Sydney Trains Annual Report

19/20

NSW GOVERNMENT

Volume 2

Sydney Trains

Financial Statements 2019-2020

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Contents

Statement by the Chief Executive

In relation to the Financial Statements for the year ended 30 June 2020

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 2020 and of its financial performance for the year ended 30 June 2020.

(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.

Suzanne Holden
Acting Chief Executive

12 October 2020

(Start of audited financial statements)

Statement of Comprehensive Income for the year ended 30 June 2020

	Note	2019-20 $'000	2018-19 $'000
Income			
Passenger services revenue		-	904,466
Sale of goods and services from contracts with customers / Non passenger revenue	3.1	1,781,720	1,079,461
Investment revenue	3.2	29,947	9,582
Other revenue		7,658	7,188
Total income		**1,819,325**	**2,000,697**
Expenses			
Operating expenses			
- Employee related expenses	4.1	1,406,452	1,336,702
- Personnel service expenses	4.3	143,069	132,465
- Other operating expenses	4.4	1,897,501	1,997,855
Depreciation and amortisation	9.2,10.2,15.1	147,114	132,679
Finance costs	4.6	181,010	178,758
Total expenses		3,775,146	3,778,459
Deficit from operations before Government and other contributions		**(1,955,821)**	**(1,777,762)**
Government and other contributions	3.3	1,697,029	1,546,678
Deficit from operations for the year		**(258,792)**	**(231,084)**
Impairment losses on financial assets		(190)	(87)
Other gains/ (losses)	4.7	(3,302)	-
Deficit for the year		**(262,284)**	**(231,171)**
Other Comprehensive Income			
Items that may be reclassified to surplus/deficit			
Net gain/(loss) in foreign exchange		(1,304)	911
Net gain/(loss) in commodity swaps		(5,420)	(4,682)
Hedge reserve reclassification		432	471
Items that will not be reclassified to surplus/deficit			
Revaluation of property, plant and equipment		(1,371)	(341,952)
Superannuation actuarial gains/(losses) on defined benefit schemes	22	(2,614)	(176,296)
Total Other Comprehensive Income for the year		**(10,277)**	**(521,548)**
Total Comprehensive Income for the year		**(272,561)**	**(752,719)**

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

Statement of Financial Position as at 30 June 2020

	Note	30.6.2020 $'000	30.6.2019 $'000
Assets			
Current assets			
Cash and cash equivalents	5.1	371,356	359,990
Trade and other receivables	6.1	166,063	257,546
Inventories	7	21,154	19,585
Derivative financial instruments		650	1,549
Other financial assets	8	-	100,000
Total current assets		559,223	738,670
Non-current assets			
Inventories	7	32,702	35,695
Property plant and equipment	9	281,624	2,428,624
Right-of-use assets	15	2,155,340	-
Intangible assets	10	119,958	139,115
Derivative financial instruments		155	393
Total non-current assets		2,589,779	2,603,827
Total assets		**3,149,002**	**3,342,497**
Liabilities			
Current liabilities			
Trade and other payables	11	365,440	449,723
Borrowings	12	20,241	857
Provisions	13	480,556	433,263
Derivative financial instruments		4,407	778
Contract liabilities	14	1,242	-
Total current liabilities		871,886	884,621
Non-current liabilities			
Borrowings	12	2,114,731	2,042,471
Provisions	13	697,624	689,317
Derivative financial instruments		2,465	507
Total non-current liabilities		2,814,820	2,732,295
Total liabilities		**3,686,706**	**3,616,916**
Net assets/(liabilities)		**(537,704)**	**(274,419)**
Equity			
Contributed equity	16.1	1,184,180	1,174,904
Reserves		(8,158)	96,608
Retained earnings		(1,713,726)	(1,545,931)
Total equity		**(537,704)**	**(274,419)**

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 2020

	Note	Contributed equity $'000	Retained earnings $'000	Asset revaluation $'000	Other reserves $'000	Total $'000
Balance at 1 July 2019		**1,174,904**	**(1,545,931)**	**98,474**	**(1,866)**	**(274,419)**
Change in accounting policy	2.1.2	-	97,103	(97,103)	-	-
Restated balance at 1 July 2019		**1,174,904**	**(1,448,828)**	**1,371**	**(1,866)**	**(274,419)**
Surplus/(deficit) for the year		-	**(262,284)**	-	-	**(262,284)**
Other Comprehensive income						
Net gain/(loss) in foreign exchange		-	-	-	(872)	(872)
Net gain/(loss) in commodity swaps		-	-	-	(5,420)	(5,420)
Increase/(decrease) in asset revaluation reserve		-	-	(1,371)	-	(1,371)
Superannuation actuarial gains/(losses) on defined benefit schemes		-	(2,614)	-	-	(2,614)
Total Other Comprehensive income for the year		**-**	**(2,614)**	**(1,371)**	**(6,292)**	**(10,277)**
Total Comprehensive income for the year		**-**	**(264,898)**	**(1,371)**	**(6,292)**	**(272,561)**
Transactions with owners in their capacity as owners						
Increase/(decrease) in net assets from equity transfers (contribution by owners)	16.2	9,276	-	-	-	9,276
Balance at 30 June 2020		**1,184,180**	**(1,713,726)**	**-**	**(8,158)**	**(537,704)**
Balance at 1 July 2018		**1,176,359**	**(1,138,559)**	**440,426**	**1,434**	**479,660**
Change in accounting policy		-	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 forward 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)	16.2	(1,455)	-	-	-	(1,455)
Balance at 30 June 2019		**1,174,904**	**(1,545,931)**	**98,474**	**(1,866)**	**(274,419)**

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 2020

	Note	2019-20 $'000	2018-19 $'000
Cash flows from operating activities			
Cash received			
Passenger services		842,245	993,320
Receipts from customers and others		1,318,589	1,379,998
Government contributions - operating		1,675,210	1,450,216
Interest received		4,770	11,660
Total cash received		3,840,814	3,835,194
Cash used			
Payments to suppliers and others		(2,314,114)	(2,407,339)
Payments to employees		(1,405,207)	(1,355,350)
Interest paid		(175,823)	(171,736)
Total cash used		(3,895,144)	(3,934,425)
Net cash flows from /(used in) operating activities	5.2	**(54,330)**	**(99,231)**
Cash flow from investing activities			
Cash received			
Government contributions - capital		13,301	24,100
Bank deposits more than 90 days		100,000	100,000
Total cash received		113,301	124,100
Cash used			
Property, plant and equipment and intangible assets acquisitions		(29,133)	(29,244)
Total cash used		(29,133)	(29,244)
Net cash flows from/(used in) investing activities		**84,168**	**94,856**
Cash flows from financing activities			
Cash received			
Proceeds from borrowings		45,000	-
Total cash received		45,000	-
Cash used			
Repayment of borrowings		(45,000)	-
Payment of lease liabilities		(18,472)	-
Total cash used		(63,472)	-
Net cash flows from/(used in) financing activities		**(18,472)**	**-**
Net (decrease)/increase in cash and cash equivalents		**11,366**	**(4,375)**
Cash and cash equivalents at beginning of year		359,990	364,365
Cash and cash equivalents at end of year	5.1	**371,356**	**359,990**

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

Notes to the Financial Statements for the year ended 30 June 2020

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.

(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. Prior year comparatives relating to 'Fines and penalties of $7.2m and the 'Contribution from RailCorp' of $61.1m has been reclassified from 'Non passenger revenue' to 'Other revenue' and 'Government and other contributions' to align with the current year presentation.

The introduction of new accounting standards has resulted in reclassification across various financial statement line items to comply with accounting standard requirements. Sydney Trains has not adjusted comparatives in accordance with NSW Treasury mandates.

The significant reclassifications relate to 'Passenger services revenue' which has been reclassified to 'Sale of goods and services from contracts with customers' and 'Advertising revenue' which has been reclassified to 'Rental income' and 'Contingent rental income' in the current financial year.

(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.

Notes to the Financial Statements for the year ended 30 June 2020

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.

Sydney Trains receives funding from Transport for NSW which receives appropriations from the Consolidated Fund. Appropriations for each financial year are set out in the Appropriation Act for that year. Due to COVID-19, the State Budget and related 2020-21 Appropriation Bill has been delayed and is anticipated to be tabled in Parliament in November/December 2020. However, pursuant to section 4.10 of the GSF Act, the Treasurer has authorised Ministers to spend specified amounts from the Consolidated Fund. This authorisation is current from 1 July 2020 until the earlier of 31 December 2020 (or another day prescribed by the regulations) or enactment of the 2020-21 annual Appropriations Act.

2.1.2 Change in accounting policy

Sydney Trains has applied AASB 15 *Revenue from Contracts with Customers,* AASB 1058 *Income of Not-For- Profit Entities*, and AASB 16 *Leases* for the first time. The standards have resulted in changes to Sydney Trains' accounting policies.

(a) AASB 15 *Revenue From Contracts with Customers*

AASB 15 establishes a five step model to account for revenue arising from contracts with customers and supersedes AASB 118 *Revenue* and AASB 111 *Construction Contract*s. The standard requires each contract to be reassessed after considering the relevant facts and circumstances of each transaction. AASB 15 requires revenue to be recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring the goods or services to the customer.

