2019-20

Crown Related Entities' Annual Report

Alpha Distribution Ministerial Holding Corporation

Electricity Assets Ministerial Holding Corporation

Epsilon Distribution Ministerial Holding Corporation

Electricity Transmission Ministerial Holding Corporation

Liability Management Ministerial Corporation

Ports Assets Ministerial Holding Corporation

Electricity retained Interest Corporation – Ausgrid

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NSW GOVERNMENT

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Financial Statements
for the year ended 30 June 2020

Alpha Distribution Ministerial Holding Corporation

Charter

The Alpha Distribution Ministerial Holding Corporation (ADMHC) was established on 2 December 2016. It is the continuing entity of the former Ausgrid State Owned Corporation (SOC) which was subject of a long-term lease transaction, authorise under the *Electricity Network Assets (Authorised Transactions) Act 2015* (the Act).

Ausgrid was converted into the ADMHC immediately after the completion of the lease transaction under Schedule 7 of the Act. ADMHC is the same legal entity as the former Ausgrid SOC.

Objectives

The purpose of ADMHC is to act as a lessor of the network assets, to hold and manage on behalf of the Crown certain assets, rights and liabilities, to carry out activities or business that relate to the assets, rights, and liabilities held by it, and to carry out other functions as may be required by the regulation.

Staffing

Administration and accounting services are provided by staff of the NSW Treasury. The ADMHC has no staff of its own.

INDEPENDENT AUDITOR'S REPORT

Alpha Distribution Ministerial Holding Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Alpha Distribution Ministerial Holding Corporation (the Corporation), 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 Statement of Significant Accounting Policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation 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 45E 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 the Corporation 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

The Corporation's 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 Secretary of the Corporation 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 Corporation head.

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 Secretary of Treasury's Responsibilities for the Financial Statements

The Secretary of Treasury 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 Secretary of Treasury 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 Secretary of Treasury is responsible for assessing the Corporation's 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 the Corporation carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- 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.

Renee Meimaroglou
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

9 October 2020
SYDNEY

Alpha Distribution Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2020

STATEMENT BY DEPARTMENT HEAD

Pursuant to Section 45F of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

(a) The accompanying financial statements exhibit a true and fair view of the Alpha Distribution Ministerial Holding Corporation's financial position as at 30 June 2020 and the financial performance for the year then ended; and

(b) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983, Public Finance and Audit Regulation 2015*, Treasurer's Directions and applicable Australian Accounting Standards.

Further I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Michael Pratt AM
Secretary

9TH October 2020

Alpha Distribution Ministerial Holding Corporation

Statement of Comprehensive Income
for the year ended 30 June 2020

	Notes	Actual 2020 $000	Budget 2020 $000	Actual 2019 $000
Expenses excluding losses				
Operating expenses	4	9,647	10,354	10,160
Total expenses excluding losses		**9,647**	**10,354**	**10,160**
Revenue				
Investment revenue	5(a)	9,720	9,983	9,365
Contract service revenue	5(b)	9,353	-	-
Other operating revenue	5(c)	-	9,910	9,445
Total Revenue		**19,073**	**19,893**	**18,810**
Other gains/(losses)	6	(2)	-	(529)
Net result		**9,424**	**9,539**	**8,121**
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss:				
Superannuation actuarial gains/(losses)	12(ii)	(2,701)	-	(13,831)
Total other comprehensive income		**(2,701)**	**-**	**(13,831)**
Total comprehensive income		**6,723**	**9,539**	**(5,710)**

The accompanying notes form part of these financial statements.

Alpha Distribution Ministerial Holding Corporation

Statement of Financial Position
as at 30 June 2020

	Notes	Actual 2020 $000	Budget 2020 $000	Actual 2019 $000
Current assets				
Cash and cash equivalents	7	26,787	28,101	26,249
Trade and other receivables	8	23	57	55
Total current assets		**26,810**	**28,158**	**26,304**
Non-current assets				
Other financial assets	9	156,934	157,511	147,396
Total non-current assets		**156,934**	**157,511**	**147,396**
Total assets		**183,744**	**185,669**	**173,700**
Current liabilities				
Trade and other payables	10	46	849	42
Provisions	11	200	-	-
Contract liabilities	13	237	-	-
Other liabilities	13	-	239	234
Total current liabilities		**483**	**1,088**	**276**
Non-current liabilities				
Provisions	11	34,419	20,538	31,305
Total non-current liabilities		**34,419**	**20,538**	**31,305**
Total liabilities		**34,902**	**21,626**	**31,581**
Net assets		**148,842**	**164,043**	**142,119**
Equity				
Retained earnings		148,842	164,043	142,119
Total equity		**148,842**	**164,043**	**142,119**

The accompanying notes form part of these financial statements.

Alpha Distribution Ministerial Holding Corporation

Statement of Changes in Equity
for the year ended 30 June 2020

	Retained earnings $000	Total $000
Balance at 1 July 2019	**142,119**	**142,119**
Net result for the year	9,424	9,424
Other comprehensive income		
Superannuation actuarial gains/(losses)	(2,701)	(2,701)
Total other comprehensive income	(2,701)	(2,701)
Total comprehensive income for the year	**6,723**	**6,723**
Balance at 30 June 2020	**148,842**	**148,842**
Balance at 1 July 2018	**147,829**	**147,829**
Net result for the year	8,121	8,121
Other comprehensive income		
Superannuation actuarial gains/(losses)	(13,831)	(13,831)
Total other comprehensive income	**(13,831)**	**(13,831)**
Total comprehensive income for the year	**(5,710)**	**(5,710)**
Transactions recorded directly in equity		
Balance at 30 June 2019	**142,119**	**142,119**

The accompanying notes form part of these financial statements.

Alpha Distribution Ministerial Holding Corporation

Statement of Cash Flows
for the year ended 30 June 2020

	Notes	Actual 2020 $000	Budget 2020 $000	Actual 2019 $000
Cash flows from operating activities				
Cash receipts from customers		1,557	9,919	1,632
Cash paid to suppliers and employees		(1,199)	(9,292)	(2,449)
Interest received		180	407	394
Net cash flows from operating activities	17	**538**	**1,034**	**(423)**
Net cash flows from investing activities		**-**	**-**	**-**
Net cash flows from financing activities		**-**	**-**	**-**
Net increase / (decrease) in cash and cash equivalents		**538**	**1,034**	**(423)**
Opening cash and cash equivalents		26,249	27,067	26,672
Closing cash and cash equivalents	7	**26,787**	**28,101**	**26,249**

The accompanying notes form part of these financial statements.

Alpha Distribution Ministerial Holding Corporation

Notes to the financial statements
for the year ended 30 June 2020

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Alpha Distribution Ministerial Holding Corporation

Notes to the financial statements
for the year ended 30 June 2020

1. INFORMATION ON THE ALPHA DISTRIBUTION MINISTERIAL HOLDING CORPORATION

The Alpha Distribution Ministerial Holding Corporation (ADMHC) is the continuing entity of the Ausgrid State Owned Corporation (SOC). Ausgrid's electricity network assets were the subject of a long-term lease transaction, authorised under the *Electricity Network Assets (Authorised Transactions) Act 2015* (the Act). Immediately after transaction completion, Ausgrid was converted into the ADMHC under Schedule 7 of the Act. The ADMHC is the same legal entity as Ausgrid. The functions of the ADMHC are:

- to hold on behalf of the Crown, assets, rights and liabilities acquired to it by or under an authorised transaction Act;
- to carry out activities or business that relate to the assets, rights and liabilities held by it including demanding, collecting and receiving charges, levies, rates and fees; and
- such other functions of an authorised transaction as may be prescribed by the regulations.

The ADMHC is a NSW Government entity and is controlled by the State of New South Wales, which is the ultimate parent. The ADMHC has been a not-for-profit entity from 1 December 2016. Its principal office is at 52 Martin Place, Sydney NSW 2000, Australia.

The financial statements were authorised for issue by the Secretary of NSW Treasury on the date the accompanying Statement by the Secretary was signed.

The ADMHC is consolidated as part of the NSW Total State Sector Accounts.

2. LONG-TERM LEASE OF THE AUSGRID NETWORK ASSETS

The *Electricity Network Assets (Authorised Transactions) Bill 2015* was assented on 4 June 2015 which initiated the process for the long-term lease of the Ausgrid network assets in order to fund infrastructure projects across New South Wales (NSW) as part of the Government's rebuilding NSW plan.

On 20 October 2016, the Premier and Treasurer of NSW announced an Australian-owned consortium comprising of IFM Investors and Australian Super as the successful bidders.

On 30 November 2016, a number of statutory vesting orders under the *Electricity Network Assets (Authorised Transactions) Bill 2015* were received from the Treasurer of NSW. The vesting orders became effective on 1 December 2016 and on the same date, the Ausgrid's network assets were leased under a 99-year finance lease to the successful buyer. The State retained a 49.6 per cent interest in the lease. This interest is reported in the Electricity Retained Interest Corporation - Ausgrid.

Ausgrid as a SOC was converted to the ADMHC, a General Government Entity. A Ministerial Order was signed transferring existing employees of Ausgrid to Ausgrid Management Pty Ltd as part of the long-term lease agreement.

All current employees, at the commencement of the lease, and their respective defined benefit plans were transferred to Ausgrid Management Pty Ltd. The defined benefit plan remaining with the ADMHC relate only to the retired employees.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are general-purpose financial statements which have been prepared in accordance with the requirements of:

- Applicable Australian Accounting Standards (including Australian Accounting Interpretations)
- *Public Finance and Audit Act 1983* (the PF&A Act)
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions issued under the PF&A Act

The financial statements have been prepared on an accrual basis, except for cash flow information, and in accordance with the historical cost convention except for revaluation of superannuation liabilities which are measured at fair value through other comprehensive income.

All amounts are presented in Australian dollars and rounded to the nearest one thousand dollars ($'000).

Use of judgements, estimates and assumptions

Judgements - in the process of applying the ADMHC's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Electricity network land lease classification – ADMHC as lessor

The ADMHC is the lessor in the 99-year lease of the electricity network. At the end of the lease, the leased land will revert back to the ADMHC. The ADMHC has determined, based on an evaluation of the terms and conditions of the arrangements that it does not retain all the significant risks and rewards of ownership of the land, and accounted for the contract as a finance lease.

Estimates and assumptions - the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets, are described below.

The ADMHC based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the ADMHC. Such changes are reflected in the assumptions when they occur.

Valuation of lease receivable – unguaranteed residual value

The ADMHC carries its lease receivable which mainly comprise of the unguaranteed residual value at amortised cost less any impairment. The initial value of the unguaranteed residual value was measured using the discounted cash flow model. The inputs include observable markets as well as internal data where a degree of judgement was applied to determine the fair value. Judgements include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported value of the residual assets. Details regarding indexation and discount rate used are disclosed in Note 9.

At the end of the reporting period, management reviews whether there are any indicators of impairment. These factors include the level of improvements undertaken by the lessee, volatility of land values, the rate of technological change and competitive conditions.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Superannuation liabilities

The superannuation valuation is actuarially determined. It is measured as the best estimate of the expected future payments required to settle the present superannuation obligation at the reporting date less the fair value of the superannuation fund assets at the end of the reporting period.

The expected future payments are estimated on the basis of the ultimate cost to settle the superannuation obligations, which includes actuarial assumptions such as risk-free interest rate (discount rate), CPI, salary growth and pensioner mortality rates. Changes in assumptions relating to these factors could affect the superannuation valuation reported.

In calculating the superannuation funding requirements under the AASB 1056 *Superannuation Entities*, economic assumptions about the investment return on the superannuation fund assets and the expected CPI increment were made. These assumptions are generally subject to a degree of uncertainty. The actual results may differ from these estimate as the above factors are largely driven by financial market and subject to economic cycles.

Details regarding assumptions and superannuation fund assets allocation are disclosed in Note 12.

COVID-19

Management has considered the impact of COVID-19 on the ADMHC's revenue and receivables, including the impact on estimate and judgements used in the valuation of lease receivable. Management has concluded that COVID-19 has not had a material impact on the ADMHC's operations and preparation of the financial statements for the year ended 30 June 2020.

The Crown Finance Entity (CFE) may provide grant funding to the Corporation when required. The funding requirement is assessed annually through the State Budget process. The CFE receives appropriations from the Consolidated Fund. Appropriations for each financial year are set out in the Appropriation Bill that is prepared and tabled for that year. Due to COVID-19, the State Budget and related 2020-21 Appropriation Bill has been delayed until November/December 2020. However, pursuant to section 4.10 of the GSF Act, the Treasurer has authorised Ministers to spend specified amounts from Consolidated Fund. This authorisation is current from 1 July 2020 until the release of the 2020-21 Budget or Appropriation Bill.

Going concern

The ADMHC's financial statements have been prepared on a going concern basis. It is expected that the Corporation has adequate cash holding and cash inflows to continue operations for the foreseeable future. Further, the State will provide the necessary financial support to ADMHC to meet its debts as and when they become due and payable through the annual State Budget and the Appropriation Bill when required. Section 51 (5) of the *Electricity Network Assets (Authorised Transactions) Act 2015* state that the Treasurer may provide funding to ADMHC in any way that the Treasurer considers appropriate including issue letter of comfort when required.

Statement of compliance

The financial statements and notes comply with applicable Australian Accounting Standards, which include Australian Accounting Interpretations.

Changes in accounting policy, including new or revised Australian Accounting Standards

i. *Effective for the first time in FY2019-20*

The ADMHC applied AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Several other standards, amendments and interpretations apply for the first time in FY2019-20, but do not have a material impact on the financial statements of the entity.

AASB 15 *Revenue from contracts with Customers*

AASB 15 replaces AASB 111 *Construction Contracts* and AASB 118 *Revenue*. Under AASB 15, revenue is recognised when performance obligations are satisfied, and control of goods and services is transferred to the customer. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised in line with the fulfilment of service obligation.

The adoption of AASB 15 resulted in some changes to the presentation of certain revenue line items of the ADMHC in the current year. There is no financial impact on the ADMHC's financial statements and no change to comparatives.

The ADMHC is the lessor in a 99-year electricity network lease contract. While the lease arrangement is accounted for under AASB 16 *Leases*, various contract service fee and lease outgoing recoupment revenues embedded in the lease contract are non-lease components and are accounted for under AASB 15. The revenue is recognised over time based on the pattern of fulfilment of performance obligation and delivery of service to the lessee.

The ADMHC's contract service revenue mainly consist of:

i) recoupment of lease outgoings: where the service obligation is fulfilled, and revenue entitlement arise when the ADMHC pays the lease outgoing to the relevant government authorities and government trading enterprises.

ii) contract service income: where income is received from performance of the ongoing administrative tasks associated with the network lease (i.e. administration of subsequent land acquisition and disposal). The cash is received on the anniversary of the lease commencement date and which is paid in advance by the lessee. A contract liability is recognised upon receipt of cash and is reduced by the amounts recognised as income which is allocated over time based on the straight-line labour input method.

These revenue streams are aggregated and disclosed as "Contract service revenue" in the Statement of Comprehensive Income, previously disclosed as "Other operating revenue". Refer to Note 5 for details.

The unearned contract service income is disclosed as "Contract liabilities", a new line item, in the Statement of Financial Position. The equivalent of these liabilities were classified as "Other liabilities" for the comparative. Refer to Note 13 for details.

AASB 16 *Leases*

AASB 16 supersedes AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease,* Interpretation 115 *Operating Leases – Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. As the ADMHC is lessor in the Ausgrid network finance lease, the adoption of AASB 16 did not have a material impact on the ADMHC's financial statements.

The ADMHC has adopted the practical expedient C3 available under AASB 16 which allows for application of this standard to contracts that were previously identified as leases under AASB 117 *Leases* and Interpretation 4 *Determining whether an Arrangement contains a Lease.*

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accordingly, after separating the non-lease component contained in the network lease contract, the treatment of the Ausgrid network lease, determined at inception, is unchanged under AASB 16.

Finance income is recognised and based on a pattern reflecting a constant periodic rate of return on the ADMHC's net investment in the finance lease. Finance income has been reclassified to investment revenue from other operating revenue in accordance with AASB 16 from 1 July 2019. The estimated unguaranteed residual value is assessed for impairment to ensure the carrying value does not exceed the recoverable amount. Refer to Note 9 for details on indexations and finance lease receivables.

ii. Issued but not yet effective

As mandated by Treasury Circular TC20-01, the ADMHC has not early adopted any new accounting standards, amendments and interpretations that have been issued but are not yet effective.

The following lists the new standards and interpretation that whilst not yet effective, may be applicable to the ADMHC:

- AASB 1059 *Service Concession Arrangements: Grantors* (operative date 1 July 2020)
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059* (operative date 1 July 2020)
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* (operative date 1 July 2020)
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* (operative date 1 July 2020)
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* (operative date 1 July 2020)
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059 (operative date 1 July 2020)*

Management have assessed the impact of new accounting standards issued but not yet effective and concluded there is no material impact to the ADMHC.

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.

REVENUE

Until 30 June 2019, income is recognised in accordance with AASB 118 and AASB 1004. Revenue is measured at the fair value of the consideration or contributions received or receivable to the extent it is probable that the economic benefits will flow to the ADMHC and the amount can be reliably measured.

From 1 July 2019, revenue is recognised in accordance with the requirements of AASB 15 or AASB 1058 dependent on whether there is an enforceable contract with specific performance obligation.

Contract service revenue

Contract service revenue is recognised when the relevant performance obligation embedded in contracts with customers are satisfied and the control of service transfers to the customer. Performance obligations are completed over time. In assessing the amount of the revenue allocation, the ADMHC has applied the straight-line labour input method with reference to the cost and staff labour hours incurred. Other contract service revenue includes recoupment of lease outgoings. In this

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

instance, revenue entitlement arises when the ADMHC pays the lease outgoing (performance obligation fulfilled) to the relevant government authorities and government trading enterprises.

