138)	(38)	(3,028)
Actuarial (gains)/losses arising from liability experience	(2,648)	(3,568)	(82)	(6,298)
Benefits paid	(77,211)	(10,451)	(67)	(87,729)
Taxes, premiums & expenses paid	(1,006)	134	(3)	(875)
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	**1,136,719**	**97,961**	**8,239**	**1,242,919**

Note 20 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 2018 Asset category	Total $'000	Quoted prices in active markets for identical assets Level 1 $'000	Significant observable inputs Level 2 $'000	Unobservable inputs Level 3 $'000
Short Term Securities	4,401,164	2,185,469	2,215,695	-
Australian Fixed Interest	2,234,921	41,853	2,193,068	-
International Fixed Interest	1,396,107	8,116	1,387,991	-
Australian Equities	9,271,405	8,719,442	548,908	3,055
International Equities	10,891,350	8,499,476	2,391,501	373
Property	3,711,287	788,018	608,934	2,314,335
Alternatives	9,894,828	420,898	5,332,818	4,141,113
Total	**41,801,063**	**20,663,272**	**14,678,915**	**6,458,876**

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

As at	30-Jun-18
Short Term Securities	10.5%
Australian Fixed Interest	5.3%
International Fixed Interest	3.3%
Australian Equities	22.2%
International Equities	26.1%
Property	8.9%
Alternatives	23.7%
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 2018 includes $97.7 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 $280 million (30 June 2017: $250 million).
Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of $287 million (30 June 2017: $261 million).

Note 20 Superannuation (continued)

Significant Actuarial Assumptions at the Reporting Date - Para 144

Discount rate	2.65%
Salary increase rate (excl. promotional increases)	2.7% pa for 2018/19; 3.2% pa thereafter.
Rate of CPI increase	2.25% pa for 2018/19 and 2019/20; 2.5% pa thereafter.
Pensioner mortality	The pensioner mortality assumptions are those to be used for the 2018 actuarial investigation of the Pooled Fund. These assumptions will be disclosed in the actuarial investigation report which will be available on the Trustee's website when the investigation is complete. The report will show the pension mortality rates for each age. Alternatively, the assumptions are available on request from the Trustee.

Sensitivity Analysis - Para 145

The entity's total defined benefit obligation as at 30 June 2018 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 2018.

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)	1,242,919	1,394,309	1,120,671

	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)	1,242,919	1,286,130	1,203,636

	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)	1,242,919	1,267,873	1,219,031

	Base case	Scenario G Higher Mortality*	Scenario H Lower Mortality**
Defined benefit obligation ($'000)	1,242,919	1,259,248	1,235,241

*Assumes the short term pensioner mortality improvement factors for years 2018-2023 also apply for years after 2023.

**Assumes the long term pensioner mortality improvement factors for years post 2023 also apply for the years 2018 to 2023.

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

Note 20 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. 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 2018 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*	769,230	76,816	3,573	849,619
Net market value of Fund assets	(729,480)	(63,767)	(3,286)	(796,533)
Net (surplus)/deficit	**39,750**	**13,049**	**287**	**53,086**

*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 member contributions
	N/A	N/A	N/A

Economic assumptions

The economic assumptions adopted for 30 June 2018 AASB 1056 Accounting Standard "Superannuation Entities" are (these assumptions are consistent with the assumptions to be used for the 2018 actuarial investigation of the Pooled Fund):

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% for 2018/19; 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	16,700	-	-	16,700

Maturity profile of defined benefit obligation - Para 147(c)

The weighted average duration of the defined benefit obligation is 13.2 years.

Note 20 Superannuation (continued)

Profit or Loss Impact

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Current service cost	11,545	3,918	70	15,533
Net interest	10,561	886	134	11,581
Past service cost	-	-	-	-
(Gains)/Loss on settlement	-	-	-	-
Profit or loss component of the Defined Benefit Cost	**22,106**	**4,804**	**204**	**27,114**

Other Comprehensive Income

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Actuarial (gains) losses on liabilities	27,264	(5,089)	(62)	22,113
Actual return on Fund assets less Interest income	(32,735)	(1,438)	(200)	(34,373)
Change in the effect of asset ceiling	-	-	-	-
Total remeasurement in Other Comprehensive Income	**(5,471)**	**(6,527)**	**(262)**	**(12,260)**

Note 21 Events occurring after reporting date

There were no significant events occurring after the reporting period.

(End of audited financial statements)

INDEPENDENT AUDITOR'S REPORT

Sydney Trains

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Sydney Trains, which comprise the Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising a Statement 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 Sydney Trains as at 30 June 2019, 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 Sydney Trains 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.

Other Information

Sydney Trains' annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Chief Executive of Sydney Trains is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Chief Executive.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Chief Executive's Responsibilities 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 is responsible for assessing Sydney Trains' ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting except where Sydney Trains will be dissolved by an Act of Parliament or otherwise cease operations.

Auditor's Responsibilities 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 Sydney Trains 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 for NSW

20 September 2019
SYDNEY