Sydney Trains has adopted AASB 15 retrospectively which requires the cumulative effect of initially applying the standard to be recognised at the date of initial application (i.e. 1 July 2019). Sydney Trains has applied all the transitional practical expedients permitted as mandated by NSW Treasury when:

- determining the transaction price
- identifying the satisfied and unsatisfied performance obligations
- allocating the transaction price to the satisfied and unsatisfied performance obligations

Note 2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.2 Change in accounting policy (continued)

The impact of applying the practical expedients will not significantly affect the Financial Statements. The adoption of AASB 15 did not impact the timing of revenue recognition for Sydney Trains however, it has resulted in the reclassification of $0.6m from 'Trade and other payables' to 'Contract liabilities' at the transition date. The adjustment relates to prepaid revenue for project and other activities.

The effect of adopting AASB 15 as at 1 July 2019 and at 30 June 2020 is as follows:

Statement of Financial Position (Extract)

1 July 2019	**As reported $'000**	Impact $'000	Previous standards $'000
Trade and other payables	449,082	(641)	449,723
Contract liabilities	641	641	-
Total liabilities	3,616,916	-	3,616,916
Retained earnings	(1,545,931)	-	(1,545,931)
Total equity	(274,419)	-	(274,419)

30 June 2020	**As reported $'000**	Impact $'000	Previous standards $'000
Trade and other payables	365,441	(1,242)	366,683
Contract liabilities	1,242	1,242	-
Total liabilities	3,687,203	-	3,687,203
Retained earnings	(1,811,325)	-	(1,181,325)
Total equity	(538,201)	-	(538,201)

The impact on the Statement of Comprehensive Income is nil.

(b) AASB 1058 *Income of Not-For-Profit Entities*

The standard applies to income with donation components where the consideration to acquire an asset is significantly less than fair value principally to enable a not for profit entity to further its objectives and volunteer services. AASB 1058 replaces most of the existing requirements in AASB 1004 *Contributions* which is now largely limited to contribution by owner transactions and administrative restructure arrangements.

AASB 1058 adopts a residual approach whereby other Australian Accounting standards must be applied first to a transaction before income is recognised under the standard. The standard requires the receipt of an asset to be recognised as income:

- when the obligations under the transfer is satisfied for transfers that enable an entity to acquire / construct a recognisable non-current financial asset that will be controlled by the entity
- immediately, for all other income within the scope of AASB 1058.

Sydney Trains has applied the standard retrospectively which requires the cumulative effect of initially applying the standard to be recognised at the date of initial application (i.e. 1 July 2019). The impact of adopting AASB 1058 is nil at the transition date as Sydney Trains continues to recognise operating and capital contributions on receipt.

Note 2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.2 Change in accounting policy (continued)

(c) AASB 16 *Leases*

The standard sets out the principles for recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position. AASB 16 supersedes AASB 117 *Leases* and the associated pronouncements.

Sydney Trains has adopted the partial retrospective transition option in AASB 16 *Leases*. As result, the cumulative effect of initially applying the standards will be recognised at the date of initial application (i.e. at 1 July 2019). Any differences arising from the adoption of the standards has been recognised directly in retained earnings at the transition date. Comparative information has not been restated in accordance with NSW Treasury mandates.

<u>Lessor accounting</u>

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117. Therefore, AASB 16 does not have a significant impact for lessors.

<u>Lessee accounting</u>

AASB 16 requires lessees to recognise most leases in the Statement of Financial Position similar to the accounting for finance leases under AASB 117.

As the lessee, Sydney Trains recognises a lease liability and right- of-use asset at the inception of the lease for leases classified as ‘operating leases under AASB 117. The lease liability is measured at the present value of the future lease payments, discounted using the interest rate implicit in the lease, or the lessee’s incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 1.44%. The corresponding right-of-use asset is measured at the value of the lease liability adjusted for lease payments before inception, lease incentives, initial direct costs and estimates of costs for dismantling and removing the asset or restoring the site on which it is located.

For leases previously classified as finance leases, Sydney Trains recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of AASB 16 are only applied after that date.

Sydney Trains has elected to use the following practical expedients from 1 July 2019:

- short term leases and leases of low value assets will be expensed
- a single discount rate will be applied to a portfolio of leases with similar characteristics
- contracts considered to contain a lease under AASB 117 will not be re-assessed
- the initial direct costs will be excluded from the measurement of the right of use asset at the date of initial application
- using hindsight to determine the lease term where contracts contain options to extend / terminate the lease.

Note 2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.2 Change in accounting policy (continued)

The effect of adoption AASB 16 as at 1 July 2019 and at 30 June 2020 (increase/(decrease)) is, as follows:

Statement of Financial Position (Extract)

1 July 2019	**As reported $'000**	Impact $'000	Previous standards $'000
Property plant and equipment	289,640	(2,138,984)	2,428,624
Right-of-use assets	2,236,852	2,236,852	-
Total non-current assets	2,701,695	97,868	2,603,827
Total assets	3,440,365	97,868	3,342,497
Borrowings	2,141,196	97,868	2,043,328
Total liabilities	3,714,784	97,868	3,616,916
Reserves	(495)	(97,103)	96,608
Retained earnings	(1,448,828)	97,103	(1,545,931)
Total equity	(274,419)	-	(274,419)

30 June 2020	**As reported $'000**	Impact $'000	Previous standards $'000
Property plant and equipment	281,624	(2,071,104)	2,352,728
Right-of-use assets	2,155,340	2,155,340	-
Total non-current assets	2,589,779	84,236	2,505,543
Total assets	3,149,002	84,236	3,064,766
Borrowings	2,134,972	88,698	2,046,274
Total liabilities	3,686,706	88,698	3,598,008
Reserves	(8,158)	(97,103)	88,945
Retained earnings	(1,713,726)	92,641	(1,806,367)
Total equity	(537,704)	(4,462)	(533,242)

Statement of Comprehensive Income (Extract)

30 June 2020	**As reported $'000**	Impact $'000	Previous standards $'000
Depreciation and amortisation expenses	147,114	19,443	127,671
Finance costs	181,010	1,679	179,331
Total expenses	3,775,146	21,122	3,754,024
Deficit from operations before Government and other contributions	(1,955,821)	(21,122)	(1,934,699)
Deficit from the operations for the year	(258,792)	(21,122)	(237,670)
Other gains/ (losses)	(3,302)	(3,302)	-
Deficit for the year	(262,284)	(24,424)	(237,860)
Total comprehensive income for the year	(272,561)	(24,424)	(248,137)

The lease liabilities at 1 July 2019 can be reconciled to the 30 June 2019 operating lease commitments

	$'000
Operating lease commitments as at 30 June 2019 (GST included)	73,810
Less: GST included in operating lease commitments	(4,158)
Operating lease commitments as at 30 June 2019 (GST excluded)	69,652
Weighted average incremental borrowing rate as at 1 July 2019	1.44%
Discounted operating lease commitments as at 1 July 2019	68,665
Add: commitments relating to leases previously classified as finance leases (GST excluded)	2,043,328
Less: commitments relating to short-term leases	(1,011)
Less: commitments relating to leases of low-value assets	-
Add/less: contracts re-assessed as lease contracts	2,460
Add: Lease payments relating to renewal periods not included in operating lease commitments as at 30 June 2019	27,754
Add/less: adjustments relating to changes in the index or rate affecting variable payments	-
Lease liabilities as at 1 July 2019	**2,141,196**

Note 2 Summary of significant accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions

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

In particular refer Note 9.3, Note 13 and Note 19.

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:

AASB 118 and AASB 1004 (until 30 June 2019)

(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.

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.

Note 2 Summary of significant accounting policies (continued)

2.3 Income (continued)

(ii) Non passenger revenue (continued)

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) 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.

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.

AASB 15 and AASB 1058 (from 1 July 2019)

(iv) Sale of goods and services from contracts with customers

Passenger services revenue
Proceeds from OPAL train trips are reported as passenger services revenue. Revenue is recognised when Sydney Trains satisfies its performance obligations of providing the rail passenger services to the customer over time. Passenger services revenue is measured at the transaction price which is the price per train trip and includes any discounts provided to customers.

OPAL cards are 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. The payments are typically due when the passenger journey is undertaken by the customer.

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 Sydney Trains satisfies its performance obligation of transferring the promised services to the customer. Sydney Trains uses the input method to measure progress based on the costs incurred and the revenue is recognised over time. The payments are typically due when the service is provided.

The revenue is measured at the transaction price agreed under contract. The transaction price is allocated to the distinct performance obligations based on the agreed prices. No element of financing is deemed present as payments are due when service is provided.

Sale of assets and goods
Revenue from sale of assets or other goods is recognised when Sydney Trains satisfies its obligation by transferring the promised goods or assets. Sydney Trains satisfies its performance obligations when control of the asset or good is transferred to the customer. The payments are typically due when at the time or within one month of the promised goods or assets being transferred.

Revenue from these sales is recognised based on the price specified in the contract, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with a short credit term. No volume discount or warranty is provided on the sale.

Note 2 Summary of significant accounting policies (continued)

2.3 Income (continued)

(iv) Sale of goods and services from contracts with customers (continued)

Rendering of services
Revenue from rendering of services is recognised when Sydney Trains satisfies its performance obligation by transferring the promised services to the customer over time. Amongst other services, Sydney Trains provides services in relation to advertising and construction activities. The payments are typically due within one month of the service being performed or as agreed with the customer.