Investment revenue

Investment revenue relates to interest revenue and is recognised using the effective interest method as set out in AASB 9 *Financial Instruments: Recognition and Measurement*.

Finance Income

Finance income is recognised reflecting a constant periodic rate of return on the ADMHC's net investment in the finance lease in accordance with AASB 16.

Other operating revenue - recoupment of administrative costs (comparative period only)

The ADMHC recoups administrative costs from the lessee and recognises this as other operating revenue.

EXPENSES

Expenses are recognised when incurred.

Finance officers of the NSW Treasury provide administrative services, including the preparation of the ADMHC financial statements. The cost of these services is shown as an administrative charge in Note 4.

ASSETS

Cash and cash equivalents

Cash and cash equivalents represent the cash at bank and deposits with financial institutions and are recognised in the Statement of Financial Position and reconciled to the Statement of Cash Flows.

Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Under AASB 9, the classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics.

Financial assets are measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

The ADMHC recognises an allowance for expected credit losses (ECLs) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows and the cash flows that ADMHC expects to receive, discounted at the original effective interest rate. For trade receivables, applies a simplified approach in calculating ECLs. The ADMHC recognises a loss allowance based on lifetime ECLs at each reporting date.

Other financial assets

The other non-current asset represents the emerging asset, being the present value of the network assets to be returned to the State on the expiry of the 99-year lease term.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Finance Leases – ADMHC as Lessor

A lease is classified at the inception date as a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

A receivable is recognised at amortised cost and recognised at the amount equal to the net investment in the lease.Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Gross investment in the lease is the aggregate of the minimum lease payments receivable by the lessor under a finance lease, and any unguaranteed residual value accruing to the lessor.

In accordance with TPP 11-01 Lessor classification of long-term land leases, a prepaid lease classified as a finance lease under this policy will effectively be accounted for as a sale. At the inception of the lease, the lessor will derecognise the land and recognise the associated gain or loss on disposal.

Subsequently, finance income is based on a pattern reflecting a constant periodic rate of return on the ADMHC's net investment in the finance lease. The estimated unguaranteed residual values used in computing the gross investment in the lease are subject to an impairment test which takes into consideration factors such as the volatility of land values, the rate of technological change and competitive conditions.

LIABILITIES

Payables

Trade and other payables, including accruals not yet billed, represent liabilities for goods and services provided to the ADMHC prior to the end of the period and there is an obligation to make future payment. The amounts are unsecured and are usually paid within 30 days of recognition.

Subsequent to initial recognition of these liabilities at fair value, they are measured at amortised cost using the effective interest rate method. This measurement is equivalent to the original invoice amount.

Contract and other liabilities

Unearned revenue

Unearned revenue balance represents the annual contract service income received on the anniversary of the lease commencement date and which is paid in advance by the lessee.

Superannuation

The superannuation valuation is actuarially determined. The net superannuation defined benefit liabilities or assets are recognised as present value of the defined benefit obligation less the fair value of plan assets, adjusted for an asset ceiling. Asset ceiling refers to present value of economic benefits available as refunds from the fund or reduction in future contributions to the fund.

In accordance with AASB 119 *Employee Benefits*, the defined benefit superannuation schemes current and pass service costs and net interest cost reflecting passage of time on the net defined benefit liabilities or assets are recognised as profit and loss item in the Statement of Comprehensive Income. Remeasurements of the net defined benefit liabilities or assets that comprises of actuarial gain or losses, the return in plan assets and any change in the effect of asset ceiling other than the net interest as other comprehensive income in the year in which they occur.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Comprehensive Income.

Derecognition of financial assets

A financial asset is primarily derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the ADMHC has transferred 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 (a) the ADMHC has transferred substantially all the risks and rewards of the asset, or (b) the ADMHC has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the ADMHC 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. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the ADMHC continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the ADMHC also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that ADMHC has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the ADMHC could be required to repay.

Income tax

Following the sale of the discontinued operations and the ADMHC’s conversion to be a General Government Entity, it is no longer subject to the National Tax Equivalent Regime. As an entity wholly owned by the NSW Government, the ADMHC is exempt from all forms of taxation except Fringe Benefit Tax and the Goods and Services Tax.

Accounting for the Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), with the following exceptions:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Budgeted amounts

The budgeted amounts are drawn from the original budgeted financial statements presented to Parliament in respect of the reporting period. Major variances between the original budgeted amounts and the actual amounts disclosed in the primary financial statements are explained in the Note 16.

Alpha Distribution Ministerial Holding Corporation

Notes to the financial statements
for the year ended 30 June 2020

4. OPERATING EXPENSES

	2020 $'000	2019 $'000
Defined benefit expense	413	451
Lease outgoing expenditures	8,787	8,889
Administrative charge	182	500
Audit fees - audit of financial statements	54	53
Other expenses	211	267
Total	**9,647**	**10,160**

5. REVENUE

	2020 $'000	2019 $'000
(a) Investment revenue		
Interest income	180	394
Finance income (i)	9,540	8,971
	9,720	**9,365**
(b) Contract service revenue		
Lease outgoing recoupment (ii)	8,787	-
Contract service income (iii)	566	-
	9,353	**-**
(c) Other operating revenue		
Lease outgoing recoupment (II)	-	8,889
Other income	-	556
	-	**9,445**
Total revenue	**19,073**	**18,810**

(i) At the date of execution of the 99-year finance lease, the ADMHC recognised a finance lease receivable representing its net investment in the lease. As the lease payments were received upfront, no further payments will be received by the ADMHC and the residual asset will be accreted over the term of the lease as finance income.

(ii) This relates to council rates and water cost recouped from the lessees under the 99-year finance lease. From 1 July 2019, the recoupment has been reclassified to contract service revenue from other operating revenue in accordance with AASB 15.

(iii) The ADMHC receives annual income from the lessee of $550k, adjusted for CPI, each year to cover for the administration costs incurred in managing its affairs, including the administration of subsequent land acquisitions and disposals associated with the lease. The specific performance is specified under the enforceable network lease contract. Accordingly, revenue recognition is subject to AASB 15 and has been reclassified to contract service revenue from other operating revenue.

Alpha Distribution Ministerial Holding Corporation

Notes to the financial statements
for the year ended 30 June 2020

6. OTHER GAINS/ (LOSSES)

	2020	2019
	$'000	$'000
Impairment losses on finance lease receivable	(2)	(529)
	(2)	**(529)**

During the year, parcels of land forming part of the leased assets were sold by the lessee to external purchasers. The sale of land is permitted under the lease agreement and constitutes a partial surrender of the lease in respect of the land sold. Under the lease agreement, sales proceeds were paid directly to the lessee by the purchasers. The ADMHC has no claim on the proceeds. Following the sales, the net present value of the relevant land was derecognised from the finance lease receivable as part of annual impairment process, resulting in an impairment loss on the leased assets.

7. CASH AND CASH EQUIVALENTS

Cash at Bank	26,787	26,249
Total	**26,787**	**26,249**

For the purpose of the Statement of Cash Flows, cash and cash equivalents include cash at bank.

Cash and cash equivalent assets recognised in the Statement of Financial Position are reconciled at the end of the financial year to the Statement of Cash Flows as follows:

Cash and cash equivalents (per Statement of Financial Position)	26,787	26,249
Closing cash and cash equivalents (per Statement of Cash Flows)	26,787	26,249

Refer to Note 18 for credit risk, liquidity and market risk arising from financial instruments.

8. TRADE AND OTHER RECEIVABLES

Current		
GST receivable	23	55
Total	**23**	**55**

GST receivable and payable were net off for current and comparative period. Details regarding credit risk, liquidity risk and market risk, including the financial assets that are either past due or impaired, are disclosed in Note 18.

9. OTHER FINANCIAL ASSETS

	2020 $'000	2019 $'000
Non-current		
Finance lease receivable [(i)]	156,934	147,396
Total	**156,934**	**147,396**

(i) Finance lease receivable

On completion of the long-term lease transaction, the ADMHC acts as a lessor and Ausgrid Asset Partnership act as a lessee in a 99-year lease arrangement. The ADMHC transferred substantially all risks and rewards incidental to ownership of the leased assets to Ausgrid Asset Partnership; as such the lease was classified as a finance lease.

Finance lease accounting requires the ADMHC as the Lessor to recognise a finance lease receivable equal to the net investment in the lease, which is the discounted gross investment in the lease comprising the minimum lease payments and unguaranteed residual value. As the lease payments were received upfront, the net investment in the lease corresponds to the present value of the assets that will revert to the Lessor on expiry of the leases.

At the reporting date, the residual value in 99 years is estimated at $62.4 billion ($62.6 billion at inception), using an annual indexation of 4 per cent. The present value at inception of the lease was $125.8 million, discounted at nominal pre-tax discount rate of 6.47 per cent. Finance income of $9.5 million (2019: $9.0 million) was recognised in the year (refer to Note 5(a) and Note 5(c)).

The results of the annual impairment procedures concluded that there are no indicators of impairment at the reporting date.

The lease contains two clauses:

1. any improvements made by the lessee to the existing land, or acquisition of additional land for network use are treated as transactions by the ADMHC. However, the State does not benefit from these improvements during the term of the lease as all risks and rewards are with the lessee, and
2. acquisitions or the lease of additional land by the lessee are subject to an option which allows the ADMHC to acquire or lease the additional land for nominal consideration with nil rentals. As an option to buy non-financial items that will not be settled net in cash, the option has been classified as an executory contract which will only be accounted for on exercise.

Reconciliation of net investment in leases

	2020 $'000	2019 $'000
Future undiscounted rentals receivable	-	-
Unguaranteed residual amounts - undiscounted	62,380,668	62,381,717
Less: unearned finance income	62,223,734	62,234,321
Net investment in finance leases	**156,934**	**147,396**

9. OTHER FINANCIAL ASSETS (continued)

Reconciliation of gross investment in finance leases

	2020	2019
	$'000	$'000
Present value of minimum lease payments	-	-
unearned finance income	-	-
Unguaranteed residual amounts - undiscounted	62,380,668	62,381,717
Gross investment in finance leases	**62,380,668**	**62,381,717**

Reconciliation of unguaranteed residual amounts (undiscounted)

Opening balance	62,381,717	62,609,948
Less disposal - partial surrender of the lease	(1,049)	(228,231)
Closing balance	**62,380,668**	**62,381,717**

10. TRADE AND OTHER PAYABLES

Current		
Accruals	46	42
Total	**46**	**42**

GST receivable and payable were net off for current and comparative period. Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables are disclosed in note 18.

11. PROVISIONS

Current		
Redundancy Provision	200	-
	200	**-**
Non-Current		
Superannuation Liability (Note 12(iii))	34,419	31,305
	34,419	**31,305**
Total	**34,619**	**31,305**

On completion of the lease transaction on 30 November 2016, all defined benefit superannuation provisions and employee's right, obligations and liabilities (including redundancy payment disputes) relating to retired ex-Ausgrid employees were transferred to the ADMHC.

12. UNFUNDED SUPERANNUATION

The following narrative and tables summarise the components of movement in the ADMHC's net superannuation asset/liability recognised in the Statement of Comprehensive Income, and the funded status and amounts recognised in the Statement of Financial Position for the defined benefit superannuation funds. Assets and Liability values of the ADMHC's Energy Industries Superannuation Scheme Defined Benefit Funds are provided by the Fund's Actuary, Mercer Consulting (Australia) Pty Ltd.

12. UNFUNDED SUPERANNUATION (continued)

Significant events

On completion of the 99-year lease transaction, all current employees and their respective defined benefit plans were transferred to Ausgrid Management Pty Ltd. The defined benefit plan remaining with the ADMHC relate to the retired employees. There were no fund amendments, curtailments or settlements during the year.

Nature of benefits

The Energy Industries Superannuation Scheme (the Scheme) is divided into seven divisions, of which Divisions B, C and D provide defined benefits, that is 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. Divisions B, C and D are closed to new members except for members of eligible schemes who can transfer their entitlements into the Scheme. Disclosures below are prepared in relation to Divisions B, C and D only; these Divisions are referred to collectively as "the Fund" hereafter.

Regulatory framework

The Scheme was established on 30 June 1997 by a Trust Deed made under an Act of the NSW Parliament, for the purpose of providing retirement benefits for employees of certain Energy Industries bodies in NSW.

The Scheme is regulated primarily by the *Superannuation Industry (Supervision) Act 1993 (Cth)* ("the SIS legislation") but is also subject to regulation under the *Superannuation Administration Act 1996 (NSW).*

The SIS legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions, unless an exemption has been obtained.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises regulated superannuation plans. The Scheme has received an exemption from annual actuarial valuations and therefore actuarial valuations are only required triennially. The last actuarial valuation of the Scheme was performed as at 30 June 2018. The next actuarial valuation is due to be performed as at 30 June 2021.

Governance

Energy Industries Superannuation Scheme Pty Limited is the Superannuation Scheme Trustee. The Scheme's Trustee is responsible for the governance of the Scheme. The Trustee has a legal obligation to act solely in the best interests of the Scheme beneficiaries. The Trustee has the following roles:

- Administration of the Scheme and payment to the beneficiaries from Scheme assets when required in accordance with the Scheme rules;
- Management and investment of the Scheme assets;
- Compliance with other applicable regulations, and
- Compliance with the Trust Deed.

12. UNFUNDED SUPERANNUATION (continued)

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, resulting in pensions being paid for a longer period and thereby requiring additional employer contributions.
- Pension indexation risk - The risk that pensions will increase at a rate greater than assumed, increasing future pensions and thereby requiring additional employer contributions.
- 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 various independent fund managers and have a diversified asset mix, as such effectively diversified and minimised investment risk and liquidity risk.

	2020	2019
Member Numbers		
Contributors	-	-
Deferred benefits	1	1
Pensioners	116	116

(i) Movements in Superannuation Net Asset/(Liability) recognised in profit or loss

	$'000	$'000
Net interest	413	451
Total net expense	**413**	**451**

(ii) Movements in Superannuation Net Asset/(Liability) recognised in Other Comprehensive Income

Actuarial gains/(losses) on liabilities	(1,515)	(19,911)
Actuarial gains/(losses) on assets	(1,186)	6,080
Total actuarial gains/(losses)	**(2,701)**	**(13,831)**

12. UNFUNDED SUPERANNUATION (continued)

(iii) Reconciliation of the superannuation net asset/ (liability)

	2020 $'000	2019 $'000
Net asset/(liability) at the beginning of the year	(31,305)	(17,032)
Net interest income/(expense) on the net defined benefit asset/(liability)	(413)	(451)
Return on plan assets, excluding amounts included in interest expense/(income)	(1,186)	6,080
Actuarial gains/(losses) arising from changes in demographic assumptions	-	(624)
Actuarial gains/(losses) arising from changes in financial assumptions	718	(20,160)
Actuarial gains/(losses) arising from liability experience	(2,233)	882
Net assset/(liability) at the end of the year	**(34,419)**	**(31,305)**

(iv) Reconciliation of the present value of the defined benefit obligation

	$'000	$'000
Present value of defined benefit obligations at the beginning of the year	(111,875)	(94,030)
Interest income/(expense)	(1,448)	(2,432)
Actuarial gains/(losses) arising from changes in demographic assumptions	-	(624)
Actuarial gains/(losses) arising from changes in financial assumptions	718	(20,160)
Actuarial gains/(losses) arising from liability experience	(2,233)	882
Benefits paid	4,176	4,264
Taxes, premiums and expenses paid	235	225
Present value of defined benefit obligations at the end of the year	**(110,427)**	**(111,875)**

(v) Reconciliation of the fair value of fund assets

Fair value of Fund assets at the beginning of the year	80,571	76,998
Interest income/(expense)	1,034	1,981
Actual return on fund assets less interest income	(1,186)	6,080
Benefits paid	(4,176)	(4,263)
Taxes, premiums and expenses paid	(235)	(225)
Fair value of Fund assets at the end of the year	**76,008**	**80,571**

Maturity profile of defined benefit obligations

The weighted average duration of the defined benefit obligation is 13 years (2019: 12 years).

12. UNFUNDED SUPERANNUATION (continued)

Fair value of fund assets

All Division B, C and D assets are held in Pool B of the Fund. Pool B in turn holds units invested in the Energy Investment Fund, a pooled superannuation trust. As such, assets are not separately invested for each employer and it is not possible or appropriate to disaggregate and attribute Fund assets to individual entities, and the disclosures below relate to total assets of Pool B of the Fund.

Energy Investment Fund	**$'000**	**$'000**
Level 1 - Quoted prices in active markets for identical assets		-
Level 2 - Significant observable inputs	1,834,949	2,058,058
Level 3 - Unobservable inputs	-	-
Total	**1,834,949**	**2,058,058**

Level 1 - quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares and 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 and unlisted trusts containing 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 and hedge funds.

Some Pool B assets are invested in accordance with member investment choices. For Pool B assets invested in the Energy Investment Fund but not subject to investment choice, the percentage invested in each asset class at the end of the reporting period is:

Asset Category	**30 June 2020**	**30 June 2019**
Alternatives	8%	4%
International equities	25%	25%
Australian equities	14%	16%
Infrastructure	8%	6%
Property	13%	11%
Private equity	1%	2%
Cash	13%	5%
Fixed income	18%	31%
Total	**100%**	**100%**

12. UNFUNDED SUPERANNUATION (continued)

Derivatives can be used by investment managers however strict investment guidelines detail all limits approved on the use of derivatives. The use of derivatives is governed by the investment policies, which permit the use of derivatives to change the Fund's exposure to particular assets. The Trustee requires that derivative financial instruments are not entered into for speculative purposes or to gear the Fund, and that all derivatives positions are (a) fully cash covered; (b) are offset to existing assets; or (c) are used to alter the exposures in underlying asset classes. Compliance with policies and exposure limits are reviewed by the Trustee on a continual basis. As such, the investment managers make limited use of derivatives.