The revenue is measured at the transaction price agreed under contract. The transaction price is allocated to distinct performance obligations based on the agreed prices. No element of financing is deemed present as payments are due when service is provided.

(v) Government and other contributions

Capital contributions
Income from contributions to acquire/construct a recognisable non-financial asset to be controlled by Sydney Trains is recognised when Sydney Trains obtains control of the cash (i.e. upon receipt).

Contribution from RailCorp
Sydney Trains receives a contribution from RailCorp. Sydney Trains recognises the contribution when it obtains control over the cash given that the grant does not have sufficiently specific performance obligations.

Volunteer services
Sydney Trains has elected not to recognise revenue from volunteer services in accordance with Treasury mandates.

Other contributions
Income from grants without sufficiently specific performance obligations is recognised when Sydney Trains obtains control over the granted assets (e.g. cash).

The presentation of the Statement of Comprehensive Income includes subtotals for the result from operations before and after Government and other 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.

(vi) 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, are recognised as revenue over the term of the lease.

Note 2 Summary of significant accounting policies (continued)

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 and right-of-use assets are as follows:

	Years
Plant and machinery	4 – 22
Rolling stock	32 – 35
Leased buildings	3 – 100
Leased plant and machinery	1 – 22
Leased rolling stock	32 – 35

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.

Right-of-use assets are generally depreciated on a straight line basis over the shorter of the asset's useful life and the lease term. Where Sydney Trains obtains ownership of the underlying leased asset or if the cost of the right-of-use asset reflects that Sydney Trains will exercise a purchase option, Sydney Trains will depreciate the right-of-use asset overs its useful life.

(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.

Each intangible asset's useful life and amortisation method are reviewed each year and any resulting adjustments are accounted for as a change in accounting estimate. The amortisation charge for each year is recognised in the Statement of Comprehensive Income as depreciation and amortisation expense unless it is included in the carrying amount of another asset.

Note 2 Summary of significant accounting policies (continued)

2.6 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.

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.

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.

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.

Note 2 Summary of significant accounting policies (continued)

2.10 Property, plant and equipment (continued)

(i) Recognition (continued)

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.

In the prior year, property, plant and equipment also includes non-current assets acquired under finance leases. The assets are recognised at fair value or, if lower, the present value of the minimum lease payments, at the inception of the lease.

(ii) Measurement

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

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

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at measurement date or if such 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.

Note 2 Summary of significant accounting policies (continued)

2.10 Property, plant and equipment (continued)

(ii) Measurement (continued)

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.

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.

Note 2 Summary of significant accounting policies (continued)

2.12 Financial instruments (continued)

(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.

(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 period 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.

Note 2 Summary of significant accounting policies (continued)

2.12 Financial instruments (continued)

(iv) Hedge accounting (continued)

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.

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 20.

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

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 leasing arrangements

An agreement is in place for a Rolling stock Public Private Partnership (PPP), which incorporates a lease, 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. The arrangement is accounted for under AASB 16 from 1 July 2019 and was previously accounted for under AASB 117.

Refer Note 15.5.

(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)

Recognition and measurement (under AASB 117 until 30 June 2019)

(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.

(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.

Recognition and measurement (under AASB 16 from 1 July 2019)

(a) As Lessee

Sydney Trains assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Sydney Trains recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets, except for short-term leases and leases of low-value assets.

From 1 July 2019, Sydney Trains recognises a right-of-use asset for most leases. The right-of-use asset and corresponding liability are initially measured at the present value of the future lease payments. Therefore, at that date right-of-use assets includes amounts in respect of leases previously treated as operating and finance leases under AASB 117, as well as any arrangements that are assessed as leases under AASB 16 that were not leases under AASB 117.

(i) Right-of-use assets

Sydney Trains recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are initially measured at the amount of initial measurement of the lease liability (refer ii below), adjusted by any lease payments made at or before the commencement date and lease incentives, any initial direct costs incurred, and estimated costs of dismantling and removing the asset or restoring the site. Sydney Trains has elected to present right-of-use assets separately in the Statement of Financial Position at 1 July 2019.

Note 2 Summary of significant accounting policies (continued)

2.18 Leases (continued)

(a) As Lessee (continued)

(i) Right-of-use assets (continued)

Subsequent to initial recognition, right of use assets will be measured at cost. The right of use assets are subject to impairment. Sydney Trains assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, Sydney Trains estimates the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 the net result.

The initial and subsequent measurement of right-of-use assets under leases at significantly below-market terms and conditions that are entered into principally to enable Sydney Trains to further its objectives is same as normal right-of-use assets. They are measured at cost, subject to impairment.

(ii) Lease liabilities

At the commencement date of the lease, Sydney trains recognises lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments include:

- fixed payments (including in substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- exercise price of a purchase options reasonably certain to be exercised by the entity; and
- payments of penalties for terminating the lease, if the lease term reflects the entity exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the entity's leases, the lessee's incremental borrowing rate is used, being the rate that the entity would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. Sydney Trains' lease liabilities are included in borrowings.

Note 2 Summary of significant accounting policies (continued)

2.18 Leases (continued)

(a) As Lessee (continued)

(iii) Short-term leases and leases of low-value assets

Sydney Trains applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

(b) As Lessor

An operating lease is a lease other than a finance lease. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the underlying asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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 16.

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.

2.21 Contract Assets and Liabilities

Contract assets relate to Sydney Trains' right to consideration in exchange for goods transferred to customers/works completed, but not billed at the reporting date. The balance of contract assets at 30 June 2020 is nil.

The balance of contract liabilities at 30 June 2020 is impacted primarily by the timing of the provision of the performance obligations and the agreed payment terms under the arrangement.

Note 2 Summary of significant accounting policies (continued)

2.22 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 19 and 20.

Note 2 Summary of significant accounting policies (continued)

2.23 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 2020. 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 2020. The standards are effective for annual reporting periods commencing on or after 1 January 2020.

AASB / Amendment	Title	Issue Date	Application date of Standard
AASB 1059	Service Concession Arrangements: Grantors	Jul 2017	1 Jan 2020
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 2019-1	Amendments to Australian Accounting Standards - References to the Conceptual Framework	May 2019	1 Jan 2020
AASB 2019-2	Amendments to Australian Accounting Standards – Implementation of AASB 1059	Sep 2019	1 Jan 2020
AASB 2019-3	Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform	Oct 2019	1 Jan 2020
AASB 2019-4	Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements	Nov 2019	30 Jun 2020
AASB 2019-5	Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia	Nov 2019	1 Jan 2020
AASB 2020-1	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current	Mar 2020	1 Jan 2022
AASB 2020-3	Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments	Jun 2020	1 Jan 2022

The following standard will be effective for next financial year:

- AASB 1059 *Service Concession Arrangements: Grantors* is effective for annual reporting periods commencing on or after 1 July 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. The standard will not have an impact on Sydney Trains at the transition date.

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

Notes to the Financial Statements for the year ended 30 June 2020

Note 3 Income

3.1 Sale of goods and services from contracts with customers/ Non-passenger revenue

	2019-20 $'000	2018-19 $'000
Passenger services revenue	722,382	-
Inter entity cost recovery	668,444	644,658
Construction revenue RailCorp	359,930	367,615
Advertising revenue	738	32,214
Inter entity direct labour cost recovery	3,867	3,619
Other revenue	26,359	31,355
Total sale of goods and services from contracts with customers/ Non passenger revenue*	**1,781,720**	**1,079,461**

*The category ‘Non-passenger revenue’ applies to the prior year only.

3.2 Investment revenue

Interest	2,037	6,575
Interest income from financial assets at amortised cost	1,317	3,007
Rental income	17,727	-
Contingent rental income	8,866	-
Total Investment revenue	**29,947**	**9,582**

3.3 Government and other contributions

Operating	1,621,347	1,436,535
Contribution from RailCorp	47,078	61,050
Capital	13,301	24,100
Redundancy	6,481	13,553
Personnel services benefit	8,518	11,312
Training	304	128
Total government and other contributions	**1,697,029**	**1,546,678**

Note 4 Expenses

4.1 Employee related expenses

Employee related expenses include the following items:

	Note	2019-20 $'000	2018-19 $'000
Salaries and wages		1,096,530	1,023,029
Annual leave		103,665	94,602
Long service leave		39,552	50,453
Superannuation-defined benefit plan	4.2	21,563	24,916
Superannuation-defined contribution plan		89,573	80,309
Workers compensation		18,797	18,187
Payroll tax and fringe benefits tax		72,886	68,854
Redundancy		16,451	5,590
Other payroll costs		36,269	44,229
Less: Employee related expenses allocated to capital expenditure		(1,466)	(1,062)
Less: Employee related expenses allocated to capital construction*		(87,368)	(72,405)
Total employee related expenses		**1,406,452**	**1,336,702**

*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)

Current service cost		13,345	13,308
Net Interest		8,218	11,608
Total defined benefit superannuation expense/(income)	22	**21,563**	**24,916**

4.3 Personnel services expenses

Salaries and wages	106,913	95,152
Annual leave	10,283	9,333
Long service leave	7,262	9,957
Superannuation-defined benefit plans	1,195	1,288
Superannuation-defined contribution plans	9,605	8,399
Workers compensation	360	319
Payroll tax and fringe benefit tax	7,629	7,052
Redundancy	2,421	3,569
Other payroll costs	57	59
Less: Employee related expenses allocated to capital expenditure	(60)	(112)
Less: Employee related expenses allocated to capital construction*	(2,596)	(2,551)
Total personnel services expenses	**143,069**	**132,465**

*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

	2019-20 $'000	2018-19 $'000
Other contractors	534,705	619,741
Construction costs	359,930	367,615
External maintenance costs	294,824	277,967
Inter-agency support services	75,653	65,253
Materials	90,241	113,741
Electricity	120,051	138,201
Plant and equipment	63,626	59,739
Bus hire	45,025	40,679
Computer and communications	142,293	148,049
Property charges	7,962	19,416
Insurance	14,571	12,300
Security costs	24,594	24,051
Motor vehicle expenses	8,558	19,981
Printing & stationery	3,707	4,866
Consultants	4,210	3,172
Auditor's remuneration - audit of the financial statements	318	310
Cost of sales	31,556	28,786
Cost of Inventory held for distribution	46,941	33,974
Expenses relating to short term leases	1,982	-
Other	26,754	20,014
Total other operating expenses	**1,897,501**	**1,997,855**

4.5 Maintenance expenses

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

Labour	353,818	333,480
Contracted & other non-labour expenditure	853,570	871,886
Total maintenance expenses	**1,207,388**	**1,205,366**

In addition included in construction costs is $291.0m (2019: $233.6m) major periodic maintenance which is charged to RailCorp and capitalised in RailCorp.