The fair value of Fund assets includes no amounts relating to:

- any of the ADMHC's financial instruments; and
- any property occupied by, or other assets used by, the ADMHC.

Significant actuarial assumptions at the end of the reporting period

	2020	2019
Discount rate	0.87% pa	1.32% pa
Salary increase rate (excluding promotional increases)	N/A	N/A
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	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter
Pensioner mortality	The pensioner mortality rates used are as per the triennial valuation of the Scheme as at 30 June 2018 (the rates are disclosed in the triennial report available from the Trustee website). The pension mortality rates are based on experience of the NSW public sector.	The pensioner mortality rates used are as per the triennial valuation of the Scheme as at 30 June 2018 (the rates are disclosed in the triennial report available from the Trustee website). The pension mortality rates are based on experience of the NSW public sector.

Sensitivity analysis

The ADMHC's total defined benefit obligation as at the end of the reporting period under several scenarios is presented below. Scenarios A to D relate to the sensitivity of the total defined benefit obligation to economic assumptions, and scenarios E and F relate to its sensitivity to demographic assumptions.

12. UNFUNDED SUPERANNUATION (continued)

As at 30 June 2020

	Base case	Scenario A - 0.5% discount	Scenario B +0.5% discount rate
Discount rate	0.87% pa	0.37% pa	1.37% 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	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	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
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($'000)	110,427	117,818	103,672
	Base case	**Scenario C +0.5% rate of CPI**	**Scenario D -0.5% rate of CPI**
Discount rate	0.87% pa	0.87% pa	0.87% pa
Rate of CPI increase	1.00% for 2019/20; 0.25% for 2020/21; 1.50% for 2021/22; 1.25% for 2022/23; 1.75% for 2023/24; 2.00% for 2024/25 and 2025/26; 2.25% pa to 2029/30; 2.50% pa thereafter	1.50% for 2019/20; 0.75% for 2020/21; 2.00% for 2021/22; 1.75% for 2022/23; 2.25% for 2023/24; 2.50% for 2024/25 and 2025/26; 2.75% pa to 2029/30; 3.00% pa thereafter	0.50% for 2019/20; (0.25%) for 2020/21; 1.00% for 2021/22; 0.75% for 2022/23; 1.25% for 2023/24; 1.50% for 2024/25 and 2025/26; 1.75% pa to 2029/30; 2.00% pa thereafter
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($'000)	110,427	118,006	103,442
	Base case	**Scenario E Lower pensioner mortality rates***	**Scenario F Higher pensioner mortality rates****
Defined benefit obligation ($'000)	110,427	112,523	108,909

* Assumes the short-term pensioner mortality improvement factors for years 2018-2024 also apply for years after 2024.

** Assumes the long-term pensioner mortality improvement factors for years post 2024 also apply for years 2018 to 2024.

12. UNFUNDED SUPERANNUATION (continued)

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

Sensitivity analysis

As at 30 June 2019

	Base case	Scenario A - 1.0% discount	Scenario B +1.0% discount rate
Discount rate	1.32% pa	0.32% pa	2.32% pa
Rate of CPI increase	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($'000)	111,875	128,093	98,375

	Base case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	1.32% pa	1.32% pa	1.32% pa
Rate of CPI increase	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter	2.25% p.a. for 2018/19 and 2019/20, 2.50% for 2020/21, 2.75% p.a. for 2021/22 and 2022/23 then 3.0% p.a. thereafter	1.25% p.a. for 2018/19 and 2019/20, 1.50% for 2020/21, 1.75% p.a. for 2021/22 and 2022/23 then 2.0% p.a. thereafter
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($'000)	111,875	119,789	104,594

	Base case	Scenario E Lower pensioner mortality rates*	Scenario F Higher pensioner mortality rates**
Defined benefit obligation ($'000)	111,875	113,921	110,374

* Assumes the short-term pensioner mortality improvement factors for years 2018-2024 also apply for years after 2024.

** Assumes the long-term pensioner mortality improvement factors for years post 2024 also apply for years 2018 to 2024.

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

12. UNFUNDED SUPERANNUATION (continued)

Asset/Liability matching strategies

The assets of the Scheme are managed using a Liability Driven Investment approach.

Funding arrangements for employer contributions

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2018. Contribution rates are set after discussions between the employer and the trustee. Funding positions are reviewed annually, and funding arrangements may be adjusted as required.

Net surplus/(deficit)

The following is a summary of the 30 June 2020 financial position of the Fund calculated in accordance with AASB 1056 *Superannuation Entities*:

	2020 $'000	2019 $'000
Net market value of Fund assets	76,008	80,571
Accrued benefits	(64,954)	(65,385)
Net surplus/deficit	**11,054**	**15,186**

Please note that the above AASB 1056 results are based on the economic assumptions to be used for the 30 June 2020 actuarial valuation. The economic assumption under AASB 1056 is different with the assumption used under AASB 119. For AASB 1056 financial assumptions, please refer to economic assumptions section for details.

Contribution Recommendations

Recommended contribution rates for the ADMHC are:

Division B - multiple of member contributions	N/A	N/A
Division C - % member salary	N/A	N/A
Division D - multiple of member contributions	N/A	N/A
Additional lump sum $p.a.	Nil	Nil

Economic Assumptions

The economic assumptions adopted by the Fund's Actuary in determining the employer contribution recommendations are set out in the following table. These assumptions differ from the economic assumptions used to determine the superannuation net asset/ (liability) in the Statement of Financial Position.

Weighted Average Assumptions	**2020**	**2019**
Expected rate of return on Fund assets backing current pension liabilities	5.0%	5.5% pa
Expected rate of return on Fund assets backing other liabilities	5.0%	5.5% pa
Expected salary increase rate	N/A	N/A
Expected rate of CPI Increase	1.9% pa	2.3% pa

12. UNFUNDED SUPERANNUATION (continued)

Expected contributions

As at 30 June 2020

	$'000
Expected employer contributions to be paid in the period 1 July 2020 to 30 June 2021	-

As at 30 June 2019

	$'000
Expected employer contributions to be paid in the period 1 July 2019 to 30 June 2020	-

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 13 years (2019: 12 years).

Nature of asset/liability

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary. Where a deficiency exists, the employer is responsible for any difference between the employer's share of Fund assets and the defined benefit obligation.

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 EISS's assets in current financial conditions, sensitivities to this assumption for the AASB 1056 results in the table below (results for 2019 shown for comparative purposes).

As at 30 June 2020

	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)	5.0% pa	4.5% pa	5.5% pa
Expected rate of return on Fund assets backing other liabilities (discount rate)	5.0% pa	4.5% pa	5.5% pa
Rate of CPI increase	1.9% pa	1.9% pa	1.9% pa
Salary inflation rate	2.3% for 2020/21, 2.4% for 21/22, 2.5% for 22/23, 2.9% pa thereafter	as base case	as base case
Accrued Benefits ($000)	64,954	68,411	61,803

12. UNFUNDED SUPERANNUATION (continued)

As at 30 June 2019

	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)	5.5% pa	5.0% pa	6.0% pa
Expected rate of return on Fund assets backing other liabilities (discount rate)	5.5% pa	5.0% pa	6.0% pa
Rate of CPI increase	2.3% pa	2.3% pa	2.3% pa
Salary inflation rate	2.6% for 2019/20, 2.8% for 2020/21, 3.3% pa thereafter	as base case	as base case
Accrued Benefits ($000)	65,385	68,889	62,198

13. CONTRACT AND OTHER LIABILITIES

	2020 $'000	2019 $'000
Current contract liabilities		
Unearned revenue	237	-
Total	**237**	**-**
Other current liabilities		
Unearned revenue	-	234
Total	**-**	**234**
Contract liabilities reconciliation		
Opening balance	-	
Transfer-in on AASB15 1st time adoption	234	
Contract service invoiced/received	569	
Revenue recognised upon performance obligation fulfilled	(566)	
Closing balance	**237**	
Revenue recognised that was included in the Contract liability balance (adjusted for AASB 15) at the beginning of the year	234	
Revenue recognised from performance obligation satisfied in pevious periods	-	
Transaction price allocated to the remaining performance obligations from the contract with customers	237	

The transaction price allocated to the remaining performance obligations relates to the ongoing administrative tasks associated with the network lease. The contract liabilities at reporting date is expected to be recognised as revenue in the 2020-21 financial year.

14. COMMITMENTS

The ADMHC does not have capital expenditure commitments or operating lease commitments as at the reporting date (2019: nil).

15. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The ADMHC does not have any contingent assets and contingent liabilities to report as at the reporting date (2019: nil).

16. BUDGET REVIEW

Net result

For the year ended 30 June 2020, ADMHC had a surplus net result of $9.4 million which is in-line with budget of $9.5 million.

Operating expenses totalled $9.6 million which is $0.7 million lower than budget. This is due to savings on lease outgoing expenditures and lower administration fee paid to NSW Treasury.

Total revenue was $19.1 million, $0.8 million lower than budget mainly due to lower lease outgoings recouped from the lessee. Interest income were $0.2 million lower that budget due to reduction in official interest rate. Budget variances between the contract service revenue and other operating revenue mainly arising from the adoption of new accounting standards in 2020.

Assets and Liabilities

Net assets for the year were $148.8 million, $15.2 million lower than the budget.

Total assets were $183.7 million, $1.9 million lower than budget mainly attributable to a $1.3 million reduction in cash balance and a lower finance lease receivable after the $0.5 million land disposal and partial surrender of the lease booked at 30 June 2019.

Total liabilities were $34.9 million and $13.3 million higher than budget due to $13.8 million actuarial losses on defined benefit superannuation arising from reduction of discount rate and changes in other financial assumptions for the year which were not anticipated at budget time.

Cash flows

The actual net cash flows from operating activities resulted in an inflow of $0.5 million, being $0.5 million lower than budget. This is mainly due to interest income being $0.2 million lower and higher GST payment made to ATO compared to budget.

Cash and cash equivalents held at reporting date was $26.8 million and was $1.3 million lower than budget.

Being a residual entity, the ADMHC's activities are shown as "Post Transaction Activities" program group and aggregated in the State Budget outcomes.

17. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of net result to net cash flows from operating activities

	2020 $'000	2019 $'000
Net result	9,424	8,121
Adjustments for non-cash items		
Gains/(losses) on disposal of assets	2	529
Superannuation actuarial gains/(losses)	(2,701)	(13,831)
Finance lease income	(9,540)	(8,971)
Net cash flow from operating activities before change in assets and liabilities	**(2,815)**	**(14,152)**
Net changes in assets and liabilities during the financial year		
(Increase)/decrease in trade and other receivables	32	(1)
Increase/(decrease) in trade and other payables	4	(558)
Increase/(decrease) in provisions	3,314	14,283
Increase/(decrease) in contract liabilities	237	-
Increase/(decrease) in other liabilities	(234)	5
Net cash flow from operating activities	**538**	**(423)**

18. FINANCIAL INSTRUMENTS

The ADMHC's principal financial instruments are outlined below. The financial instruments arise directly from the ADMHC's operations or are required to finance the ADMHC's operations. The Secretary has overall responsibility for the establishment and oversight of risk management and review of policies for managing risk.

Financial Instrument Categories

Class	Notes	Category	2020 $'000	2019 $'000
Financial Assets				
Cash and cash equivalents	7	N/A	26,787	26,249
Trade and other receivables	8	Amortised cost	-	-
Financial Liabilities				
Trade and other payables	10	Financial liabilities measured at amortised cost	46	42

The above tables exclude statutory receivables/payables, prepayments and contract liability which are not within the scope of AASB 7 *Financial Instruments: Disclosures* and excludes lease receivables which only represent the unguaranteed residual value.

18. FINANCIAL INSTRUMENTS (continued)

Financial Risk Management Overview

Financial instruments comprise of cash, trade debtors and trade creditors. The main purpose of these financial instruments was to raise finance or invest surplus cash for the ADMHC's operations, and to manage exposure to price movements.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 of the financial statements.

As at 30 June 2020, the ADMHC has exposure to the following risks:

- Credit risk;
- Market risk; and
- Liquidity risk.

Credit Risk

Credit risk arises when there is possibility that the ADMHC's debtors default on their contractual obligations, resulting in a financial loss to the ADMHC. The maximum exposure to credit risk is generally represented by the carrying amount of financial assets (net of any allowance for impairment or allowance for credit losses).

Credit risk arises from the financial assets of the ADMHC, including cash and receivables. No collateral is held by the ADMHC.

Cash

Cash comprises bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances.

Receivables

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an on-going basis. Procedures, as established in the Treasurer's Directions, are followed to recover outstanding amounts, including letters of demand.

The ADMHC applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade debtors. The expected loss rates are based on historical observed loss rates. The historic loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors. There are no receivables that are past due or considered impaired as at the reporting date. Receivables are written off when there is no reasonable expectation of recovery and no interest earned on trade debtors.

18. FINANCIAL INSTRUMENTS (continued)

Market risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of movements in market interest rates.

The effect on the ADMHC's net result and equity due to a reasonably possible change in risk variable is outlined below for interest rate risk. A reasonably possible change of +/- 1 per cent is used. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

Exposure to interest rate risk is limited to cash at bank.

	Carrying amount	-1%		+1%	
		Net result	Equity	Net result	Equity
	$'000	$'000	$'000	$'000	$'000
2020					
Cash and cash equivalents	26,787	(268)	(268)	268	268
2019					
Cash and cash equivalents	26,249	(262)	(262)	262	262

Liquidity risk

Liquidity risk is the risk that the ADMHC will be unable to meet its payment obligations when they fall due. The ADMHC continuously manages risk through monitoring future cash flows and commitment maturities.

Liabilities are recognised for amounts due to be paid in the future for goods or services received. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in TC11-12. If trade terms are not specified, payment is made no later than the end of the month in which an invoice or a statement is received.

There were no defaults on payables in the current year, and no assets have been pledged as collateral.

All trade and other payables are expected to be settled by the ADMHC within the next 12 months.

The following are the maturity profile of the ADMHC's financial liabilities.

			Interest rate exposure			Maturity dates		
	Weighted average effective interest rate	Nominal amount	Fixed interest rate	Variable interest rate	Non-interest bearing	< 1 Year	1 - 5 Years	> 5 Years
	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2020								
Payables	-	46	-	-	46	46	-	-
Total financial liabilities	**-**	**46**	**-**	**-**	**46**	**46**	**-**	**-**
2019								
Payables	-	42	-	-	42	42	-	-
Total financial liabilities	**-**	**42**	**-**	**-**	**42**	**42**	**-**	**-**

19. RELATED PARTIES

a) Ultimate parent

The NSW Government is the ultimate parent of the ADMHC. The NSW Government is also the ultimate parent of NSW Treasury that provides key management personnel services to the ADMHC.

(b) Key management personnel remuneration

The ADMHC defines key management personnel (KMP) as those having authority and responsibility for planning, directing and controlling the activities of the ADMHC. NSW Government is the ultimate controlling party of the ADMHC, therefore the Treasurer, NSW Treasury Secretary, and certain NSW Treasury Deputy Secretaries and Executive Directors are considered as KMP. The NSW Cabinet are considered related parties of the ADMHC because of its role to direct overall government policy and make decisions about State issues.

The ADMHC does not have employees. The key management personnel services were provided by NSW Treasury. There was no remuneration paid to any of the KMP by the ADMHC during the period.

No loans were made to any of the KMP by the agency during the period.

(c) Transactions with related parties

(i) Transactions with KMP

The ADMHC has developed a framework in conjunction with NSW Treasury that supports the identification, recording and authorisation of the related party transactions. The KMP is required to complete annual declarations in relation to the related party transactions. No KMP has declared that he/she and their close family members have made any transactions with the ADMHC during the reporting period.

(ii) Transactions with other government related entities

The ADMHC interacts with other government agencies in delivering services to the general public. Services provided by other government agencies are provided to the ADMHC in the same commercial terms as the general public.

Finance officers of the NSW Treasury provide administrative services, including the preparation of the ADMHC financial statements. The cost of these services for the year was $199,789 inclusive of GST and is shown as an administrative charge in the ADMHC.

20. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial statements

Electricity Assets Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2020

Electricity Assets Ministerial Holding Corporation

Charter

The Electricity Assets Ministerial Holding Corporation (EAMHC) was established on 5 June 2012 by the *Electricity Generator Assets (Authorised Transactions) Act 2012* (the Act). This Act authorises and provides for the transfer of the State's electricity generator assets to the private sector and between public sector agencies.

Objectives

The Act establishes the EAMHC to hold electricity generator assets acquired by it or transferred to it by or under the Act or any other Act, to carry on any activities or business that relate to any electricity generator assets held by it and such other functions for the purposes of an authorised transaction as may be prescribed by the regulations.

The EAMHC may, for the purposes of an authorised transaction, acquire certain and by agreement or by compulsory process in accordance with the Land Acquisition (Just Terms Compensation) Act 1991.

Staffing

Administration and accounting services are provided by staff of the NSW Treasury. The EAMHC has no staff of its own.

INDEPENDENT AUDITOR'S REPORT

Electricity Assets Ministerial Holding Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Electricity Assets Ministerial Holding Corporation (the Corporation), 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 Statement of Significant Accounting Policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation 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 45E 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 the Corporation 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

The Corporation's 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 Secretary of the Treasury 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 Department Head.

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.

Secretary's Responsibilities for the Financial Statements

The Secretary of the Treasury 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 Secretary of the Treasury 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 Secretary of the Treasury is responsible for assessing the Corporation's 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 the Corporation carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- 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.