4.6 Finance costs

Interest charges	179,276	178,758
Interest expense from lease liabilities	1,678	-
Discounting of provisions	56	-
Total finance costs	**181,010**	**178,758**

Note 4 Expenses (continued)

4.7 Other gains/ (losses)

	2019-20 $'000	2018-19 $'000
Impairment of right-of-use assets*	(3,302)	-
Other gains/ (losses)	**(3,302)**	**-**

*Sydney Trains recognised an impairment loss of $3.3m relating to leased premises as a result of the impact of COVID-19 on market rentals which has impacted the carrying value at 30 June 2020. The impairment loss is recognised in the Statement of Comprehensive Income and the asset's recoverable amount is $47.2m which is the fair value less costs of disposal. The valuation technique is the current replacement cost and the fair value measurement is classified as level 3 in the fair value hierarchy. The discount rate applied is the internal borrowing rate at the date of measurement. The key assumptions relate to the cost of disposal which is assumed to be immaterial and market rental forecasts.

Note 5 Cash and cash equivalents

5.1 Cash and cash equivalents

	30.6.2020 $'000	30.6.2019 $'000
Cash at bank	371,356	359,990
Total cash and cash equivalents	**371,356**	**359,990**

The above cash and cash equivalents reconcile 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	**(262,284)**	**(231,171)**
Cash capital grants	(13,301)	(24,100)
Depreciation and amortisation	147,113	132,679
Impaired trade receivables expense	190	87
Derecognition and write off of assets	566	643
Other reclassification adjustments/discounting	3,735	790
Net movements in assets and liabilities applicable to operating activities:		
(Increase)/decrease in trade and other receivables	91,572	29,114
(Increase)/decrease in inventories	1,424	(6,439)
Increase/(decrease) in trade and other payables and provisions	(24,587)	(834)
Increase/(decrease) in contract liabilities	1,242	-
Net cash flows from/(used in) operating activities	**(54,330)**	**(99,231)**

Note 5 Cash and cash equivalents (continued)

5.3 Credit standby arrangements and loan facilities

The credit standby arrangements and unused amounts available are:

	30.06.20 Credit Facilities $'000	30.06.20 Unused $'000	30.06.19 Credit Facilities $'000	30.06.19 Unused $'000
Transaction negotiation authority	130,150	130,150	130,150	130,150
Purchasing card facility*	35,000	8,481	30,000	2,414
Come and Go facility	100,000	100,000	30,000	30,000
Total	**265,150**	**238,631**	**190,150**	**162,564**

* As at 30 June 2020, the purchasing cards issued had a combined limit of $26.5m (2019: $27.6m) with a payable of $5.6m (2019: $6.0m).

5.4 Non-cash investing activities

RailCorp transferred work in progress of $9.3m to Sydney Trains in the current year (2019: nil).

Note 6 Trade and other receivables

6.1 Trade and other receivables

	30.6.2020 $'000	30.6.2019 $'000
Current trade and other receivables		
Trade receivables from contracts with customers	94,474	-
Sale of goods and services	-	4,616
Inter entity receivables	-	215,851
Other receivables	33,867	7,859
Retained taxes, fees and fines	33,815	25,610
Less: allowance for expected credit losses*	(487)	(279)
Prepayments	4,394	3,889
Total current trade and other receivables	**166,063**	**257,546**

**The allowance for trade receivables from contracts with customers is $0.4m in the current year.*

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

	2020 $'000	2019 $'000
Balance at 30 June 2018 (under AASB 139)		287
Amounts restated through opening retained earnings		(95)
GST movement		(10)
Opening balance (under AASB 9)	**279**	**182**
Amounts recovered during the year	-	-
Amounts written off	-	-
Allowance recognised in Statement of Comprehensive Income**	190	87
GST movement	18	10
Closing balance	**487**	**279**

***The impairment losses for contracts with customers is $0.1m in the current year*

Note 6 Trade and other receivables (continued)

6.2 Ageing analysis

The loss allowance for trade debtors as at 30 June is determined as follows:

	Current	<30 days	31-60 days	61-90 days	>91 days	Total
	$'000	$'000	$'000	$'000	$'000	$'000
30-Jun-20						
Expected average credit loss rate	7.3%	13.9%	14.2%	53.6%	64.6%	
Estimated total gross carrying amount of default	1,017	606	598	69	260	2,550
Expected credit loss	74	84	85	37	168	448
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

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

	30.6.2020	30.6.2019
	$'000	$'000
Materials and supplies, at cost	65,882	67,527
Less: allowance for obsolete inventory	(12,026)	(12,247)
Total inventories	**53,856**	**55,280**
Total inventories are comprised of:		
Current inventories	21,154	19,585
Non-current inventories	32,702	35,695
Total	**53,856**	**55,280**

Note 8 Other financial assets

Term deposits	-	100,000
Total other financial assets	**-**	**100,000**

Note 9 Property, plant and equipment

9.1 Classes

	30.6.2020 $'000	30.6.2019 $'000
Leased Building		
Gross carrying amount	-	252,338
Less accumulated depreciation	-	(22,394)
Net carrying amount - leased building	-	229,944
Plant and machinery		
Gross carrying amount	56,898	55,019
Less accumulated depreciation	(45,794)	(44,001)
Net carrying amount - plant and machinery	11,104	11,018
Leased plant and machinery		
Gross carrying amount	-	6,370
Less accumulated depreciation	-	(2,272)
Net carrying amount - leased plant and machinery	-	4,098
Rolling stock		
Gross carrying amount	492,751	471,977
Less accumulated depreciation	(224,132)	(209,474)
Net carrying amount - rolling stock	268,619	262,503
Leased rolling stock		
Gross carrying amount	-	2,363,001
Less accumulated depreciation and impairment*	-	(458,059)
Net carrying amount - rolling stock	-	1,904,942
Capital work in progress		
Capital work in progress	1,901	16,119
Total - capital work in progress	1,901	16,119
Total property, plant and equipment**	**281,624**	**2,428,624**

* In the prior year, Sydney Trains recognised an impairment loss of $3m as a result of an incident to a set of leased rolling stock. Sydney Trains impaired the asset as the rolling stock was not in service.

** The prior year balance includes assets under finance leases which are classified as right-of-use assets in the current year.

Note 9 Property, plant and equipment (continued)

9.2 Asset class movement

	Leased building $'000	Plant and machinery $'000	Leased plant and machinery $'000	Rolling stock $'000	Leased rolling stock $'000	Capital work in progress $'000	Total $'000
Year ended 30 June 2020							
Net carrying amount as at 1 July 2019	229,944	11,018	4,098	262,503	1,904,942	16,119	2,428,624
Derecognition of finance lease assets on initial application of AASB 16	(229,944)	-	(4,098)	-	(1,904,942)	-	(2,138,984)
Adjusted net carrying amount as at 1 July 2019	-	11,018	-	262,503	-	16,119	289,640
Additions	-	-	-	-	-	11,233	11,233
Completed capital work	-	2,815	-	18,546	-	(21,361)	-
Disposals/derecognition/write-offs	-	(301)	-	-	-	(186)	(487)
Depreciation expense	-	(3,674)	-	(14,658)	-	-	(18,332)
Transfer from RailCorp	-	-	-	-	-	9,276	9,276
Other movement	-	1,246	-	2,228	-	(13,180)	(9,706)
Net carrying amount as at 30 June 2020	**-**	**11,104**	**-**	**268,619**	**-**	**1,901**	**281,624**
Year ended 30 June 2019							
Net carrying amount as at 1 July 2018	233,377	16,229	2,788	333,159	2,254,285	18,243	2,858,081
Additions	-	-	-	-	-	13,362	13,362
Completed capital work	-	-	-	1,362	14,124	(15,486)	-
Disposals/derecognition/write-offs	-	(15)	-	-	-	-	(15)
Revaluations	-	(253)	1,611	(57,563)	(287,777)	-	(343,982)
Depreciation expense	(3,433)	(4,835)	(301)	(14,455)	(77,720)	-	(100,744)
Transfer to RailCorp	-	(108)	-	-	-	-	(108)
Impairment loss reversal	-	-	-	-	2,030	-	2,030
Net carrying amount as at 30 June 2019	**229,944**	**11,018**	**4,098**	**262,503**	**1,904,942**	**16,119**	**2,428,624**
Gross carrying amount							
At 1 July 2018	252,338	61,859	5,844	559,392	2,698,978	18,243	3,596,654
At 30 June 2019	252,338	55,019	6,370	471,977	2,363,001	16,119	3,164,824
At 1 July 2019	-	55,019	-	471,977	-	16,119	543,115
At 30 June 2020	-	56,898	-	492,751	-	1,901	551,550
Accumulated depreciation							
At 1 July 2018	(18,961)	(45,630)	(3,056)	(226,232)	(444,694)	-	(738,573)
At 30 June 2019	(22,394)	(44,001)	(2,272)	(209,474)	(458,059)	-	(736,200)
At 1 July 2019	-	(44,001)	-	(209,474)	-	-	(253,475)
At 30 June 2020	-	(45,794)	-	(224,132)	-	-	(269,926)
Net carrying amount							
At 1 July 2018	233,377	16,229	2,788	333,160	2,254,284	18,243	2,858,081
At 30 June 2019	229,944	11,018	4,098	262,503	1,904,942	16,119	2,428,624
At 1 July 2019	-	11,018	-	262,503	-	16,119	289,640
At 30 June 2020	-	11,104	-	268,619	-	1,901	281,624

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 2020.

The following table details information on the revaluation activities undertaken:

Category	Valuer	Valuation technique	Date of revaluation	Revaluation increment / (decrement)
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

	30.6.2020 $'000	30.6.2019 $'000
Software/Licenses		
Gross carrying amount	436,701	456,105
Less accumulated amortisation	(330,008)	(339,277)
Net carrying amount of software / licenses work in progress	106,693	116,828
Software/licenses works in progress	**13,265**	**22,287**
Total - intangible assets	**119,958**	**139,115**

Note 10 Intangible assets (continued)

10.2 Movements during the year

	Software/Licenses $'000	Software/Licenses work in progress $'000	Total $'000
2020			
Net carrying amount at start of year	116,828	22,287	139,115
Additions	-	14,046	14,046
Disposals/write-offs	(53)	(26)	(79)
Amortisation expense	(31,878)	-	(31,878)
Other movements	21,796	(23,042)	(1,246)
Net carrying amount at end of year	**106,693**	**13,265**	**119,958**
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**

Note 11 Trade and other payables

11.1 Trade and other payables

	30.6.2020 $'000	30.6.2019 $'000
Trade payables	69,772	155,678
Inter entity payables	20,186	15,231
Capital expenditure accruals	582	4,348
Accrued salaries, wages and on-costs	61,105	48,714
Other payables and accruals	212,409	223,530
Unearned revenue	1,386	2,222
Total trade and other payables	**365,440**	**449,723**

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 20.

Note 12 Borrowings

12.1 Borrowings

	Note	30.6.2020 $'000	30.6.2019 $'000
Current			
Lease liabilities		20,241	-
Finance lease liabilities*	15.5	-	857
		20,241	857
Non-current			
Lease liabilities		2,114,731	-
Finance lease liabilities*	15.5	-	2,042,471
		2,114,731	2,042,471
Total borrowings	12.2	**2,134,972**	**2,043,328**

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

12.2 Changes in liabilities arising from financing activities

	01.07.2019 $'000	Cash flows* $'000	Non-cash changes $'000	30.06.2020 $'000
Lease liabilities	2,141,196	(18,472)	12,248	2,134,972
Derivative liability	1,285	-	5,587	6,872
Total liabilities from financing activities	**2,142,481**	**(18,472)**	**17,835**	**2,141,844**
	01.07.2018 $'000	**Cash flows $'000**	**Non-cash changes $'000**	**30.06.2019 $'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**

*Cash flows comprise of proceeds and repayments of borrowings of $45m offsetting to nil and the repayment of lease liabilities of $18.5m.

Note 13 Provisions

13.1 Provisions

	Note	30.6.2020 $'000	30.6.2019 $'000
Current provisions			
Annual leave (see note (a) below)		166,952	149,466
Long service leave (see note (a) below)	13.2	263,443	249,122
Pay in lieu of certain holidays worked (see note (a) below)		10,103	10,266
Workers' compensation	13.4	10,468	9,545
Redundancy	13.8	14,783	7,776
Total employee benefits and related on-costs		465,749	426,175
Public liability claims	13.5	4,039	3,251
Legal claims	13.6	1,883	2,757
Ballast disposal	13.7	914	1,080
Restoration of leased premises	13.9	1,590	-
Insurance claims	13.10	6,381	-
Total other provisions		14,807	7,088
Total current provisions		**480,556**	**433,263**
Non-current provisions			
Superannuation	22	638,374	630,898
Long service leave (see note (a) below)	13.2	21,630	20,807
Workers' compensation	13.4	33,850	31,119
Total employee benefits and related on-costs		693,854	682,824
Restoration of leased premises	13.9	3,770	6,493
Total other provisions		3,770	6,493
Total non-current provisions		**697,624**	**689,317**
Total provisions			
Superannuation	22	638,374	630,898
Annual leave		166,952	149,466
Long service leave	13.2	285,073	269,929
Pay in lieu of certain holidays worked		10,103	10,266
Workers' compensation	13.4	44,318	40,664
Redundancy	13.8	14,783	7,776
Total employee benefits and related on-costs		**1,159,603**	**1,108,999**
Public liability claims	13.5	4,039	3,251
Legal claims	13.6	1,883	2,757
Ballast disposal	13.7	914	1,080
Restoration of leased premises	13.9	5,360	6,493
Insurance claims	13.10	6,381	-
Total other provisions		**18,577**	**13,581**
Total provisions		**1,178,180**	**1,122,580**

(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
2020			
Long service leave	24,709	260,364	285,073
Annual leave	101,897	65,055	166,952
Pay in lieu of certain holidays worked	10,103	-	10,103
	136,709	**325,419**	**462,128**
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**

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 0.66% (2019: 1.18%) and a salary growth rate of 2.5% (2019: 3.0%) per annum.

Note 13 Provisions (continued)

13.3 Movements in provisions (other than employee benefit provisions)

	Carrying amount at start of year	Increase in provision	Discounting adjustment	Subtotal	Payment of claims	Unused amount reversed	Carrying amount at end of year
	$'000	$'000	$'000		$'000	$'000	$'000
2020							
Public liability claims	3,251	2,778	-	6,029	(1,127)	(863)	4,039
Legal claims	2,757	1,883	-	4,640	(768)	(1,989)	1,883
Ballast disposal	1,080	5,545	-	6,625	(5,711)	-	914
Restoration of leased premises	6,493	740	56	7,289	-	(1,929)	5,360
Insurance claims	-	35,200	-	35,200	(28,819)	-	6,381
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
Insurance claims	5,000	-	-	5,000	(5,000)	-	-

13.4 Workers' compensation

Workers' compensation insurance is in place to cover any claim exceeding $1.5m (2019: $1.5m) 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 0.25% to 1.21% per annum over the next 15 years (2019: 1.0% to 1.3% per annum over the next 15 years) and a future wage inflation rate of 2.5% per annum over the next 15 years (2019: 2.5% to 3.3% per annum over the next 15 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 18.

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 2020 (2019: 30 June 2019) 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 Insurance claims

In the current year, Sydney Trains recognised an insurance claims provision of $6.4m (2019: nil). The exact timing and amount of the liability is not certain.

Note 14 Contract liabilities

	30.6.2020 $'000	1st July 2019 $'000 adjusted for AASB 15
Contract liabilities - current	1,242	641
Contract receivables (included in Note 6)	94,474	221,966

The contract liability balance has increased during the year because of increase in revenue received in advance relating to various contracts with external parties.

The effect on the contract balances is outlined below:

Revenue recognised that was included in the contract liability balance at the beginning of the year	141
Revenue recognised from performance obligations satisfied in previous periods	-
Transaction price allocated to the remaining performance obligations from contracts with customers	1,242

The Transaction price allocated to the remaining performance obligations relates to various contracts with external parties. The revenue is expected to be recognised in the next financial year when the services are performed.

Note 15 Leases

(a) As lessee

Sydney Trains leases various office spaces, motor and heavy vehicles for a fixed period. The lease term ranges from 1 to 10 years and has extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Sydney Trains does not provide residual value guarantees in relation to leases.

Extension and termination options are included in a number of property and equipment leases. These terms are used to maximise operational flexibility in terms of managing the contracts. The majority of extension and termination options held are exercisable only by Sydney Trains and not by the respective lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The impact of future cash flows not being included in the lease liability due to uncertainties with regards to lease extensions / terminations is nil. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Note 15 Leases (continued)

(a) As lessee (continued)

During the current financial year, the financial effect of revising the lease terms to reflect the effect of exercising extension and termination options is nil.

Sydney Trains has elected to recognise payments for short-term leases and low value leases as expenses on a straight-line basis, instead of recognising a right-of-use asset and lease liability. Short-term leases are leases with a lease term of 12 months or less. Low value assets are assets with a fair value of $10,000 or less when new.

15.1 Right-of-use assets under leases

The following table presents right-of use assets as at 30 June.