Renee Meimaroglou
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

9 October 2020
SYDNEY

Electricity Assets Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2020

STATEMENT BY DEPARTMENT HEAD

Pursuant to Section 45F(1B) of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

(a) The accompanying financial statements exhibit a true and fair view of the Electricity Assets Ministerial Holding Corporation's financial position as at 30 June 2020 and the financial performance for the year ended; and

(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*, Treasurer's Directions and applicable Australian Accounting Standards.

Further I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Michael Pratt AM
Secretary

9TH October 2020

Electricity Assets Ministerial Holding Corporation

Statement of Comprehensive Income
for the year ended 30 June 2020

	Notes	Actual 2020 $'000	Budget 2020 $'000	Actual 2019 $'000
Expenses excluding losses				
Operating expenses	3	5,618	152	2,139
Grants and subsidies	4	1,000	4,988	4,800
Finance costs	10	312	1,059	1,061
Total expenses excluding losses		**6,930**	**6,199**	**8,000**
Revenue				
Investment revenue	5	1,061	2,206	2,375
Contract revenue	6	368	-	-
Other revenue	6	381	532	603
Total revenue		**1,810**	**2,738**	**2,978**
Net result		**(5,120)**	**(3,461)**	**(5,022)**
Other comprehensive income		**-**	**-**	**-**
Total comprehensive income		**(5,120)**	**(3,461)**	**(5,022)**

The accompanying notes form part of these financial statements.

Electricity Assets Ministerial Holding Corporation

Statement of Financial Position
as at 30 June 2020

	Notes	Actual 2020 $'000	Budget 2020 $'000	Actual 2019 $'000
ASSETS				
Current assets				
Cash and cash equivalents	7	154,065	149,834	158,667
Receivables	8	807	758	264
Total current assets		**154,872**	**150,592**	**158,931**
Non-current assets				
Receivables	8	3,028	2,564	2,941
Total non-current assets		**3,028**	**2,564**	**2,941**
Total assets		**157,900**	**153,156**	**161,872**
LIABILITIES				
Current liabilities				
Payables	9	61	45	68
Provision for outstanding claims	10	5,254	4,010	4,394
Total current liabilities		**5,315**	**4,055**	**4,462**
Non-current liabilities				
Provision for outstanding claims	10	51,324	43,849	51,029
Total non-current liabilities		**51,324**	**43,849**	**51,029**
Total liabilities		**56,639**	**47,904**	**55,491**
Net assets		**101,261**	**105,252**	**106,381**
Equity				
Accumulated funds		101,261	105,252	106,381
Total equity		**101,261**	**105,252**	**106,381**

The accompanying notes form part of these financial statements.

Electricity Assets Ministerial Holding Corporation

Statement of Changes in Equity
for the year ended 30 June 2020

	Accumulated funds $'000	Total equity $'000
Balance at 1 July 2019	**106,381**	**106,381**
Net result for the year	(5,120)	(5,120)
Total comprehensive income for the year	**(5,120)**	**(5,120)**
Balance at 30 June 2020	**101,261**	**101,261**
Balance at 1 July 2018	**111,403**	**111,403**
Net result for the year	(5,022)	(5,022)
Total comprehensive income for the year	**(5,022)**	**(5,022)**
Balance at 30 June 2019	**106,381**	**106,381**

The accompanying notes form part of these financial statements.

Electricity Assets Ministerial Holding Corporation

Statement of Cash Flows
for the year ended 30 June 2020

	Notes	Actual 2020 $'000	Budget 2020 $'000	Actual 2019 $'000
Cash flows from operating activities				
Payments				
Claim payments	10	(4,116)	(4,268)	(3,550)
Grants and subsidies	4	(1,000)	(4,988)	(4,800)
Other		(1,217)	(1,034)	(1,206)
Total payments		**(6,333)**	**(10,290)**	**(9,556)**
Receipts				
Interest received		1,061	2,206	2,375
Other		670	1,135	1,758
Total receipts		**1,731**	**3,341**	**4,133**
Net cash flows from operating activities	11	**(4,602)**	**(6,949)**	**(5,423)**
Net cash flows from investing activities		**-**	**-**	**-**
Net cash flows from financing activities		**-**	**-**	**-**
Net (decrease)/increase in cash		**(4,602)**	**(6,949)**	**(5,423)**
Opening cash and cash equivalents		158,667	156,783	164,090
Closing cash and cash equivalents	7	**154,065**	**149,834**	**158,667**

The accompanying notes form part of these financial statements.

Electricity Assets Ministerial Holding Corporation

Notes to the financial statements
for the year ended 30 June 2020

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Electricity Assets Ministerial Holding Corporation

Notes to the financial statements for the year ended 30 June 2020

1. ELECTRICITY ASSETS MINISTERIAL HOLDING CORPORATION INFORMATION

The Electricity Assets Ministerial Holding Corporation (EAMHC) was established on 5 June 2012 by the *Electricity Generator Assets (Authorised Transactions) Act 2012* (the Act). The Act authorises and provides for the transfer of the State's electricity generator assets to the private sector and between public sector agencies.

The Act also establishes the EAMHC to hold electricity generator assets acquired by it or transferred to it by or under this Act or any other Act, and to carry on any activities or business that relate to any electricity generator assets held by it, including demanding, collecting and receiving charges, levies, rates and fees, and such other functions for the purposes of an authorised transaction as may be prescribed by the regulations. The EAMHC may, for the purposes of an authorised transaction, acquire certain land by agreement or by compulsory process in accordance with the *Land Acquisition (Just Terms Compensation) Act 1991*.

On 31 July 2013, the Treasurer authorised the transfer of specific assets, rights and liabilities relating to the pre-existing dust disease and non-dust disease liabilities from Eraring Energy, Delta Electricity and Macquarie Generation to the EAMHC. The EAMHC appointed Insurance and Care NSW (icare) to undertake the claims management functions. From 2015, the residual assets, rights and liabilities of the Green State Power, Macquarie Generation and Delta Electricity Vales Point power station were vested in the EAMHC through various vesting orders. On 21 November 2016, the State dissolved Delta Electricity, established a general government sector transaction company in the name of Generator Property Management Pty Ltd (GPM) to carry out the demolition and remediation work of the Delta Electricity Munmorah power station. The residual assets, rights and liabilities of Delta Electricity were vested to the EAMHC and GPM. *Electricity Generator Assets (Authorised Transactions) Regulation 2016* provide the EAMHC with additional functions under the Act to provide funding to the GPM and carry out residual entity business transactions.

The EAMHC is a NSW Government entity and is controlled by the State of New South Wales, which is the ultimate parent. The EAMHC is a not-for-profit entity. Its principal office is at 52 Martin Place, Sydney NSW 2000, Australia.

The financial statements were authorised for issue by the Secretary of NSW Treasury on the date the accompanying Statement by the Secretary was signed.

The EAMHC is consolidated as part of the NSW Total State Sector Accounts.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are general purpose financial statements which have been prepared in accordance with the requirements of:

- Applicable Australian Accounting Standards (including Australian Accounting Interpretations)
- *Public Finance and Audit Act 1983* (the PF&A Act)
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions issued under the PF&A Act.

The financial statements have been prepared on an accrual basis, except for cash flow information, and in accordance with the historical cost convention unless where specified otherwise.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All amounts are presented in Australian dollars and rounded to the nearest thousand dollars ($'000).

Use of judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions about the carrying amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and for any future periods affected.

Provision for outstanding claims

The provision for outstanding claims is actuarially determined. It is measured as the best estimate of the expected future payments required to settle the present obligation at the reporting date.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury.

The liability for claims includes:

- claims incurred but not yet paid
- claims incurred but not reported (IBNR)
- claims incurred but not enough reported (IBNER)

The estimate of IBNR and IBNER are generally subject to a greater degree of uncertainty than reported claims.

COVID-19

Management has considered the impact of COVID-19 on the EAMHC's revenue and receivables, including the impact on estimate and judgements used in the valuation of outstanding claim liabilities and recovery receivables. Management has concluded that COVID-19 has not had a material impact on the EAMHC's operations and preparation of the financial statements for the year ended 30 June 2020.

The Crown Finance Entity (CFE) may provide grant funding to the Corporation when required. The funding requirement is assessed annually through the State Budget process. The CFE receives appropriations from the Consolidated Fund. Appropriations for each financial year are set out in the Appropriation Bill that is prepared and tabled for that year. Due to COVID-19, the State Budget and related 2020-21 Appropriation Bill has been delayed until November/December 2020. However, pursuant to section 4.10 of the GSF Act, the Treasurer has authorised Ministers to spend specified amounts from Consolidated Fund. This authorisation is current from 1 July 2020 until the release of the 2020-21 Budget or Appropriation Bill.

Going concern

The EAMHC's financial statements have been prepared on a going concern basis. It is expected that the Corporation has adequate cash holding and cash inflows to continue operations for the foreseeable future. Further, the State will provide the necessary financial support to EAMHC to meet its debts as and when they become due and payable. Section 51 (5) of the *Electricity Network Assets (Authorised Transactions) Act 2015* state that the Treasurer may provide funding to EAMHC in any way that the Treasurer considers appropriate.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of compliance

The financial statements and notes comply with applicable Australian Accounting Standards, which include Australian Accounting Interpretations.

Changes in accounting policy, including new or revised Australian Accounting Standards

i. Effective for the first time in FY2019-20

The EAMHC applied AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other standards, amendments and interpretations apply for the first time in FY2019-20, but do not have a material impact on the financial statements of the entity.

AASB 15 *Revenue from contracts with Customers* (AASB 15)

AASB 15 supersedes AASB 118 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. Under AASB 15, revenue is recognised when performance obligations are satisfied, and control of goods and services is transferred to the customer. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised in line with the fulfilment of service obligation.

The adoption of AASB 15 resulted in some changes to the presentation of certain revenue line items of the EAMHC in the current year. There is no financial impact on the EAMHC's financial statements and no change to comparatives.

The EAMHC's contract revenue mainly consist of petroleum exploration royalty. It is a usage-based royalty. Pacific Power (Macquarie Generation predecessor) entered into a Gas Supply Agreement (GSA) with AGL in 1998 which sold their rights under the Petroleum Exploration Licence (PEL) 2, 4 5 for a usage-based royalty payment (overriding rights) from AGL. The overriding royalty rights was vested in EAMHC upon dissolution of Macquarie Generation. Under the contract: EAMHC is only entitled to the royalty rights upon future gas production. No payment will be paid to EAMHC if no gas was produced and sold from the site and there is no licence buyback arrangement.

The nature of EAMHC petroleum royalty is a sale and transfer of EAMHC's Petroleum Production Lease rights under PEL 2,4 and 5 to AGL. The consideration for the transfer was the overriding royalties to be received by EAMHC on all well head revenue from any future gas production. Overriding royalty payments were to be made monthly. For PEL2 (the only one in production), it was 1.35 per cent of the market value at the well of all petroleum produced from any of the tenements free of all costs and expenses.

The GSA is an irrevocable contract with customer (AGL). The rights were transferred to AGL in 1998. The performance obligation (licence) has been delivered to AGL at a point of time. At the time of transferring the licence, EAMHC acquired a conditional right to future variable (volume based) royalty payment. The conditional rights have a contingency on it: dependant on future AGL gas production. So a contingent asset arises at the time of fulfilling the performance obligation and this contingent asset remains with EAMHC till gas reserve has been fully exhausted.

The transaction price of the performance obligation is variable consideration. According to para 56 of AASB 15, an entity shall include in the transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The variable consideration for transferring the licence is based on future gas production. There is high uncertainty over the consideration amount (due to volatility in the gas market price) and production volume which is not something EAMHC can influence (AASB 15.57(a)). The uncertainty about the amount of consideration is not expected to be resolved until the actual production outcome is known. Therefore, EAMHC initially recognised a nil transaction price at inception and at 1 July 2019 at introduction of AASB 15, the royalty income is subsequently recognised each month as the revenue can be reliably measured (for instance, in the COVID-19 lock down situation, if AGL stop the gas production for the month of September, revenue will be nil for the month) as gas is extracted each period.

The EAMHC adopted the modified retrospective approach to apply AASB 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application.

The petroleum exploration royalty is disclosed as “Contract revenue” in the Statement of Comprehensive Income, previously disclosed as “Other operating revenue”. Refer to Note 6 for details.

Any unconditional rights to the petroleum exploration royalty accrued as at the reporting date are included in total receivables. Refer to Note 8 for details.

AASB 1058 *Income of Not-for-profit Entities*

AASB 1058 adopts a residual approach. Entities first apply other applicable Australian Accounting Standards (e.g. AASB 1004, AASB 15, AASB 16, AASB 9, AASB 137) to a transaction before recognising income under AASB 1058.

The adoption of AASB 1058 did not have a material impact on the EAMHC’s financial statements as the revenue allocation pattern remains the same as prior years.

Issued but not yet effective

As mandated by Treasury Circular TC20-01, the EAMHC has not early adopted any new accounting standards, amendments and interpretations that have been issued but are not yet effective.

The following lists the new standards and interpretation that whilst not yet effective, may be applicable to the EAMHC:

- AASB 1059 *Service Concession Arrangements: Grantors* (operative date 1 July 2020)
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059* (operative date 1 July 2020)
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* (operative date 1 July 2020)
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* (operative date 1 July 2020)
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* (operative date 1 July 2020)

Management have assessed the impact of new accounting standards issued but not yet effective and concluded there is no material impact to the EAMHC.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

REVENUE

Until 30 June 2019, income was recognised in accordance with AASB 118 *Revenue* and *AASB 1004*. Revenue is measured at the fair value of the consideration or contributions received or receivable to the extent it is probable that the economic benefits will flow to the EAMHC and the amount is reliably measurable.

From 1 July 2019, revenue is recognised in accordance with the requirements of AASB 15 or AASB 1058 dependent on whether there is an enforceable contract with specific performance obligation.

Investment revenue

Investment revenue relates to bank interest and is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity. It is recognised using the effective interest method as set out in AASB 9.

Other revenue

Petroleum exploration royalty

Macquarie Generation's rights, title and interests in relation to the petroleum exploration licence issued under the *Petroleum (Onshore) Act 1991* was vested in the EAMHC on 30 January 2015. Under the royalty deeds, the EAMHC is entitled to receive a cash payment based on the volume of resources extracted under the petroleum exploration licenses from AGL Upstream Investments Pty Limited.

In accordance with AASB 15, the royalty income is recognised when the revenue can be reliably measured as gas is extracted each period.

Recovery revenue

Recovery revenue is insurance recoveries in respect of the claims paid. It is recognised as revenue when it is virtually certain that recovery will be made. Claim recovery revenue also includes actuarial revisions to the outstanding claim recoveries receivable.

Other revenue

Other revenue mainly consists of miscellaneous residual income received in respect of the State's abolished electricity generators. The revenue is recognised when cash is received.

EXPENSES

Expenses are recognised when incurred.

Operating expenses

Claims expenses

Claims expenses are recognised as expenses when incurred. Included in claims expenses are actuarially determined revisions to the outstanding claims provisions.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other expenses

Other expenses are recognised as they accrue.

Finance and other personnel of the NSW Treasury provide administrative services, including the preparation of the EAMHC financial statements. The cost of these services is shown as an administrative charge in Note 3.

Grants and subsidies

Grants and subsidies expenses comprise of cash contributions provided to GPM. They are recognised as an expense when the EAMHC transfers control of the assets comprising of the contribution.

Finance costs

Finance costs are the unwinding of discounts for the provision of outstanding claims and are recognised as an expense when incurred.

ASSETS

Cash and cash equivalents

Cash and cash equivalents represent the cash at bank and deposits with financial institutions and are recognised in the Statement of Financial Position and reconciled to the Statement of Cash Flows.

Receivables

Trade and other receivables

Trade receivables comprise amounts due from royalties earned in the ordinary course of business. Under AASB 9, the classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics.

The entity's receivables are measured at amortised cost given the following conditions are met:

- the financial asset is held within a business model with the objective to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The EAMHC recognises an allowance for expected credit losses (ECLs) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows and the cash flows that the company expects to receive, discounted at the original effective interest rate. For trade receivables, the company applies a simplified approach in calculating ECLs. The company recognises a loss allowance based on lifetime ECLs at each reporting date.

Claim recoveries receivable

Receivables from claim recoveries are actuarially determined in consultation with claims managers.

The amount of the claim recoveries receivable is equal to gross incurred cost less the retention limit and recoveries received to date. The receivable is recognised when recovery is virtually certain to take place when the corresponding obligation is settled. The measurement of these receivables is affected by factors such as normal inflation and the discount rate used for discounting of future expected receipts.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The rates applied are consistent with those used in the valuation of provisions for outstanding claims (see Note 10). The liability for outstanding claims is measured in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, as the best estimate (central estimate) of the present value of expected future payments against claims incurred at reporting date.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the financial assets expire or if the entity 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:

- the entity has transferred substantially all the risks and rewards of the asset; or
- the entity has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control.

LIABILITIES

Payables

Payables represent liabilities for goods and services provided but not paid for at each reporting date. These payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at original invoiced amount where the effect of discounting is immaterial.

Provisions for outstanding claims

Provisions are recognised when:

- there is a 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; and
- a reliable estimate can be made of the amount of the obligation.

The expected future payments are then discounted to a present value at the reporting date.

The liability for outstanding claims is measured in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, as the best estimate of the present value of expected future payments against claims incurred at reporting date. It is the best estimate with no deliberate overstatement or understatement of the liabilities. Where there is a material effect due to the time value of money, a provision is discounted. The increase in the provision resulting from the passage of time is recognised in finance costs.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the net result.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

The EAMHC is wholly owned by the NSW Government and is exempt from all forms of taxation except Fringe Benefit Tax and the Goods and Services Tax.

Accounting for the Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), with the following exceptions:

- where the amount of GST incurred that is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense; and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Budgeted amounts

The budgeted amounts are drawn from the original budgeted financial statements presented to Parliament in respect of the reporting period. Major variances between the original budgeted amounts and the actual amounts disclosed in the primary financial statements are explained in the Note 14.

Notes to the financial statements
for the year ended 30 June 2020

3. OPERATING EXPENSES

	Notes	2020 $'000	2019 $'000
Claims expenses			
Adjustment to existing outstanding claims[1]	10	4,959	1,559
		4,959	**1,559**
Management fees			
Management fees		182	213
		182	**213**
Other operating expenses			
Actuarial expenses		112	143
Audit fees - audit of financial statements		62	60
Data Warehouse		94	129
Contractors		-	7
Administrative charge		182	-
Storage costs		26	26
Other		1	2
		477	**367**
Total operating expenses		**5,618**	**2,139**

1. Adjustment to existing outstanding claims represent the increase/(decrease) in provision for outstanding claims liabilities excluding the increase in provisions due to the unwinding of discounts during the year. The increase in the carrying amount of a provision due to the passage of time is recognised as a finance cost.

4. GRANTS AND SUBSIDIES

	2020 $'000	2019 $'000
Grants and subsidies		
Grants to GPM	1,000	4,800
	1,000	**4,800**

Generator Property Management Pty Ltd (GPM) was established to carry out the demolition and remediation work of the Delta Electricity Munmorah power station. The EAMHC was empowered under the Act to provide funding to GPM to fulfil their responsibility as a transaction company.

5. INVESTMENT REVENUE

	2020 $'000	2019 $'000
Bank interest	1,061	2,375
	1,061	**2,375**

6. OTHER REVENUE

	2020 $'000	2019 $'000
Contract revenue		
Petroleum exploration royalty	368	-
	368	**-**
Other revenue		
Petroleum exploration royalty	-	355
Recovery revenue	310	248
Other	71	-
	381	**603**

7. CASH AND CASH EQUIVALENTS

Cash at bank	154,065	158,667
	154,065	**158,667**

For the purposes of the Statement of Cash Flows, cash and cash equivalents represent cash at bank.

Cash and cash equivalent assets recognised in the Statement of Financial Position are reconciled at the end of the financial year to the Statement of Cash Flows as follows:

Cash and cash equivalents (per Statement of Financial Position)	154,065	158,667
Closing cash and cash equivalents (per Statement of Cash Flows)	154,065	158,667

Refer to Note 12 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

8. RECEIVABLES

Expected future recoveries (discounted)	3,324	3,142
Petroleum exploration royalty	30	30
GST receivables	481	33
	3,835	**3,205**
Current	807	264
Non-current	3,028	2,941
	3,835	**3,205**

Details regarding credit risk of trade debtors that are neither past due or impaired, are disclosed in Note 12.

9. PAYABLES

	2020 $'000	2019 $'000
Claims payable	18	15
Other	43	53
	61	**68**

Details regarding liquidity risk, including a maturity analysis are disclosed in Note 12.

10. PROVISIONS FOR OUTSTANDING CLAIMS

	Dust Disease $'000	Non Dust Disease $'000	2020 Total $'000	2019 Total $'000
Opening balance	47,427	7,996	55,423	56,353
Payments	(3,553)	(563)	(4,116)	(3,550)
Actuarial (gain)/loss	2,897	(83)	2,814	(2,320)
Change in the discount rate	1,858	287	2,145	3,879
Unwinding of discounts	237	75	312	1,061
Closing balance	**48,866**	**7,712**	**56,578**	**55,423**
Current	4,583	671	5,254	4,394
Non-current	44,283	7,041	51,324	51,029
	48,866	**7,712**	**56,578**	**55,423**

(a) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be between 7.25 to 9.9 years (2019: 6.67 - 10.6 years) for dust disease liabilities and 7.08 years (2019: 7.42 years) for non-dust disease liabilities.

(b) The following average inflation rates and discount rates were used in measuring the liability for outstanding claims.

	Dust Disease		Non Dust Disease	
	2020 %	2019 %	2020 %	2019 %
Not later than one year				
Inflation rate	0.83 - 1.37	2.32 - 2.88	1.05	2.33
Discount rate	0.18 - 0.28	0.92 - 1.09	0.23	1.00
Superimposed inflation	1.50 - 2.00	1.5 - 2.0	-	-
Later than one year				
Inflation rate	0.50 - 3.50	0.85 - 3.50	0.58 - 3.00	0.85 - 3.00
Discount rate	0.25 - 4.50	0.89 - 4.50	0.26 - 4.50	0.90 - 4.50
Superimposed inflation	1.50 - 2.00	1.5 - 2.0	-	-

Sensitivity Analysis

The outstanding claims liabilities are the best estimate derived from actuarial assumptions regarding future experience. Sensitivity analysis can be used to measure the change in the outstanding claims estimate that would result from a change in the assumptions. Sensitivity analysis of the key valuation assumption changes for the Dust Disease and Non-dust Disease liabilities and their impact are shown in the following tables:

10. PROVISION FOR OUTSTANDING CLAIMS (continued)

(a) Dust disease as at 30 June 2020

Variable	Movement in variable	Net Central Estimate $'000	Impact of Change $'000	% Impact
Net Central Estimate[1]		45,620		
Discount rate	+1%	41,855	-3,765	-8.3%
	-1%	50,034	4,414	9.7%
Inflation rate	+1%	49,946	4,326	9.5%
	-1%	41,850	-3,770	-8.3%
Superimposed inflation rate	+1%	49,944	4,324	9.5%
	-1%	41,852	-3,768	-8.3%
Seed Reports[2]	+1 claim	50,281	4,661	10.2%
	-1 claim	40,961	-4,659	-10.2%
Incidence Curves[3]	+15% IBNR claims	51,668	6,048	13.3%
	-15% IBNR claims	39,574	-6,046	-13.3%
Average Claim Size	+10%	49,652	4,032	8.8%
	-10%	41,590	-4,030	-8.8%

(b) Dust disease as at 30 June 2019

Variable	Movement in variable	Net Central Estimate $'000	Impact of Change $'000	% Impact
Net Central Estimate1		44,370		
Discount rate	+1%	40,652	-3,718	-8.4%
	-1%	48,720	4,350	9.8%
Inflation rate	+1%	48,640	4,270	9.6%
	-1%	40,648	-3,722	-8.4%
Superimposed inflation rate	+1%	48,645	4,275	9.6%
	-1%	40,646	-3,724	-8.4%
Seed Reports2	+1 claim	50,495	6,125	13.8%
	-1 claim	38,244	-6,126	-13.8%
Incidence Curves3	+15% IBNR claims	51,036	6,666	15.0%
	-15% IBNR claims	38,625	-5,745	-12.9%
Average Claim Size	+10%	48,447	4,077	9.2%
	-10%	40,294	-4,076	-9.2%

1. The net central estimate is inflated and discounted, net of reinsurance and other recoveries and includes an allowance for claims handling expenses.
2. Seed reports are the expected number of dust disease claims expected in the first projection year.
3. Incidence curves reflect the expected emergence of dust disease claims in the future. The actuary has tested the sensitivity of the curves by increasing and decreasing the latency period which results in an increase/decrease in the number of future IBNR claims.

10. PROVISION FOR OUTSTANDING CLAIMS (continued)

(c) Non-dust disease as at 30 June 2020

Variable	Movement in variable	Net Central Estimate $'000	Impact of Change $'000	% Impact
Net Central Estimate[1]		7,633		
Discount rate	+1%	7,128	-505	-6.6%
	-1%	8,200	567	7.4%
Inflation rate	+1%	8,158	525	6.9%
	-1%	7,158	-475	-6.2%
Reactivation[2]	+20%	7,866	234	3.1%
	-20%	7,399	-234	-3.1%
Life expectancy[3]	+5	9,980	2,347	30.7%
	-5	5,239	-2,394	-31.4%
IBNR seed reports	+100%	9,352	1,720	22.5%
	-50%	6,773	-860	-11.3%

(d) Non-dust disease as at 30 June 2019

Variable	Movement in variable	Net Central Estimate $'000	Impact of Change $'000	% Impact
Net Central Estimate[1]		7,911		
Discount rate	+1%	7,366	-545	-6.9%
	-1%	8,525	614	7.8%
Inflation rate	+1%	8,495	584	7.4%
	-1%	7,384	-527	-6.7%
Reactivation[2]	+20%	8,264	353	4.5%
	-20%	7,557	-353	-4.5%
Life expectancy[3]	+5	10,353	2,442	30.9%
	-5	5,369	-2,542	-32.1%
IBNR seed reports	+100%	10,419	2,508	31.7%
	-50%	6,657	-1,254	-15.9%

1. The net central estimate is inflated and discounted, net of reinsurance and other recoveries and includes an allowance for claims handling expenses.

Due to the changes in regulation in 2015, there were more claim reactivation for periodic medical hearing aids replacement for people who suffer from industrial deafness. The liability projection has allowed explicitly for this risk. Two key assumptions underlying the projection are:

2. Total number of claimants who are expected to make regular claims for reactivation of medical aids support over their lifetime.

3. The life expectancy of those claimants who are expected to make regular claims for reactivation of medical aids support over their lifetime.

11. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO NET RESULT

	2020 $'000	2019 $'000
Net cash flows from operating activities	**(4,602)**	**(5,423)**
Adjustments for:		
(Increase)/decrease in provisions	(1,155)	930
Decrease in payables	7	5
increase/(decrease) in receivables	630	(534)
Net result	**(5,120)**	**(5,022)**

12. FINANCIAL INSTRUMENTS

The EAMHC's principal financial instruments are cash deposits held with financial institutions as part of the NSW Treasury Banking System, receivables and payables. These instruments expose the EAMHC to interest rate risk on cash balances held, liquidity risk and credit risk. These financial instruments arise from the EAMHC's operations and are required to finance those operations. The EAMHC does not enter into or trade financial instruments for speculative purposes and does not use financial derivatives.

Management has overall responsibility for the establishment and oversight of risk management, and reviews and sets policies for managing each of these risks. Risk management policies are in place to establish frameworks and processes that identify and analyse the risks faced by the EAMHC, to set risk limits and controls, and to monitor risks.

The main purpose of these financial instruments is to derive income and investment gains which are used to fund the pre-existing dust disease and workers' compensation liabilities.

Note 2 details the key accounting policies and methods which include the recognition criteria, the basis of measurement and the income and expenses recognition for each class of financial instrument.

Financial instrument categories

	Note	Categories (AASB 9)	Carrying amount 2020 $'000	2019 $'000
Financial assets				
Cash and cash equivalents	7	N/A	154,065	158,667
Receivables[1]	8	Amortised cost	30	30
Financial liabilities				
Payables[2]	9	Financial liabilities measured at amortised cost	61	68

1. Excludes statutory receivables of $0.48 million (2019: $0.03 million) and expected recoveries receivable of $3.32 million (2019: $3.14 million) which are not within the scope of AASB7 *'Financial Instruments'*.
2. Excludes statutory payables of Nil (2019: Nil) which are not within the scope of AASB7 *'Financial Instruments'.*

12. FINANCIAL INSTRUMENTS (continued)

(a) Market risks

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of movements in market interest rates. The EAMHC's exposures to market risk are primarily through the interest rate movement associated with cash balances held and credit risk on short term receivables.

The effects on the EAMHC's operating result due to possible changes in risk variables are outlined in the information below. For interest rate risk and other price risk, a likely change in each risk variable has been determined after taking into account the economic environment in which the EAMHC operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the reporting date. The analysis is performed on the same basis as for 2019. The analysis assumes that all other variables remain constant.

Interest rate risk

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

Exposure to interest rate risk arises primarily through the EAMHC's cash deposits held at financial institutions.

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of the EAMHC. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

		$'000			
	Carrying amount	-1%		+1%	
		Net result	Equity	Net result	Equity
2020					
Cash and cash equivalents	154,065	(1,541)	(1,541)	1,541	1,541
2019					
Cash and cash equivalents	158,667	(1,587)	(1,587)	1,587	1,587

Currency risk

The EAMHC has no exposure to foreign currency risk.

(b) Credit risk

The EAMHC's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments at balance date.

Cash and cash equivalents

Cash comprises cash balances with financial institutions. Interest is earned on daily bank balances.

12. FINANCIAL INSTRUMENTS (continued)

Receivables

Receivables include trade debtors.

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors and contract counterparties are reviewed on an ongoing basis. Procedures, as established in the Treasurer's Directions, are followed to recover outstanding amounts, including letters of demand.

The EAMHC applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade debtors. To measure the expected credit losses, trade receivables and contract assets 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 EAMHC does not receive any collateral for receivables.

There are no receivables that are past due or considered impaired as at reporting date.

(c) Liquidity risk

Liquidity risk is the risk that the EAMHC will be unable to meet payment obligations when they fall due.

During the current and prior years, there were no defaults on payables. No assets have been pledged as collateral. The EAMHC's exposure to liquidity risk is deemed insignificant based on prior period data and the current assessment of risk.

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

The table below summarises the maturity profile of the EAMHC's financial liabilities.

			Interest rate exposure			Maturity dates		
	Weighted average effective interest rate	Nominal amount	Fixed interest rate	Variable interest rate	Non-interest bearing	< 1 Year	1 - 5 Years	> 5 Years
	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2020								
Payables	-	61	-	-	61	61	-	-
Total financial liabilities	**-**	**61**	**-**	**-**	**61**	**61**	**-**	**-**
2019								
Payables	-	68	-	-	68	68	-	-
Total financial liabilities	**-**	**68**	**-**	**-**	**68**	**68**	**-**	**-**

The payables are non-interest bearing and the EAMHC has no exposure to foreign currency risk.

(d) Fair value measurement

Management assessed that carrying amount of all financial instruments approximate their fair values, largely due to the short-term maturities of these instruments.

13. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The EAMHC was set up to facilitate the transfer of the State's electricity generator assets to the private sector. On 15 November 2012, the New South Wales Government issued an announcement outlining its plan to dispose of the New South Wales electricity generators. In preparation for the sale, the Treasurer issued various vesting orders which transferred specific assets, rights and liabilities from Eraring Energy, Delta Electricity, Green State Power and Macquarie Generation to the EAMHC. The assets, rights and liabilities vested in the EAMHC have exposures to various contingent assets and contingent liabilities.

Contingent Assets

Various recovery receivables, claims and proceedings were transferred to the EAMHC during the electricity generator sale. It is not practicable to estimate these recovery receivables at the reporting date.

Sale of Macquarie Generation

Under the Sale and Purchase Agreement and vesting order effective from 30 January 2015, the EAMHC has the following contingent assets that were transferred from Macquarie Generation:

- recovery rights in relation to directors and officers insurance policy, Legal Expense, Statutory and Business Practices Liability insurance policy
- rights, title and interest associated with Petroleum Exploration Licences.

Sale of Green State Power

Under the Sale and Purchase Agreement and vesting order effective from 8 December 2014, the EAMHC is liable for all present and future Workers Compensation and dust diseases claims by any employee, former employee of Green State Power (GSP)or by any other Workers Compensation claimant in relation to their employment with or service provided to GSP prior to the sale. It is not reasonably possible to estimate the liabilities for future claims at the reporting date. However, in the event any claim arises, the EAMHC is able to recoup the cost of claims from a third-party insurer as the liabilities were insured by GSP and the insurance entitlement was also transferred to the EAMHC prior to the sale.

GSP received an insurance payout in respect of fire at one of its plants prior to the sales transaction. At the time of the sales, Green State Power transferred all rights and obligations with the insurance matter to the EAMHC. The insurer exercised subrogation rights to bring an action against a supplier, Protech Power Pty Ltd (Protech Power) that undertook electricity work which they alleged started the fire. Those proceedings are being run by the insurer. If the insurer recovers more money than the original payout made to GSP, the EAMHC has a share in that additional payout. Under a revised statement of claim, the insurers (through EAMHC) would be claiming approximately $13m from Protech Power. EAMHC through its insurers, can share $3m of additional recovery if successful. As at the reporting date, the proceedings are being defended by the supplier.

13. CONTINGENT ASSETS AND CONTINGENT LIABILITIES (continued)

Contingent Liabilities

The EAMHC has exposures to the following contingent liabilities as at reporting date. It is not reasonably possible to estimate the liabilities at the reporting date.

Directors' indemnity deeds

Eraring Energy entered into directors' indemnity deeds with its directors and officers which indemnified the directors and officers from public liabilities and negligence claims. The deeds have been transferred to the EAMHC which expose the EAMHC to potential future claims.

Sale of Green State Power

The EAMHC is liable for any indemnities provided by GSP to its directors or officers that accrue or relate to the period prior to sale. There are no known claims at 30 June 2020. In the event any claim arises, the EAMHC is able to recoup the cost of claims from a third-party insurer through the director and officer insurance policies held with the third-party insurer.

The EAMHC is also liable for liabilities associated with any formal dispute resolution proceeding and the termination of employees to which Green State Power is a party. There are no known claims at 30 June 2020.

Sale of Macquarie Generation

The EAMHC has exposures to the following Macquarie Generation liabilities:

- liability in relation to any disputes, claims, litigation proceeding
- Workers Compensation liabilities and claims
- employees termination related claims
- payables, including all invoices outstanding to be paid by Macquarie Generation
- director and officers indemnities claim.

There are no known claims at 30 June 2020.

Sale of Delta Electricity

There were no contingent assets and contingent liabilities to report as at 30 June 2020.

14. BUDGET REVIEW

Net result

The EAMHC's net result is a loss of $5.1 million and is $1.7 million unfavourable compared to the budget. The main reason is due to reduction in discount rate that resulted in higher claims cost and lower investment returns after RBA reduced the interest rate in 2020.