	Leased buildings $'000	Leased plant and machinery $'000	Leased rolling stock	Total $'000
Balance at 1 July 2019	**288,113**	**43,797**	**1,904,942**	**2,236,852**
Additions	13,180	9,125	-	**22,305**
Depreciation expense	(10,796)	(11,946)	(74,162)	**(96,904)**
Other movements	(4,611)	(74)	(2,228)	**(6,913)**
Balance at 30 June 2020	**285,886**	**40,902**	**1,828,552**	**2,155,340**

15.2 Lease liabilities

The following table presents the liabilities under leases as at 30 June 2020:

Balance at 1 July 2019	**2,141,196**
Additions	9,125
Interest expense	180,923
Payments	(196,167)
Other movements	(105)
Balance at 30 June 2020	**2,134,972**

Note 15 Leases (continued)

(a) As lessee (continued)

15.3 Lease expenses

The following amounts were recognised in the statement of comprehensive income for the year ending 30 June 2020 in respect of leases where Sydney Trains is the lessee:

Amount	**$'000**
Depreciation expense on right of use assets	96,904
Interest expense on lease liabilities	180,923
Expense relating to short term leases	1,982
Total amount recognised in the Statement of Comprehensive Income	**279,809**

Sydney Trains had cash outflows of $198.1m relating to leases in the current year.

15.4 Operating leases

Future minimum rentals payables under non-cancellable operating lease as at 30 June 2019 are as follows:

	30.6.2019 $'000
Operating leases	
Within 12 months	21,862
12 months or longer but not longer than 5 years	49,578
Longer than 5 years	2,370
Total operating leases	**73,810**

The expenditure commitments in the prior year include the associated Goods and Services Tax of $4.2m recoverable from the ATO.

15.5 Reliance Rail leases

The Sydney Trains contract with Reliance Rail constitutes a finance lease in the prior year, refer Note 2.18. These assets and associated 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 2020 was $1,776.5m (2019: $1,772.8m),
- The Auburn Maintenance Facility (AMF) reached practical completion on 18 June 2010. The lease liability, inclusive of accrued interest, at 30 June 2020 was $264.8m (2019: $265.5m), and
- The Simulators achieved practical completion on 30 September 2010. The lease liability, inclusive of accrued interest, at 30 June 2020 was $5.0m (2019: $5.0m).

Note 15 Leases (continued)

(a) As lessee (continued)

15.5 Reliance Rail leases (continued)

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 $7,557m (2019: $7,844m) in nominal dollars. The weighted average discount rate at 30 June 2020 for the lease liabilities were 9.11% (2019: 9.11%).

Interest of $2.94m (2019: $6.7m) has been accrued in respect to the lease liability for the rolling stock, maintenance facility and simulators.

Future minimum lease payments under non-cancellable leases as at 30 June is as follows:

	Note	**30.6.2019** **$'000**
Finance lease liabilities		
Within 12 months		176,300
12 months or longer but not longer than 5 years		740,335
Longer than 5 years		4,294,376
Total minimum lease payments		5,211,011
Less amount representing finance charges		(3,167,683)
Present value of net future minimum lease payments (included in the Financial Statements as finance lease liabilities)		**2,043,328**
Classified as:		
Current	12	857
Non-current	12	2,042,471
Total		**2,043,328**

15.6 Leases at significantly below-market terms and conditions

RailCorp provides access to certain rolling stock at no charge to Sydney Trains in accordance with the Rail Services Contract until 30 June 2021. The assets are for restricted use given their specialised nature and enable Sydney Trains to provide the rail passenger services.

(b) As lessor

Sydney Trains has a number of embedded leases relating to advertising structures rented out for use to third parties. The rent is paid in advance on a quarterly basis and recognised over time on a straight line basis.

Note 16 Contributed equity

16.1 Contributed equity

	Note	30.06.2020 $'000	30.06.2019 $'000
Contributed equity at start of the year		1,174,904	1,176,359
Net assets contributed by Government	16.2	9,276	(1,455)
Contributed equity at end of the year		**1,184,180**	**1,174,904**

16.2 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.

RailCorp transferred work in progress of $9.3m to Sydney Trains in the current year. In the prior year, NSW Trains transferred leave entitlements of $1.3m to Sydney Trains.

	30.6.2020 $'000	30.6.2019 $'000
Assets transferred (to)/ from other entities		
Property, plant and equipment	9,276	(108)
Total assets	**9,276**	**(108)**
Provisions (current)	-	(1,347)
Total liabilities	**-**	**(1,347)**
Net assets transferred	**9,276**	**(1,455)**
Contributed equity	**9,276**	**(1,455)**

Note 17 Commitments

17.1 Commitments

The aggregate capital expenditure for the acquisition of plant and equipment (including intangibles) contracted for at balance date and not provided for:

	30.6.2020 $'000	30.6.2019 $'000
Property, plant & equipment		
Within 12 months	54	1,976
12 months or longer but not longer than 5 years	-	-
Longer than 5 years	-	-
Total property, plant & equipment (including intangible assets)	**54**	**1,976**

The commitments include any associated Goods and Services Tax. Related input tax credits of $0.01m (2019: $0.2m) are expected to be recoverable from the Australian Taxation Office. For more details on rolling stock PPP contract commitments refer Note 15.5.

17.2 Rolling stock PPP contract commitments

The commitment under the rolling stock PPP contract is as follows, excluding GST:

	30.6.2020 $'000	30.6.2019 $'000
Other PPP contract commitments		
Within 12 months	92,236	100,119
12 months or longer but no longer than 5 years	377,963	376,775
Longer than 5 years	2,052,009	2,155,750
Total other PPP contract commitments	**2,522,208**	**2,632,644**

Other PPP contract commitments represent future payments relating to maintenance and other future payments as at 30 June 2020.

Note 18 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 19 Fair value measurements of non-financial assets

19.1 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 2020.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2020				
Plant and machinery	-	-	11,104	11,104
Rolling stock	-	-	268,619	268,619
Total recurring fair value measurements	**-**	**-**	**279,723**	**279,723**
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**

In the prior year, all the asset categories include assets under finance lease arrangements.

Note 19 Fair value measurements of non-financial assets (continued)

19.1 Fair value measurements of non-financial assets (continued)

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.

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

19.2 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 for all assets 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. 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.

The rolling stock, building and simulators relating to the Reliance Rail arrangement is carried at cost from 1 July 2019.

Note 19 Fair value measurements of non-financial assets (continued)

19.3 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 2020.

	Plant and machinery S'000	Rolling stock $'000	Building $'000	Total $'000
2020				
Fair value at 1 July 2019	**15,116**	**2,167,445**	**229,944**	**2,412,505**
Derecognition of finance lease assets on initial application of AASB 16	(4,098)	(1,904,942)	(229,944)	(2,138,984)
Adjusted fair value as at 1 July 2019	11,018	262,503	-	273,521
Additions/transfers in	4,061	20,774	-	24,835
Disposals/transfers out	(301)	-	-	(301)
Gains/(losses) recognised in the Statement of Comprehensive Income*	(3,674)	(14,658)	-	(18,332)
Fair value at 30 June 2020	**11,104**	**268,619**	**-**	**279,723**
2019				
Fair value at 1 July 2018	**18,682**	**2,587,443**	**233,377**	**2,839,502**
Additions/transfers in	-	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**

*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. Transfers out of level 3 include assets under a finance lease arrangement which are carried at cost from 1 July 2019.

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 20 Financial instruments

20.1 Financial Instruments

Sydney Trains holds the following financial instruments:

	Category	30.6.2020 $'000	30.6.2019 $'000
Financial assets			
Cash and cash equivalents	N/A	371,356	359,990
Trade and other receivables*	Amortised cost	125,012	228,265
Derivative financial assets	Financial assets at fair value through profit or loss	805	1,943
Other financial assets	Amortised cost	-	100,000
Total financial assets		**497,173**	**690,198**
Financial liabilities			
Trade and other payables**	Financial liabilities measured at amortised cost	277,868	367,369
Borrowings	Financial liabilities measured at amortised cost	2,134,972	2,043,328
Derivative financial liabilities	Financial liabilities measured at fair value through profit or loss	6,872	1,285
Total financial liabilities		**2,419,712**	**2,411,982**

* 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*

20.2 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 *Government Sector Finance Act 2018.*

Note 20 Financial instruments (continued)

20.3 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.

20.3.1 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 20.4.