Total expenses were $0.7 million higher than budget mainly due to the following:

- Claims expenses were $5.4 million higher than budget; $2.1m is attributable to the reduction of discount rate and a further $2.8 million actuarial loss due to increase in case estimates and increase in average claim size actuarial estimate.
- The increase in claims expenses was offset by lower recurrent funding to GPM for Munmorah power station demolition works by $4.0 million.

14. BUDGET REVIEW (continued)

- Finance cost was $0.7 million lower than budget due to reduction in discount rate which was unwound on the outstanding claims liabilities.

Total revenue was $1.8 million which was $0.9 million below budget mainly due to lower interest income consequence of the currently low interest rate setting.

Assets and Liabilities

Total assets for the year were $157.9 million which is $4.7 million higher than budget. This is mainly contributed by higher cash balance of $4.2 million due to lower grant funding provided to GPM. Future recovery receivable being $0.5 million higher than budget as it is actuarially assessed as a proportion of the outstanding claims liabilities.

Total liabilities were $56.6 million and were $8.7 million higher than budget due to an increase in outstanding claims, of which $6 million resulted from a reduction in discount rate and inflation rate and an actuarial loss of $2.8 million, which was driven by an increase in claims estimate for large claims and increase in average claim size.

Cash flows

The actual net cash flows used in operating activities were $4.6 million, $2.4 million lower than budget.

Cash payments were $6.3 million and were $4.0 million lower than budget largely due to lower funding required by GPM for demolition of Munmorah power station. Cash receipts were $1.7 million, lower than budget by $1.6 million due mainly to lower interest rate.

Closing cash and cash equivalents were $154.1 million, $4.2 million higher than budget of $149.8 million.

Being a residual entity, the EAMHC's activities are shown as "Post Transaction Activities" program group and aggregated in the State Budget outcomes.

15. RELATED PARTY DISCLOSURES

(a) Ultimate parent

The NSW Government is the ultimate parent of the EAMHC. The NSW Government is also the ultimate parent of NSW Treasury that provides key management personnel services to the EAMHC.

(b) Key management personnel remuneration

Key management personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the EAMHC. NSW Government is the ultimate controlling party of the EAMHC. The Treasurer, NSW Treasury Secretary, and certain NSW Treasury Deputy Secretaries and Executive Directors are considered as KMP. The NSW Cabinet are considered related parties of the EAMHC because of their role in directing overall government policy and making decisions about State issues.

The EAMHC does not have employees. Key management personnel services were provided by NSW Treasury. There was no remuneration paid to any of the KMP by the EAMHC during the reporting period.

No loans were made to any of the KMP during the reporting period.

15. RELATED PARTY DISCLOSURES (continued)

(c) Transactions with related parties

(i) Transactions with KMP

The EAMHC has developed a framework in conjunction with NSW Treasury that supports the identification, recording and authorisation of the related party transactions. The KMP are required to complete annual declarations in relation to the related party transactions. No KMP has declared that he/she or their close family members have made any transactions with the EAMHC during the reporting period.

(ii) Transactions with other government related entities

The EAMHC interacts with other government agencies in delivering services to the general public. Services by other government agencies were provided to the EAMHC in the same commercial terms as the general public.

Finance officers of the NSW Treasury provide administrative services, including the preparation of the EAMHC financial statements. The cost of these services for the year was $199,788.60 inclusive of GST (2019: Nil) and is shown as an administrative charge in the EAMHC.

The EAMHC has provided $1 million cash funding to GPM to cover operational, demolition and remediation costs in 2020. Both are government-related entities controlled by the NSW Government.

No other related party transaction occurred in this reporting period.

16. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial statements

Epsilon Distribution Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2020

Epsilon Distribution Ministerial Holding Corporation

Charter

The Epsilon Distribution Ministerial Holding Corporation (EDMHC) was established on 14 June 2017. It is the continuing entity of the former Endeavour Energy State Owned Corporation (SOC) which was subject of a long-term lease transaction, authorised under the *Electricity Network Assets (Authorised Transactions) Act 2015* ("the Act"). Endeavour Energy was converted into the EDMHC immediately after the completion of the lease transaction under Schedule 7 of the Act, EDMHC is the same legal entity as the former Endeavour Energy SOC.

Objectives

The purpose of EDMHC is to act as a lessor of the network assets, to hold and manage on behalf of the Crown certain assets, rights and liabilities, to carry out activities or business that relate to the assets, rights, and liabilities held by it, and to carry out other functions as may be required by the regulation.

Staffing

Administration and accounting services are provided by staff of the NSW Treasury. The EDMHC has no staff of its own.

INDEPENDENT AUDITOR'S REPORT

Epsilon Distribution Ministerial Holding Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Epsilon Distribution Ministerial Holding Corporation (the Corporation), 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 Statement of Significant Accounting Policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation 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 45E 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 the Corporation 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

The Corporation's 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 Secretary of the Corporation 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 Corporation head.

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 Secretary's Responsibilities for the Financial Statements

The Secretary of Treasury 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 Secretary of Treasury 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 Secretary of Treasury is responsible for assessing the Corporation's 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 the Corporation carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- 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.

Renee Meimaroglou
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

9 October 2020
SYDNEY

Epsilon Distribution Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2020

STATEMENT BY DEPARTMENT HEAD

Pursuant to Section 45F of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

(a) The accompanying financial statements exhibit a true and fair view of the financial position of the Epsilon Distribution Ministerial Holding Corporation as at 30 June 2020 and the financial performance for the year then ended; and

(b) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983, Public Finance and Audit Regulation 2015*, Treasurer's Directions and applicable Australian Accounting Standards.

I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Michael Pratt AM

Secretary

9/10 **October 2020**

Epsilon Distribution Ministerial Holding Corporation

Statement of Comprehensive Income
as at 30 June 2020

	Notes	Actual 2020 $000	Budget 2020 $000	Actual 2019 $000
Expenses excluding losses				
Operating expenses	4	2,851	3,110	3,144
Finance costs		2	-	-
Total expenses excluding losses		**2,853**	**3,110**	**3,144**
Revenue				
Investment revenue	5(a)	1,853	1,919	1,819
Contract service revenue	5(b)	2,910	-	-
Other operating revenue	5(c)	77	2,829	3,209
Total Revenue		**4,840**	**4,748**	**5,028**
Other gains/(losses)	6	(106)	-	(2)
Net result		**1,881**	**1,638**	**1,882**
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Superannuation actuarial gains/(losses)	16(ii)	(1,081)	-	(9,383)
Total other comprehensive income		**(1,081)**	**-**	**(9,383)**
Total comprehensive income		**800**	**1,638**	**(7,501)**

The accompanying notes form part of these financial statements

Epsilon Distribution Ministerial Holding Corporation

Statement of Financial Position
as at 30 June 2020

	Notes	Actual 2020 $000	Budget 2020 $000	Actual 2019 $000
Current assets				
Cash and cash equivalents	7	9,674	9,816	9,191
Receivables	8	-	109	56
Other financial assets	9	88	-	-
Total current assets		**9,762**	**9,925**	**9,247**
Non-current assets				
Other financial assets	9	29,167	29,281	27,484
Total non-current assets		**29,167**	**29,281**	**27,484**
Total assets		**38,929**	**39,206**	**36,731**
Current liabilities				
Payables	10	84	606	125
Contract liabilities	11	542	-	-
Lease liabilities	13	88	-	-
Other liabilities	11	-	549	531
Total current liabilities		**714**	**1,155**	**656**
Non-current liabilities				
Provisions	12	20,943	11,764	19,603
Total non-current liabilities		**20,943**	**11,764**	**19,603**
Total liabilities		**21,657**	**12,919**	**20,259**
Net assets		**17,272**	**26,287**	**16,472**
Equity				
Retained earnings		17,272	26,287	16,472
Total equity		**17,272**	**26,287**	**16,472**

The accompanying notes form part of these financial statements

Epsilon Distribution Ministerial Holding Corporation

Statement of Changes in Equity
for the year ended 30 June 2020

	Notes	Retained earnings $000	Total $000
Balance at 1 July 2019		**16,472**	**16,472**
Net result		1,881	1,881
Other comprehensive income			
Superannuation actuarial gains/(losses)	16(ii)	(1,081)	(1,081)
Total other comprehensive income		(1,081)	(1,081)
Total comprehensive income for the year		**800**	**800**
Balance at 30 June 2020		**17,272**	**17,272**
Balance at 1 July 2018		**23,973**	**23,973**
Net result		1,882	1,882
Other comprehensive income			
Superannuation actuarial gains/(losses)	16(ii)	(9,383)	(9,383)
Total other comprehensive income		**(9,383)**	**(9,383)**
Total comprehensive income for the year		**(7,501)**	**(7,501)**
Balance at 30 June 2019		**16,472**	**16,472**

The accompanying notes form part of these financial statements

Epsilon Distribution Ministerial Holding Corporation

Statement of Cash Flows
for the year ended 30 June 2020

	Notes	Actual 2020 $000	Budget 2020 $000	Actual 2019 $000
Cash flows from operating activities				
Receipts from customers		883	2,841	1,271
Payments to suppliers and employees		(462)	(2,875)	(1,431)
Interest received		62	123	134
Net cash flows from operating activities	15	**483**	**89**	**(26)**
Net cash flows from investing activities		-	-	-
Net cash flows from financing activities		-	-	-
Net increase/(decrease) in cash and cash equivalents		**483**	**89**	**(26)**
Opening cash and cash equivalents		9,191	9,727	9,217
Closing cash and cash equivalents	7	**9,674**	**9,816**	**9,191**

The accompanying notes form part of these financial statements

Epsilon Distribution Ministerial Holding Corporation

Notes to the financial statements
for the year ended 30 June 2020

Notes Index **Page**

1. INFORMATION ON THE EPSILON DISTRIBUTION MINISTERIAL HOLDING CORPORATION

The Epsilon Distribution Ministerial Holding Corporation (referred to as the "EDMHC") is the continuing entity of the Endeavour Energy State Owned Corporation (SOC). Endeavour Energy's electricity network assets are the subject of a long-term lease transaction, authorised under the *Electricity Network Assets (Authorised Transactions) Act 2015* ("the Act"). Immediately after transaction completion, Endeavour Energy was converted into the EDMHC under Schedule 7 of the Act. The EDMHC is the same legal entity as the Endeavour Energy SOC.

The key functions of the EDMHC are:

- to hold, on behalf of the Crown, assets, rights and liabilities acquired by it or transferred to it by or under an authorised transaction Act, and
- to carry on any activities or business that relate to any assets, rights and liabilities held by it, including demanding, collecting and receiving charges, levies, rates and fees, and
- such other functions for the purposes of an authorised transaction under an authorised transaction Act as may be prescribed by the regulations.

The EDMHC is a NSW Government entity and is controlled by the State of New South Wales, which is the ultimate parent. The EDMHC has been a not-for-profit entity from 14 June 2017. Its principal office is at 52 Martin Place, Sydney NSW 2000, Australia.

The financial statements were authorised for issue by the Secretary of NSW Treasury on the date the accompanying Statement by the Secretary was signed.

The EDMHC is consolidated as part of the NSW Total State Sector Accounts.

2. LONG-TERM PARTIAL LEASE OF ENDEAVOUR ENERGY NETWORK ASSETS

On 4 June 2015, the Act and the *Electricity Retained Interest Corporations Act 2015* (the ERIC Act) were enacted to allow the NSW Government to proceed with the long-term lease of the Endeavour Energy network assets in order to fund infrastructure projects across New South Wales (NSW) as part of the Government's rebuilding NSW plan.

On 11 May 2017, the Premier and Treasurer of NSW entered into a binding agreement with an Australian-led consortium, Advance Energy, consisting of Macquarie Infrastructure & Real Assets, AMP Capital, British Columbia Investment Management Corporation and Qatar Investment Authority, for the 99-year lease of Endeavour Energy's network assets. The completion date was 13 June 2017. The State retained a 49.6 per cent interest in the lease. This interest is reported in the Electricity Retained Interest Corporation – Endeavour Energy.

On completion date, a number of statutory vesting orders under the enabling legislation were received from the Treasurer of NSW and Endeavour Energy as a SOC was converted to the EDMHC, a General Government Entity, for nil consideration. A Ministerial Order was signed on 13 June 2017 transferring existing employees of Endeavour Energy to Endeavour Energy Management Pty Limited. The defined benefit plan remaining with the EDMHC relates to the retired employees.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are general purpose financial statements which have been prepared in accordance with the requirements of:

- Applicable Australian Accounting Standards (including Australian Accounting Interpretations)
- *Public Finance and Audit Act 1983* (the PF&A Act)
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions issued under the PF&A Act

The financial statements are prepared on an accrual basis in accordance with the historical cost conventior except whether specified otherwise.

All amounts are presented in Australian dollars and are rounded to the nearest one thousand dollars ($'000).

Use of judgements, estimates and assumptions

Judgements - in the process of applying the EDMHC's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Electricity network land lease classification – EDMHC as lessor

On 13 June 2017, the EDMHC has entered into a 99-year lease of the electricity network. At the end of the lease the land will revert back to the EDMHC. The EDMHC has determined, based on an evaluation of the terms and conditions of the arrangements that it does not retain all the significant risks and rewards of ownership of the land, and accounted for the contract as a finance lease.

Estimates and assumptions - the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets, are described below.

The EDMHC based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the EDMHC. Such changes are reflected in the assumptions when they occur.

Valuation of lease receivable – unguaranteed residual value

The EDMHC carries its lease receivable which mainly comprise of the unguaranteed residual value at amortised cost less any impairment. The initial value of the unguaranteed residual value was measured using the discounted cash flow model. The inputs include observable markets as well as internal data where a degree of judgement was applied to determine the fair value. Judgements include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported value of the residual assets and the income allocation over the lease will be revised. Details regarding the indexation and discount rate used are disclosed in Note 9.

At the end of the reporting period, management reviews whether there are any indicators of impairment. These factors include the level of improvements undertaken by the lessee, volatility of land values, the rate of technological change and competitive conditions.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Superannuation liabilities

The superannuation valuation is actuarially determined. It is measured as the best estimate of the expected future payments required to settle the present superannuation obligation at the reporting date less the fair value of the superannuation fund assets at the end of the reporting period.

The expected future payments are estimated on the basis of the ultimate cost to settle the superannuation obligations, which includes actuarial assumptions such as risk-free interest rate (discount rate), CPI, salary growth and pensioner mortality rates. Changes in assumptions relating to these factors could affect the superannuation valuation reported.

In calculating the superannuation funding requirements under the AASB 1056 *Superannuation Entities*, economic assumptions about the investment return on the superannuation fund assets and the expected CPI increment were made. These assumptions are generally subject to a degree of uncertainty. The actual results may differ from these estimate as the above factors are largely driven by financial market and subject to economic cycles.

Details regarding assumptions and superannuation fund assets allocation are disclosed in Note 16.

COVID-19

Management has considered the impact of COVID-19 on the EDMHC's revenue and receivables, including the impact on estimate and judgements used in the valuation of lease receivable. Management has concluded that COVID-19 has not had a material impact on the EDMHC's operations and preparation of the financial statements for the year ended 30 June 2020.

The Crown Finance Entity (CFE) may provide grant funding to the Corporation when required. The funding requirement is assessed annually through the State Budget process. The CFE receives appropriations from the Consolidated Fund. Appropriations for each financial year are set out in the Appropriation Bill that is prepared and tabled for that year. Due to COVID-19, the State Budget and related 2020-21 Appropriation Bill has been delayed until November/December 2020. However, pursuant to section 4.10 of the GSF Act, the Treasurer has authorised Ministers to spend specified amounts from Consolidated Fund. This authorisation is current from 1 July 2020 until the release of the 2020-21 Budget or Appropriation Bill.

Going concern

The EDMHC's financial statements have been prepared on a going concern basis. It is expected that the Corporation has adequate cash holding and cash inflows to continue operations for the foreseeable future. Further, the State will provide the necessary financial support to EDMHC to meet its debts as and when they become due and payable through the annual State Budget and the Appropriation Bill when required. Section 51 (5) of the *Electricity Network Assets (Authorised Transactions) Act 2015* state that the Treasurer may provide funding to EDMHC in any way that the Treasurer considers appropriate including issue letter of comfort when required.

Statement of compliance

The financial statements and notes comply with applicable Australian Accounting Standards, which include Australian Accounting Interpretations.

Changes in accounting policy, including new or revised Australian Accounting Standards

i. *Effective for the first time in FY2019-20*

The EDMHC applied AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Several other standards, amendments and interpretations apply for the first time in FY2019-20, but do not have a material impact on the financial statements of the entity.

AASB 15 *Revenue from contracts with Customers*

AASB 15 replaces AASB 111 *Construction Contracts* and AASB 118 *Revenue*. Under AASB 15, revenue is recognised when performance obligations are satisfied, and control of goods and services is transferred to the customer. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised in line with the fulfilment of service obligation.

The adoption of AASB 15 resulted in some changes to the presentation of certain revenue line items of the EDMHC in the current year. There is no financial impact on the EDMHC's financial statements and no change to comparatives.

The EDMHC is the lessor in a 99-year electricity network lease contract. While the lease arrangement is accounted for under AASB 16, various contract service fees and lease outgoing recoupment revenues embedded in the lease contract are non-lease components and are accounted for under AASB 15. The revenue is recognised over time based on the pattern of fulfilment of performance obligation and delivery of service to the lessee.