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

Maturity Profiles	Weighted Average Exchange Rate 2020	2019	Contract Value 2020 $'000	2019 $'000	Fair Value 2020 $'000	2019 $'000
Contracts denominated in US Dollars						
Not later than 3 months	0.6972	0.7338	3,937	4,546	3,994	4,753
Later than 3 months and not later than 12 months	0.6925	0.7341	9,414	10,509	9,487	10,950
Later than 12 months	0.6808	0.7347	10,710	6,714	10,636	6,968
Total hedged US Dollar contracts			24,061	21,769	24,117	22,671
Contracts denominated in Euros						
Not later than 3 months	0.6053	0.6162	518	8,232	513	8,252
Later than 3 months and not later than 12 months	0.5810	0.6241	8,190	2,600	7,827	2,665
Later than 12 months	-	0.6081	-	586	-	593
Total hedged Euros contracts			8,708	11,418	8,340	11,510
Contracts denominated in Pounds Sterling						
Not later than 3 months	0.5099	0.5332	198	231	181	223
Later than 3 months and not later than 12 months	-	-	-	-	-	-
Later than 12 months	-	-	-	-	-	-
Total hedged Pounds Sterling contracts			198	231	181	223
Net present value adjustment					2	(9)
Total hedged purchase*			**32,967**	**33,418**	**32,640**	**34,395**

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

Note 20 Financial instruments (continued)

20.3 Market risk (continued)

20.3.1 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 2020, 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)**	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
US Dollars	-	-	(2,190)	(2,074)
Euros	-	-	(755)	(1,040)
Pounds Sterling	-	-	(16)	(20)
Total	-	-	**(2,961)**	**(3,134)**

Increase of 10%	**Surplus/deficit Higher/(Lower)**		**Equity Higher/(Lower)**	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
US Dollars	-	-	2,677	2,535
Euros	-	-	922	1,272
Pounds Sterling	-	-	20	25
Total	-	-	**3,619**	**3,832**

Note 20 Financial instruments (continued)

20.3 Market risk (continued)

20.3.2 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 predominantly purchases distillate on behalf of NSW Trains for the operation of their diesel fleet. All the associated gains or losses are recovered from NSW Trains.

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 2020 there were only commodity hedge contracts in place for distillate purchases.

	Contract Value		Fair Value	
Maturity Profiles	**2020**	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Not later than 1 year				
Favourable	3,117	6,448	3,386	7,229
Non-favourable	10,261	8,938	6,486	8,210
	13,378	15,386	**9,872**	15,439
Between 1 and 5 years				
Favourable	900	2,411	917	2,550
Non-favourable	9,736	4,558	7,468	4,040
	10,636	6,969	**8,385**	6,590
Net present value adjustment			14	4
Total commodity swap contracts*	**24,014**	**22,355**	**18,271**	**22,033**

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

Note 20 Financial Instruments (continued)

20.3 Market risk (continued)

20.3.2 Commodity price risk (continued)

Commodity price risk sensitivity analysis
Based on contracts in place at 30 June 2020, 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		Equity	
		2020 $'000	2019 $'000	2020 $'000	2019 $'000
Commodity	-10%	-	-	(1,703)	(2,236)
Commodity	+10%	-	-	1,703	2,236

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.

20.3.3 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 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		Principal Amount	
	2020 %	2019 %	2020 $'000	2019 $'000
Financial assets				
Not later than 1 year				
Cash at bank	0.25	1.25	371,356	359,990
Other financial assets	-	2.70	-	100,000
Total financial assets			371,356	459,990
Financial liabilities				
Not later than 1 year				
Borrowings	1.64	-	20,241	857
Between 1 and 5 years				
Borrowings	1.78	-	79,723	19,642
Later than 5 years				
Borrowings	1.99	-	2,035,008	2,022,829
Total financial liabilities			2,134,972	2,043,328
Net exposure			**2,506,328**	**2,503,318**

Interest rate risk is not applicable to the Reliance Rail lease

Note 20 Financial Instruments (continued)

20.3 Market risk (continued)

20.3.3 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%
2020					
Cash at bank	371,356	(3,714)	3,714	(3,714)	3,714
Other financial assets	-	-	-	-	-
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

20.4 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 *Government Sector Finance Act 2018* 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 $371.4m (2019: $360.0m) in cash at bank at 30 June 2020. This was held with Westpac Banking Corporation.

Note 20 Financial instruments (continued)

20.4 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 $0.8m (2019: $1.9m) in derivative financial assets and $6.9m (2019: $1.3m) 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 Swaps and Derivatives Association" Master Agreements with all counterparties which is an industry standard.

Trade receivables and contract assets
The maximum credit risk exposure in relation to receivables and contract assets 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 2020. 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 0.25% (2019: 1.58%) while over the year the average interest rate was 0.80% (2019: 1.72%) on an average balance during the year of $352.3m (2019: $556.0m). There were no indicators for impairment on the term deposits during the year.

Note 20 Financial instruments (continued)

20.5 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.

	Carrying Amount $'000	Contract Cash Flow $'000	Less than 1 Year $'000	Between 1 and 5 Years $'000	Over 5 Years $'000
30 June 2020					
Financial liabilities					
Trade and other payables	277,868	277,868	277,868	-	-
Borrowings	2,134,972	5,128,736	199,251	806,939	4,122,546
	2,412,840	5,406,604	477,119	806,939	4,122,546
Derivatives					
Forward exchange contracts outflow	(32,638)	(32,967)	(22,257)	(10,710)	-
Forward exchange contracts inflow	-	-	-	-	-
Commodity swap contracts outflow	(18,258)	(24,013)	(13,377)	(10,636)	-
Commodity swap contracts inflow	-	-	-	-	-
	(50,896)	(56,980)	(35,634)	(21,346)	-
30 June 2019					
Financial liabilities					
Trade and other payables	367,369	367,369	367,369	-	-
Borrowings	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)	-

Note 20 Financial instruments (continued)

20.6 Hedging

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

30 June 2020	Change in fair value used for measuring ineffectiveness	Cash flow hedge reserve*	Cost of hedging reserve**
Forward exchange contracts	N/A	(1,304)	2,091
Commodity swaps	N/A	(5,420)	-
30 June 2019			
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 2020	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	(1,304)	-	N/A	432	432	Other operating expenses - External maintenance costs
Commodity swaps	(5,420)	-	N/A	-	-	-
30 June 2019						
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 2019	(657)	2,523
Forward exchange contracts	1,304	(432)
Commodity swaps	5,420	-
As at 30 June 2020	6,067	2,091
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

Note 20 Financial instruments (continued)

20.7 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.

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 2020					
Financial assets					
Foreign exchange contracts	15,643	15,124	-	15,643	-
Commodity swap contracts	4,304	4,016	-	4,304	-
Total financial assets	**19,947**	**19,140**	**-**	**19,947**	**-**
Financial liabilities					
Foreign exchange contracts	16,995	17,843	-	16,995	-
Commodity swap contracts	13,954	19,996	-	13,954	-
Total financial liabilities	**30,949**	**37,839**	**-**	**30,949**	**-**
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**	**-**

The fair value does not reflect net present value adjustments

Note 21 Related parties

21.1 Key management personnel compensation

During 2019-20, Sydney Trains incurred $4.8m (2019: $5.3m) in respect of key management personnel services provided by Transport Service NSW

21.2 Transactions & outstanding balances with key management personnel

During 2019-20 Sydney Trains did not enter into transactions with its key management personnel including the key management personnel of the parent (2019: nil).

21.3 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
2019-20		
Access rights to rail network, stations, rolling stock and property	RailCorp	No charge
Routine maintenance services	RailCorp	No charge
Operating subsidies	TfNSW	1,621,347
Transfer (in) of work in progress at fair value of $9.3m	RailCorp	No charge
Contribution to fund operating activities	RailCorp	47,078
Cost recoveries for services provided to transport entities including maintenance activities for NSW Trains	NSW Trains RailCorp TfNSW RMS Sydney Metro	668,444
Construction revenue	RailCorp	359,930
Defined benefit superannuation liability	SAS Trustee Corporation	638,374
Letter of comfort to Sydney Trains	NSW Treasury	No charge
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

21.4 Transactions and outstanding balances with other related parties

During 2019-20, Sydney Trains did not engage in any transactions / have outstanding balances with other related parties (2019: nil).

Note 22 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 22 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.

Note 22 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 2020

The following is the 30 June 2020 superannuation position:

Member numbers	SASS	SANCS	SSS	TOTAL
	30-Jun-20	30-Jun-20	30-Jun-20	30-Jun-20
Contributors	1,003	1,004	1	
Deferred benefits	-	-	-	
Pensioners	279	-	3	
Pensions fully commuted	-	-	-	
Superannuation Position for AASB 119 purposes	$'000	$'000	$'000	$'000
Accrued liability (Note 1)	1,303,780	107,100	9,386	1,420,266
Estimated reserve account balance	(721,502)	(57,578)	(2,812)	(781,892)
1. Deficit/(surplus)	582,278	49,522	6,574	638,374
2. Future Service Liability (Note 2)	18,470	24,529	136	43,135
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.)	582,278	49,522	6,574	638,374

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 22 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	**578,258**	**46,450**	**6,190**	**630,898**
Current service cost	9,648	3,614	83	13,345
Net Interest on the net defined benefit liability/(asset)	7,547	590	81	8,218
Past service cost	-	-	-	-
(Gains)/losses arising from settlements	-	-	-	-
Actual return on Fund assets less Interest income	(6,980)	(673)	(28)	(7,681)
Actuarial (gains)/losses arising from changes in demographic assumptions	-	-	-	-
Actuarial (gains)/losses arising from changes in financial assumptions	39,373	3,257	242	42,872
Actuarial (gains)/losses arising from liability experience	(32,464)	(120)	6	(32,578)
Adjustment for effect of asset ceiling	-	-	-	-
Employer contributions	(13,104)	(3,596)	-	(16,700)
Effects of transfers in/out due to business combinations and disposals	-	-	-	-
Net Defined Benefit Liability/(Asset) at end of year	**582,278**	**49,522**	**6,574**	**638,374**

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	**754,168**	**60,808**	**2,890**	**817,866**
Interest income	9,546	752	37	10,335
Actual return on Fund assets less Interest income	6,980	673	28	7,681
Employer contributions	13,104	3,596	-	16,700
Contributions by participants	7,079	-	17	7,096
Benefits paid	(63,967)	(7,888)	(165)	(72,020)
Taxes, premiums & expenses paid	(5,408)	(363)	5	(5,766)
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	**721,502**	**57,578**	**2,812**	**781,892**

Note 22 Superannuation (continued)

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

	SASS	SANCS	SSS	Total
	$'000	$'000	$'000	$'000
Present value of defined benefit obligations at beginning of the year	**1,332,426**	**107,258**	**9,080**	**1,448,764**
Current service cost	9,648	3,614	83	13,345
Interest cost	17,093	1,342	118	18,553
Contributions by participants	7,079	-	17	7,096
Actuarial (gains)/losses arising from changes in demographic assumptions	-	-	-	-
Actuarial (gains)/losses arising from changes in financial assumptions	39,373	3,257	242	42,872
Actuarial (gains)/losses arising from liability experience	(32,464)	(120)	6	(32,578)
Benefits paid	(63,967)	(7,888)	(165)	(72,020)
Taxes, premiums & expenses paid	(5,408)	(363)	5	(5,766)
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	**1,303,780**	**107,100**	**9,386**	**1,420,266**

Note 22 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.