The EDMHC's contract service revenue mainly consist of:

i) recoupment of lease outgoings: where the service obligation is fulfilled, and revenue entitlement arise when the EDMHC pays the lease outgoing to the relevant government authorities and government trading enterprises.

ii) contract service income: where income is received from performance of the ongoing administrative tasks associated with the network lease (i.e. administration of subsequent land acquisition and disposal). The cash is received on the anniversary of the lease commencement date and which is paid in advance by the lessee. A contract liability is recognised upon receipt of cash and is reduced by the amounts recognised as income which is allocated over time based on the straight-line labour input method.

These revenue streams are aggregated and disclosed as “Contract service revenue” in the Statement of Comprehensive Income, previously disclosed as “Other operating revenue”. Refer to Note 5 for details.

The unearned contract service income is disclosed as “Contract liabilities”, a new line item, in the Statement of Financial Position. The equivalent of these liabilities was classified as “Other liabilities” in the comparative. Refer to Note 11 for details.

The unconditional right to recoup the lease outgoings accrued to the EDMHC at the reporting date are included in total receivables. Refer to Note 8 for details.

AASB 16 *Leases*

AASB 16 supersedes AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease,* Interpretation 115 *Operating Leases – Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases.

Endeavour Energy Network lease – EDMHC as lessor under Finance lease

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. As the EDMHC is lessor in the Endeavour Energy network finance lease, the adoption of AASB 16 did not have a material impact on the EDMHC's financial statements.

The EDMHC has adopted the practical expedient C3 available under AASB 16 which allows for application of this standard to contracts that were previously identified as leases under AASB 117 and Interpretation 4. Accordingly, after separating the non-lease component contained in the network lease contract, the treatment of the Endeavour Energy network lease, determined at inception, is unchanged under AASB 16.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Finance income is recognised and based on a pattern reflecting a constant periodic rate of return on the EDMHC's net investment in the finance lease. The estimated unguaranteed residual value is assessed for impairment to ensure the carrying value does not exceed the recoverable amount. Refer to Note 9 for details on indexations and finance lease receivables.

Suite 4.01, 130 Pitt Street, Sydney office lease

EDMHC entered into an operating lease for the Suite 4.01, 130 Pitt Street, Sydney. The lease expires on 8 April 2021 and was subleased to Endeavour Energy Group under clause 2.3 of the Network lease. The leases are a back-to-back sublease arrangement which effectively transfers all the risks and rewards of right-of-use of Suite 4.01, Level 4, 130 Pitt Street to the Endeavour Energy Group. Hence it was treated as a finance lease entered into on 1.7 2019 upon AASB 16 become applicable.

EDMHC is lessee in the operating lease and lessor for the sublease. As lessor of the finance lease, EDMHC recognise a finance lease receivable which represent the net present value of future lease payments receivable from Endeavour Energy Group under the sublease, at the same time, derecognise the right to use asset, as the EDMHC has passed on the control and future economic benefit associated with the use of 130 Pitt Street to Endeavour Energy Group. The derecognition of right to use assets does not result in a profit or loss as the right to use asset value is the same as finance lease receivable upon initial recognition because the future lease payable to the property owner and the future lease receivable from Endeavour Energy Group is exactly the same. On implementation of AASB 16 at 1.7.2019, EDMHC records a finance lease receivable and a lease liability on its accounts for the equal value.

The finance lease receivable reduces in value over time as receipt of the sublease payments. A finance lease income is recognised using a constant rate of return on that net investment over the lease term.

The lease liability decreases over time as the lease payment is paid to the property owner. An interest charge is recognised during the lease term to reflect the increase in carrying amount to the lease liability as passage of time and Interest charge is shown as finance cost in the Statement of Comprehensive Income. Details for the lease movement and future lease payment maturity profile are shown in Note 13.

i. Issued but not yet effective

As mandated by Treasury Circular TC20-01, the EDMHC has not early adopted any new accounting standards, amendments and interpretations that have been issued but are not yet effective.

The following lists the new standards and interpretation that whilst not yet effective, may be applicable to the EDMHC:

- AASB 1059 *Service Concession Arrangements: Grantors* (operative date 1 July 2020)
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059* (operative date 1 July 2020)
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* (operative date 1 July 2020)
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* (operative date 1 July 2020)
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* (operative date 1 July 2020)
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059 (operative date 1 July 2020)*

Management have assessed the impact of new accounting standards issued but not yet effective and concluded there is no material impact to the EDMHC.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

REVENUE

Until 30 June 2019, income is recognised in accordance with AASB 118 and AASB 1004. Revenue is measured at the fair value of the consideration or contributions received or receivable to the extent it is probable that the economic benefits will flow to the EDMHC and the amount can be measured reliably.

From 1 July 2019, revenue is recognised in accordance with the requirements of AASB 15 or AASB 1058 dependent on whether there is an enforceable contract with specific performance obligation.

Contract service revenue

Contract service revenue is recognised when the relevant performance obligation embedded in contracts with customers are satisfied and the control of service transfers to the customer. Performance obligations are completed over time. In assessing the amount of the revenue allocation, the EDMHC has applied the straight-line labour input method with reference to the cost and staff labour hours incurred. Other contract service revenue includes recoupment of lease outgoings. In this instance, revenue entitlement arises when the EDMHC pays the lease outgoing (performance obligation fulfilled) to the relevant government authorities and government trading enterprises.

Investment revenue

Investment revenue relates to interest revenue and is recognised using the effective interest method as set out in AASB 9 *Financial Instruments: Recognition and Measurement*.

Finance Income

Finance income is recognised reflecting a constant periodic rate of return on the EDMHC's net investment in the finance lease in accordance with AASB 16.

Other operating revenue - recoupment of administrative costs (comparative period only)

The EDMHC recoups administrative costs from the lessee and recognises this as other operating revenue.

EXPENSES

Expenses are recognised when incurred.

Finance officers of the NSW Treasury provide administrative services, including the preparation of the EDMHC financial statements. The cost of these services is shown as an administrative charge in Note 4.

ASSETS

Cash and cash equivalents

Cash and cash equivalents represent the cash at bank and deposits with financial institutions and are recognised in the Statement of Financial Position and reconciled to the Statement of Cash Flows.

Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Under AASB 9, the classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets are measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

The EDMHC recognises an allowance for expected credit losses (ECLs) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows and the cash flows that the EDMHC expects to receive, discounted at the original effective interest rate. For trade receivables, applies a simplified approach in calculating ECLs. The EDMHC recognises a loss allowance based on lifetime ECLs at each reporting date.

Other financial assets

The other non-current asset represents the emerging asset, being the present value of the network assets to be returned to the State on the expiry of the 99-year lease term.

Finance lease – EDMHC as Lessor

A lease is classified at the inception date as a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A receivable is recognised at an amount equal to the net investment in the lease. Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Gross investment in the lease is the aggregate of the minimum lease payments receivable by the lessor under a finance lease, and any unguaranteed residual value accruing to the lessor.

In accordance with TPP 11-01 Lessor classification of long-term land leases, a prepaid lease classified as a finance lease under this policy will effectively be accounted for as a sale. At the inception of the lease, the lessor will derecognise the land and recognise the associated gain or loss on disposal.

Subsequently, finance income is based on a pattern reflecting a constant periodic rate of return on the EDMHC's net investment in the finance lease. The estimated unguaranteed residual values used in computing the gross investment in the lease are subject to an impairment test which takes into consideration factors such as the volatility of land values, the rate of technological change and competitive conditions.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset is primarily derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The EDMHC has transferred 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 (a) the EDMHC has transferred substantially all the risks and rewards of the asset, or (b) the EDMHC has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the EDMHC 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. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the EDMHC continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the EDMHC also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the EDMHC has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the EDMHC could be required to repay.

LIABILITIES

Payables

Trade and other payables, including accruals not yet billed, represent liabilities for goods and services provided to the EDMHC prior to the end of the period and there is an obligation to make future payment. The amounts are unsecured and are usually paid within 30 days of recognition.

Subsequent to initial recognition of these liabilities at fair value, they are measured at amortised cost using the effective interest rate method. This measurement is equivalent to the original invoice amount.

Contract and other liabilities

Unearned revenue

Unearned revenue balance represents the annual contract service income received on the anniversary of the lease commencement date and which is paid in advance by the lessee.

Superannuation

The superannuation valuation is actuarially determined. The net superannuation defined benefit liabilities or assets are recognised as present value of the defined benefit obligation less the fair value of plan assets, adjusted for an asset ceiling. Asset ceiling refers to present value of economic benefits available as refunds from the fund or reduction in future contributions to the fund.

In accordance with AASB 119 Employee Benefits, the defined benefit superannuation schemes current and past service costs and net interest cost reflecting passage of time on the net defined benefit liabilities or assets are recognised as profit and loss item in the Statement of Comprehensive Income. Remeasurements of the net defined benefit liabilities or assets that comprises of actuarial gain or losses, the return in plan assets and any change in the effect of asset ceiling other than the net interest as other comprehensive income in the year in which they occur.

The significant estimates and judgements used in determining the unfunded superannuation liability are included in Note 16 to the financial statements.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Comprehensive Income.

Income tax

Following the sale of the discontinued operations and the entity's conversion to be a General Government Entity, it is no longer subject to the National Tax Equivalent Regime. As an entity wholly owned by the NSW Government, the EDMHC is exempt from all forms of taxation except Fringe Benefit Tax and the Goods and Services Tax.

Accounting for the Goods and Services Tax

Revenue, expenses and assets are recognised net of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense; and
- receivables and payables which are recognised as including GST

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Budgeted amounts

The budgeted amounts are drawn from the original budgeted financial statements presented to Parliament in respect of the reporting period. Major variances between the original budgeted amounts and the actual amounts disclosed in the primary financial statements are explained in the Note 18.

Epsilon Distribution Ministerial Holding Corporation

Notes to the financial statements for the year ended 30 June 2020

4. OPERATING EXPENSES

	2020 $000	2019 $000
Superannuation - defined benefits plan	259	264
Lease outgoing expenditure	2,352	2,324
Administrative charge	182	500
Audit fees - audit of financial statements	58	56
Total	**2,851**	**3,144**

5. REVENUE

	2020 $000	2019 $000
(a) Investment revenue		
Interest income	62	133
Finance income[1]	1,791	1,686
	1,853	**1,819**
(b) Contract service revenue		
Lease outgoing recoupment[2]	2,352	-
Contract service income[3]	558	-
	2,910	**-**
(c) Other operating revenue		
Lease outgoing recoupment[2]	-	2,324
Other income	77	885
	77	**3,209**
Total revenue	**4,840**	**5,028**

[1] At the date of execution of the 99-year finance lease, the EDMHC recognised a finance lease receivable representing its net investment in the lease. As the lease payments were received upfront, no further payments will be received by the EDMHC and the residual asset will be accreted over the term of the lease as finance income. From 1 July 2019, finance income has been reclassified to investment revenue from other operating revenue in accordance with AASB 16.

[2] This relates to council rates and other lease outgoings recouped from the lessees under the 99-year finance lease. From 1 July 2019, the recoupment has been reclassified to contract service revenue from other operating revenue in accordance with AASB 15.

[3] The EDMHC receives annual income from the lessee of $550k, adjusted for CPI, each year to cover for the administration costs incurred in managing its affairs, including the administration of subsequent land acquisitions and disposals associated with the lease. The specific performance is specified under the enforceable network lease contract. Accordingly, revenue recognition is subject to AASB 15 and has been reclassified to contract service revenue from other operating revenue.

6. OTHER GAINS/ (LOSSES)

	2020 $000	2019 $000
Impairment losses on finance lease receivable	(106)	(2)
Total	**(106)**	**(2)**

During the year, parcels of land forming part of the leased assets were sold by the lessee to external purchasers. The sale of land is permitted under the lease agreement and constitutes a partial surrender of the lease in respect of the land sold. Under the lease agreement, sales proceeds were paid directly to the lessee by the purchasers. The EDMHC has no claim on the proceeds. Following the sales, the net present value of the relevant land was derecognised from the finance lease receivable as part of annual impairment process, resulting in an impairment loss on the leased assets.

7. CASH AND CASH EQUIVALENTS

Cash and bank	9,674	9,191
Total	**9,674**	**9,191**

For the purpose of the statement of cash flows, cash and cash equivalents include cash at bank. Refer to Note 14 regarding credit risk, liquidity and market risk arising from financial instruments.

8. RECEIVABLES

Current		
Debtors	-	56
Total	**-**	**56**

Refer to Note 14 regarding credit risk, liquidity and market risk arising from financial instruments.

9. OTHER FINANCIAL ASSETS

Current		
Finance lease receivable - Suite 4.01,130 Pitt Street, Sydney	88	-
	88	**-**
Non-current		
Finance lease receivable (i)	29,167	27,484
	29,167	**27,484**
Total	**29,255**	**27,484**

(i) Finance lease receivable

On completion of the long-term lease transaction, the EDMHC acts as a lessor and Endeavour Energy Asset Partnership act as a lessee in a 99-year lease arrangement. The EDMHC transferred substantially all risks and rewards incidental to ownership of the leased assets to Endeavour Energy Asset Partnership; as such the lease is classified as a finance lease.

9. OTHER FINANCIAL ASSETS (continued)

Finance lease accounting requires the EDMHC as the Lessor to recognise a finance lease receivable equal to the net investment in the lease, which is the discounted gross investment in the lease comprising the minimum lease payments and unguaranteed residual value. As the lease payments were received upfront, the net investment in the lease corresponds to the present value of the assets that will revert to the Lessor on expiry of the leases.

The residual value in 99 years is estimated at $12.7 billion, using an annual indexation of 3.61 per cent. The present value at inception of the lease was $24.1 million, discounted at nominal pre-tax discount rate of 6.54 per cent. Finance income of $1.8 million (2019: $1.7 million) was recognised in the year (refer to Note 5(a) and 5(c)).

The results of the annual impairment procedures concluded that there are no indicators of impairment at the reporting date.

The lease contains two clauses:

1. any improvements made by the lessee to the existing land, or acquisition of additional land for network use is treated as transactions by the EDMHC. However, the State does not benefit from these improvements during the term of the lease as all risks and rewards are with the lessee, and
2. acquisitions or the lease of additional land by the lessee are subject to an option which allows the EDMHC to acquire or lease the additional land. As an option to buy non-financial items that will not be settled net in cash, the option has been classified as an executory contract which will only be accounted for on exercise.

Reconciliation of net investment in leases	**2020**	**2019**
	$000	**$000**
Future undiscounted rentals receivable[1]	88	-
Unguaranteed residual amounts - undiscounted	12,685,994	12,735,393
Less: unearned finance income	(12,656,827)	(12,707,909)
Net investment in finance leases	**29,255**	**27,484**

Reconciliation of gross investment in finance leases

Present value of minimum lease payments[1]	88	-
Unearned finance income	-	-
Unguaranteed residual amounts - undiscounted	12,685,994	12,735,393
Gross investment in finance leases	**12,686,082**	**12,735,393**

Reconciliation of unguaranteed residual amounts (undiscounted)		
Opening balance	12,735,393	12,736,347
Less disposal - partial surrender of the lease	(49,399)	(954)
Closing balance	**12,685,994**	**12,735,393**

[1] Lease payment receivable from the sublease of Suite 4.01, 130 Pitt Street, Sydney. Refer to Note 3 for details.

10. PAYABLES

	2020 $000	2019 $000
Current		
Accruals	51	47
GST payable	33	78
Total	**84**	**125**

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis, in relation to the above payables are disclosed in Note 14.

11. CONTRACT AND OTHER LIABILITIES

Current contract liabilities		
Unearned revenue	542	-
Total	**542**	**-**
Other current liabilities		
Unearned revenue	-	531
Total	**-**	**531**

Contract liabilities reconciliation	
Opening balance	-
Transfer-in on AASB15 1st time adoption	531
Contract service invoiced/received	569
Revenue recognised upon performance obligation fulfilled	(558)
Closing balance	**542**
Revenue recognised that was included in the contract liability balance (adjusted for AASB 15) at the beginning of the year	531
Revenue recognised from performance obligation satisfied in pevious periods	-
Transaction price allocated to the remaining performance obligations from the contract with customers	542

The transaction price allocated to the remaining performance obligations relates to the ongoing administrative tasks associated with the network lease. The contract liabilities at reporting date is expected to be recognised as revenue in the 2020-21 financial year.

12. PROVISIONS

Non-Current		
Superannuation Liability (Note 16(iii))	20,943	19,603
Total	**20,943**	**19,603**

On completion of the Transaction on 13 June 2017, all provisions with the exception of the defined benefit superannuation balance relating to retired employees, were disposed and transferred to the Endeavour Energy partnerships.

13. LEASE LIABILITIES

	2020 $000	2019 $000
Lease liabilities	88	-
Total	**88**	**-**

Lease liabilities movement

	2020 $000	2019 $000
Balance at 1 July 2019	-	-
Additions	197	-
Interest expenses	2	-
Payments	(111)	-
Balance at 30 June 2020	**88**	**-**

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

	2020 $000	2019 $000
Depreciation expense of right-of-use assets	-	-
Interest expense on lease liabilities	(2)	-
Income from subleasing right-of-use assets	2	-
Total amount recognised in the statement of comprehensive income	**-**	**-**

Future minimum lease payments under non-cancellable leases as at reporting date are, as follows:

	2020 $000	2019 $000
Within one year	97	-
Later than one year and not later than five years	-	-
Later than five years	-	-
Total (including GST)	**97**	**-**
Less: GST recoverable from the Australian Tax Office	(9)	-
Total (excluding GST)	**88**	**-**

14. FINANCIAL INSTRUMENTS

The EDMHC's principal financial instruments are outlined below. The financial instruments arise directly from the EDMHC's operations or are required to finance the EDMHC's operations. The Secretary has overall responsibility for the establishment and oversight of risk management and review of policies for managing risk.