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	4,096,298	1,889,511	2,206,787	-
Australian Fixed Interest	1,066,448	-	1,066,448	-
International Fixed Interest	1,909,424	30,409	1,879,015	-
Australian Equities	7,294,211	6,901,927	392,284	-
International Equities	11,950,330	11,487,308	463,022	-
Property	3,352,466	644,805	16,266	2,691,395
Alternatives	10,522,833	23,408	4,337,075	6,162,350
Total	**40,192,010**	**20,977,368**	**10,360,897**	**8,853,745**

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

As at	30-Jun-20
Short Term Securities	10.2%
Australian Fixed Interest	2.7%
International Fixed Interest	4.8%
Australian Equities	18.1%
International Equities	29.7%
Property	8.3%
Alternatives	26.2%
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 2020 includes $36.9 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 $340 million (30 June 2019: $316 million).
Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of $343 million (30 June 2019: $331 million).

Notes to the Financial Statements for the year ended 30 June 2020

Note 22 Superannuation (continued)

Significant Actuarial Assumptions at the Reporting Date - Para 144

Discount rate	0.87% pa
Salary increase rate (excluding promotional increases)	3.2% pa
Rate of CPI increase	1.00% for 2019/20; 0.25% for 2020/21; 1.50% for 2021/22; 1.25% for 2022/23; 1.75% for 2023/24; 2.00% for 2024/25 and 2025/26; 2.25% pa to 2029/30; 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 2020 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 2020.

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 -0.5% Discount rate	Scenario B +0.5% Discount rate
Discount rate	as above	as above -0.5% pa	as above +0.5% pa
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation ($'000)	1,420,266	1,507,718	1,341,921

	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)	1,420,266	1,477,280	1,368,600

	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)	1,420,266	1,445,883	1,395,681

	Base case	Scenario G Higher Mortality*	Scenario H Lower Mortality**
Defined benefit obligation ($'000)	1,420,266	1,444,823	1,409,056

*Assumes the short term pensioner mortality improvement factors for years 2020-2023 also apply for years after 2023.

**Assumes the long term pensioner mortality improvement factors for years post 2023 also apply for the years 2020 to 2023.

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

Note 22 Superannuation (continued)

Asset-Liability matching strategies - Para 146

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cash flows 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 2020 financial position of the Fund calculated in accordance with AASB 1056 Accounting Standard "Superannuation Entities":

	SASS	SANCS	SSS	Total
	$'000	$'000	$'000	$'000
Accrued benefits*	776,862	74,351	3,581	854,794
Net market value of Fund assets	(721,502)	(57,578)	(2,812)	(781,892)
Net (surplus)/deficit	**55,360**	**16,773**	**769**	**72,902**

*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 2020 AASB 1056 Accounting Standard "Superannuation Entities":

Weighted-Average Assumptions	
Expected rate of return on Fund assets backing current pension liabilities	7.0% pa
Expected rate of return on Fund assets backing other liabilities	6.0% pa
Expected salary increase rate (excluding promotional salary increases)	3.2% pa
Expected rate of CPI increase	2.0% pa

Note 22 Superannuation (continued)

Sensitivity Analysis

In light of the current environment due to COVID-19, there is increased volatility in terms of expected outcomes especially in the short to medium term. The information on sensitivities for paragraph 145 provides a guide to how this could affect the defined benefit obligation.

For AASB 1056, separate sensitivities are not included. However, the assumptions for CPI, Salary and demographics are broadly the same under both reporting standards. While the underlying liability amounts for AASB 1056 are lower than for AASB 119, the sensitivity of results under AASB 119 gives an indication to the directional and proportional impact of the changes in these assumptions.

The one assumption that differs substantially under the two standards is the expected rate of return on the fund assets (discount rate). Due to this variation and the potential for material variation in the rate of return on fund assets in current financial conditions, the sensitivities to this assumption for the AASB 1056 results is shown below:

Scenarios A and B relate to sensitivity of the Total Accrued Benefits figure shown in the AASB 1056 results.

	Base case	Scenario A -0.5% Discount rate	Scenario B +0.5% Discount rate
Expected rate of return on Fund assets backing current pension liabilities (discount rate)	7.0% pa	6.5% pa	7.5% pa
Expected rate of return on Fund assets backing other liabilities (discount rate)	6.0% pa	5.5% pa	6.5% pa
Rate of CPI increase	2.0% pa	as base case	as base case
Salary inflation rate	3.2% pa	as base case	as base case
Accrued benefits ($'000)	**854,795**	**879,773**	**831,684**

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 11.9 years.

Note 22 Superannuation (continued)

Profit or Loss Impact

	SASS	SANCS	SSS	Total
	$'000	$'000	$'000	$'000
Current service cost	9,648	3,614	83	13,345
Net interest	7,547	590	81	8,218
Past service cost	-	-	-	-
(Gains)/Loss on settlement	-	-	-	-
Profit or loss component of the Defined Benefit Cost	**17,195**	**4,204**	**164**	**21,563**

Other Comprehensive Income

	SASS	SANCS	SSS	Total
	$'000	$'000	$'000	$'000
Actuarial (gains) losses on liabilities	6,909	3,137	249	10,295
Actual return on Fund assets less Interest income	(6,980)	(673)	(28)	(7,681)
Change in the effect of asset ceiling	-	-	-	-
Total remeasurement in Other Comprehensive Income	**(71)**	**2,464**	**221**	**2,614**

30 June 2019

The following is the 30 June 2019 superannuation position:

Member numbers	SASS	SANCS	SSS	Total
	30-Jun-19	30-Jun-19	30-Jun-19	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 22 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	-	-	-	-
Transfers in/out due to business combinations and disposals	-	-	-	-
Contributions to accumulation section	-	-	-	-
Exchange rate changes	-	-	-	-
Settlements				
Fair value of fund assets at end of the year	**754,168**	**60,808**	**2,890**	**817,866**

Note 22 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 22 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.

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 22 Superannuation (continued)

Significant Actuarial Assumptions at the Reporting Date - Para 144

Discount rate	1.32% pa
Salary increase rate (excl. 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 on 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 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)	1,448,764	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	above rates plus 0.5% pa	above rates less 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 22 Superannuation (continued)

Asset-Liability matching strategies - Para 146
The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cash flows 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	SANCS	SSS	Total
	$'000	$'000	$'000	$'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” are (these assumptions are consistent with the assumptions to be used for the 2019 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)	3.2% pa
Expected rate of CPI increase	2.2% pa

Note 22 Superannuation (continued)

Sensitivity Analysis

Scenarios A and B relate to sensitivity of the Total Accrued Benefits figure shown in the AASB1056 results.

	Base case	Scenario A -0.5% Discount rate	Scenario B +0.5% Discount rate
Expected rate of return on Fund assets backing current pension liabilities (discount rate)	7.4% pa	6.9% pa	7.9% pa
Expected rate of return on Fund assets backing other liabilities (discount rate)	6.4% pa	5.9% pa	6.9% pa
Rate of CPI increase	2.2% pa	as base case	as base case
Salary inflation rate	3.2% pa	as base case	as base case
Accrued benefits ($'000)	**857,447**	**882,183**	**834,579**

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.

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)
Total remeasurement in Other Comprehensive Income	**167,356**	**7,860**	**1,080**	**176,296**

Note 23 Events occurring after reporting date

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. On 1 July 2020 RailCorp was renamed the Transport Asset Holding Entity of New South Wales (TAHE) and converted to a statutory State Owned Corporation pursuant to the Transport Administration Act 1988 (TAA) and the State Owned Corporations Act 1989. TAHE's listed functions and other functions are set out in section 11 of the TAA and are authorised but also limited by, an operating licence issued by the Minister of Transport. TAHE will be a for-profit entity for accounting purposes.

Sydney Trains have assessed that there is no material impact on the operating result and the carrying values of assets and liabilities as a result of COVID-19.

(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 2020, the Statement of Financial Position as at 30 June 2020, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising a Summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of as at 30 June 2020, 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 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 (including Independence Standards)' (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 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Chief Executive 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.

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.

The scope of my audit does not include, nor 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 New South Wales

14 October 2020
SYDNEY

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ISBN 978-1-63684-435-0