			Carrying Amount	
			2020	2019
	Note	Categories	$000	$000
Financial assets				
Cash and cash equivalents	7	N/A	9,674	9,191
Receivables[1]	8	Amortised cost	-	56
Financial liabilities				
Payables	10	Financial liabilities measured at amortised cost	51	47

[1] Excludes statutory receivables/payables and contract liabilities which are not within the scope of *AASB 7 Financial Instruments: Disclosures,* and excludes finance lease receivables which only represent the unguaranteed residual value.

Financial risk management overview

Financial instruments comprise cash, receivables and payables. The activities of the EDMHC expose it to a variety of financial risks. These are:

- Credit risk
- Market rate risk
- Liquidity risk

Credit risk

Credit risk arises when there is possibility that the EDMHC's debtors default on their contractual obligations, resulting in a financial loss. The maximum exposure to credit risk is generally represented by the carrying amount of financial assets (net of any allowance for impairment or allowance for credit losses).

Credit risk arises from the financial assets of the EDMHC, including cash and receivables. No collateral is held by the EDMHC.

Cash

Cash comprises bank balances with the NSW Treasury Banking System. Interest is earned on daily bank balances.

Receivables

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Procedures, as established in the Treasurer's Directions, are followed to recover outstanding amounts, including letters of demand.

The EDMHC applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade debtors. To measure the expected credit losses, trade 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.

There are no receivables that are past due or considered impaired as at reporting date. Receivables are written off when there is no reasonable expectation of recovery and no interest earned on trade debtors.

14. FINANCIAL INSTRUMENTS (continued)

Market rate risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of movements in market interest rates.

The effect on the EDMHC's net result and equity due to a reasonably possible change in risk variable is outlined below. A reasonably possible change of +/- 1 per cent is used. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

Exposure to interest rate risk is limited to cash at bank.

	Carrying Amount $000	-1% Net result $000	-1% Equity $000	+1% Net result $000	+1% Equity $000
2020					
Financial assets					
Cash and cash equivalents	9,674	(97)	(97)	97	97
2019					
Financial assets					
Cash and cash equivalents	9,191	(92)	(92)	92	92

Liquidity risk

Liquidity risk is the risk that the EDMHC will be unable to meet its payment obligations when they fall due. The EDMHC continuously manages risk through monitoring future cash flows and commitment maturities.

Liabilities are recognised for amounts due to be paid in the future for goods or services received. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in TC11-12. If trade terms are not specified, payment is made no later than the end of the month in which an invoice or a statement is received.

There were no defaults on payables in the current year, and no assets have been pledged as collateral.

The EDMHC's exposure is limited to the value of payables. All payables are expected to be settled within the next 12 months.

The following is the maturity profile of the EDMHC's financial liabilities.

			Interest rate exposure			Maturity dates		
	Weighted average effective interest rate %	Nominal amount $'000	Fixed interest rate $'000	Variable interest rate $'000	Non-interest bearing $'000	< 1 Year $'000	1 - 5 Years $'000	> 5 Years $'000
2020								
Payables	-	51	-	-	51	51	-	-
Total financial liabilities	**-**	**51**	**-**	**-**	**51**	**51**	**-**	**-**
2019								
Payables	-	47	-	-	47	47	-	-
Total financial liabilities	**-**	**47**	**-**	**-**	**47**	**47**	**-**	**-**

Epsilon Distribution Ministerial Holding Corporation

Notes to the financial statements
for the year ended 30 June 2020

15. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of cash and cash equivalents

Cash and cash equivalents assets recognised in the Statement of Financial Position are reconciled at the end of the financial year to the Statement of Cash Flows as follows:

	2020 $000	2019 $000
Cash at bank	9,674	9,191
Cash and cash equivalents per Statement of Cash Flows	**9,674**	**9,191**

Reconciliation of net result to net cash flows from operating activities

	2020 $000	2019 $000
Net result	1,881	1,882
Add/(less) non-cash items		
Actuarial gain/(loss) on Superannuation	(1,081)	(9,383)
Finance Income	(1,791)	(1,686)
Finance costs - unwinding of discount	2	-
Losses on disposal of land	106	2
Changes in assets and liabilities		
Decrease in trade and other receivables	56	156
(Increase)/decrease in other current financial assets	(88)	-
Increase/(decrease) in trade and other payables	(41)	(651)
Increase/(decrease) in provisions	1,340	9,654
Increase/(decrease) in contract liabilities	542	-
Increase/(decrease) in lease liabilities	88	-
(Decrease)/increase in other liabilities	(531)	-
Net cash flows from operating activities	**483**	**(26)**

16. SUPERANNUATION – DEFINED BENEFITS PLAN

The following narrative and tables summarise the components of movement in the EDMHC's net superannuation asset/liability recognised in Profit or Loss and Other Comprehensive Income, and the funded status and amounts recognised in the Statement of Financial Position for the defined benefit superannuation funds. Assets and Liability values of the EDMHC's Energy Industries Superannuation Scheme Defined Benefit Funds are provided by the Fund's Actuary, Mercer Consulting (Australia) Pty Ltd.

On completion of the 99-year lease transaction, all current employees and their respective defined benefit plans were transferred to Endeavour Energy Management Pty Limited. The defined benefit plan balance remaining with the EDMHC relates to retired employees.

Nature of the benefits provided by the Fund

The Energy Industries Superannuation Scheme (the Scheme) is divided into seven divisions, of which Divisions B, C and D provide defined benefits, that is 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. Divisions B, C and D are closed to new members except for members of eligible schemes who can transfer their entitlements into the Scheme.

Disclosures below are prepared in relation to Divisions B, C and D only, these Divisions are referred to collectively as "the Fund" hereafter.

16. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

Regulatory Framework

The Scheme was established on 30 June 1997 by a Trust Deed made under an Act of the NSW Parliament, for the purpose of providing retirement benefits for employees of certain Energy Industries bodies in NSW. The Scheme is regulated primarily by the Superannuation Industry (Supervision) Act 1993 (Cth) ("the SIS legislation"),but is also subject to regulation under the Superannuation Administration Act 1996 (NSW).

The SIS legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions, unless an exemption has been obtained.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises regulated superannuation plans.

The Scheme has received an exemption from annual actuarial valuation and therefore actuarial valuations are only required triennially. The last actuarial valuation of the Scheme was performed as at 30 June 2018. The next actuarial valuation is due to be performed as at 30 June 2021.

Governance

The Scheme's Trustee is responsible for the governance of the Scheme. The Trustee has a legal obligation to act solely in the best interests of the Scheme beneficiaries. The Trustee has the following roles:

- Administration of the Scheme and payment to the beneficiaries from Scheme assets when required in accordance with the Scheme rules
- Management and investment of the Scheme assets
- Compliance with other applicable regulations
- Compliance with the Trust Deed.

Risk exposure

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 the shortfall.
- **Longevity risk** - the risk that pensioners live longer than assumed, resulting in pensions being paid for a longer period and thereby requiring additional employer contributions.
- **Pension indexation risk** - the risk that pensions will increase at a rate greater than assumed, increasing future pensions and thereby requiring additional employer contributions.
- **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 that legislative changes could be made, increasing the cost of providing 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.

16. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

Member numbers	**2020**	**2019**
Contributions	-	-
Deferred benefits	2	2
Pensioners	91	91

(i) Movements in superannuation net asset/(liability) recognised in profit or loss

	2020 $000	**2019 $000**
Net interest	259	264
Total net expense	**259**	**264**

(ii) Movements in superannuation net asset/(liability) recognised in Other Comprehensive Income

Actuarial gains/(losses) on liabilities	(185)	(13,969)
Actuarial gains/(losses) on assets	(896)	4,586
Total actuarial gains/(losses)	**(1,081)**	**(9,383)**

(iii) Reconciliation of the net defined benefit obligation

Net asset/(liability) at the beginning of the period	**(19,603)**	**(9,956)**
Net interest income/(expense) on the net defined benefit asset/(liability)	(259)	(264)
Return on plan assets, excluding amounts included in interest expense/(income)	(896)	4,586
Actuarial gains/(losses) arising from changes in demographic assumptions	-	(456)
Actuarial gains/(losses) arising from liability experience	(874)	642
Actuarial gains/(losses) arising from changes in financial assumptions	689	(14,155)
Net Asset/(Liability) at the end of the period	**(20,943)**	**(19,603)**

(iv) Reconciliation of the defined benefit obligation

Present value at the beginning of the period	**(80,449)**	**(68,028)**
Benefits paid	3,076	3,137
Taxes, premiums and expenses paid	178	170
Interest income/(expense)	(1,041)	(1,759)
Actuarial gains/(losses) arising from changes in demographic assumptions	-	(456)
Actuarial gains/(losses) arising from changes in financial assumptions	689	(14,155)
Actuarial gains/(losses) arising from liability experience	(874)	642
Present value at the end of the period	**(78,421)**	**(80,449)**

16. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

(v) Reconciliation of the fund assets

	2020 $000	2019 $000
Fair value at the beginning of the period	**60,846**	**58,072**
Benefits paid	(3,076)	(3,137)
Taxes, premiums and expenses paid	(178)	(170)
Interest income/(expense)	782	1,495
Actual return on fund assets less interest income	(896)	4,586
Fair value at the end of the period	**57,478**	**60,846**

Fair value of fund assets

All Division B, C and D assets are held in Pool B of the Scheme. Pool B, in turn, holds units invested in the Energy Investment Fund, a pooled superannuation trust. As such, assets are not separately invested for each employer and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. Disclosures below relate to total assets of Pool B of the Fund.

Energy Investment Fund

Level 1 - Quoted prices in active markets for identical assets	-	-
Level 2 - Significant observable inputs	1,834,949	2,058,058
Level 3 - Unobservable inputs	-	-
Total	**1,834,949**	**2,058,058**

Level 1 - quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares and 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 and unlisted trusts containing 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 and hedge funds.

Some Pool B assets are invested in accordance with member investment choices. For Pool B assets invested in the Energy Investment Fund but not subject to member investment choice, the percentage invested in each asset class at the reporting date is:

Asset Category	2020 %	2019 %
Australian Equities	14	16
International Equities	25	25
Property	13	11
Private Equity	1	2
Infrastructure	8	6
Alternatives	8	4
Fixed Income	18	31
Cash	13	5
Total	**100**	**100**

16. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

Derivatives can be used by investment managers, however strict investment guidelines detail all limits approved on the use of derivatives. The use of derivatives is governed by investment policies, which permit the use of derivatives to change the Fund's exposure to particular assets. The Trustee requires that derivative financial instruments are not entered into for speculative purposes or to gear the Fund, and that all derivative positions are (a) fully cash covered; (b) are offset to existing assets; or (c) are used to alter exposures in underlying asset classes. Compliance with policies and exposure limits are reviewed by the Trustee on a continual basis. As such, investment managers make limited use of derivatives.

Fair value of the Fund assets

The fair value of the Fund assets includes no amounts relating to any of the EDMHC's own financial instruments, or any property occupied by, or other assets used by the EDMHC.

Significant actuarial assumptions at reporting date

	2020	2019
Discount rate	0.87% pa	1.32% pa
Expected salary increase rate (excluding promotional increases)	N/A	N/A
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	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter
Pensioner mortality	Based on triennial valuation of the Fund as at 30 June 2018. The pension mortality rates are based on experience of the NSW public sector.	Based on triennial valuation of the Fund as at 30 June 2018. The pension mortality rates are based on experience of the NSW public sector.

Sensitivity analysis

The Corporation's total defined benefit obligation as at 30 June 2020 under several scenarios is presented below. Scenarios A to D relate to sensitivity of the total defined benefit obligation to economic assumptions, while scenarios E and F relate to sensitivity to demographic assumptions.

16. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

30 June 2020

	Base case	Scenario A -0.5% discount rate	Scenario B +0.5% discount rate
Discount rate	0.87% pa	0.37% pa	1.37% 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	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	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
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($000)	78,421	83,485	73,775
	Base case	**Scenario C +0.5% rate of CPI increase**	**Scenario D -0.5% rate of CPI increase**
Discount rate	0.87% pa	0.87% pa	0.87% 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	1.50% for 2019/20; 0.75% for 2020/21; 2.00% for 2021/22; 1.75% for 2022/23; 2.25% for 2023/24; 2.50% for 2024/25 and 2025/26; 2.75% pa to 2029/30; 3.00% pa thereafter	0.50% for 2019/20; - 0.25% for 2020/21; 1.00% for 2021/22; 0.75% for 2022/23; 1.25% for 2023/24; 1.50% for 2024/25 and 2025/26; 1.75% pa to 2029/30; 2.00% pa thereafter
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($000)	78,421	83,627	73,605
	Base Case	**Scenario E Lower pensioner mortality rates***	**Scenario F Higher pensioner mortality rates****
Defined benefit obligation ($000)	78,421	79,857	77,306

* Assumes short-term pensioner mortality improvement factors for the years 2018 to 2024 also apply for the years after 2024.

** Assumes long-term pensioner mortality improvement factors for the years post 2024 also apply for the years 2018 to 2024.

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

16. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

Sensitivity analysis

30 June 2019

	Base case	Scenario A - 1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	1.32% pa	0.32% pa	2.32% pa
Rate of CPI increase	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($000)	80,449	91,831	70,929

	Base case	Scenario C +0.5% rate of CPI increase increase	Scenario D -0.5% rate of CPI increase
Discount rate	1.32% pa	1.32% pa	1.32% pa
Rate of CPI increase	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter	2.25% p.a. for 2018/19 and 2019/20, 2.50% for 2020/21, 2.75% p.a. for 2021/22 and 2022/23 then 3.0% p.a. thereafter	1.25% p.a. for 2018/19 and 2019/20, 1.50% for 2020/21, 1.75% p.a. for 2021/22 and 2022/23 then 2.0% p.a. thereafter
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($000)	80,449	86,023	75,309

	Base Case	Scenario E Lower pensioner mortality rates*	Scenario F Higher pensioner mortality rates**
Defined benefit obligation ($000)	80,449	81,864	79,352

* Assumes short-term pensioner mortality improvement factors for the years 2018 to 2024 also apply for the years after 2024.

** Assumes long-term pensioner mortality improvement factors for the years post 2024 also apply for the years 2018 to 2024.

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

Asset – liability matching strategies

The assets of the Scheme are managed using a Liability Driven Investment approach.

Funding arrangements

Funding arrangements are reviewed at least every three years following release of the triennial actuarial review and were last reviewed following completion of the triennial review as at 30 June 2020. Contribution rates are set following discussions between the employer and the Trustee. Funding positions are reviewed annually, and funding arrangements may be adjusted as required after each annual review.

16. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

Surplus/deficit

The following is a summary of the financial position of the Fund calculated in accordance with *AASB 1056 Superannuation Entities*

	2020 $000	2019 $000
Accrued benefits	(47,428)	(47,888)
Net market value of Fund assets	57,478	60,846
Net surplus/(deficit)	**10,050**	**12,958**

AASB 1056 results are based on the financial assumptions to be used for the 30 June 2020 actuarial valuation.

Contribution Recommendations

Division B - multiple of member contributions	N/A	N/A
Division C - % member salary	N/A	N/A
Division D - multiple of member contributions	N/A	N/A
Additional lump sum $p.a.	Nil	Nil

Economic Assumptions

The economic assumptions adopted by the Fund's Actuary in determining the employer contribution recommendations are set out in the following table. These assumptions differ from the economic assumptions used to determine the superannuation net asset/ (liability) in the Statement of Financial Position.

Expected rate of return on fund assets backing current pension liabilities	5.0% p.a.	5.5% p.a.
Expected rate of return on fund assets backing other liabilities	5.0% p.a.	5.5% p.a.
Expected salary increase rate	N/A	N/A
Expected rate of CPI Increase	1.9% p.a.	2.3% p.a.

Expected contributions

As at 30 June 2020

	$'000
Expected employer contributions to be paid in the period 1 July 2020 to 30 June 2021	-

As at 30 June 2019

	$'000
Expected employer contributions to be paid in the period 1 July 2019 to 30 June 2020	-

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 13 years (2019: 12 years).

Nature of asset/liability

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary. Where a deficiency exists, the employer is responsible for any difference between the employer's share of Fund assets and the defined benefit obligation.

16. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

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 EISS's assets in current financial conditions, sensitivities to this assumption for the AASB 1056 results in the table below (results for 2019 shown for comparative purposes).

As at 30 June 2020

	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)	5.0% pa	4.5% pa	5.5% pa
Expected rate of return on Fund assets backing other liabilities (discount rate)	5.0% pa	4.5% pa	5.5% pa
Rate of CPI increase	1.9% pa	1.9% pa	1.9% pa
Salary inflation rate	2.3% for 2020/21, 2.4% for 21/22, 2.5% for 22/23, 2.9% pa thereafter	as base case	as base case
Accrued Benefits ($000)	47,428	49,859	45,185

As at 30 June 2019

	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)	5.5% pa	5.0% pa	6.0% pa
Expected rate of return on Fund assets backing other liabilities (discount rate)	5.5% pa	5.0% pa	6.0% pa
Rate of CPI increase	2.3% pa	2.3% pa	2.3% pa
Salary inflation rate	2.6% for 2019/20, 2.8% for 2020/21, 3.3% pa thereafter	as base case	as base case
Accrued Benefits ($000)	47,888	50,406	45,568

Epsilon Distribution Ministerial Holding Corporation

Notes to the financial statements
for the year ended 30 June 2020

17. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The EDMHC does not have any contingent assets and contingent liabilities to report as at 30 June 2020 (2019: nil).

18. BUDGET REVIEW

Net result

For the year ended 30 June 2020, EDMHC made a profit of $0.8 million which is $0.8 million below the budget.

Total expenses were $2.9 million which is $0.2 million lower than budget primarily due to lower administrative payment to NSW Treasury.

Total revenue was $4.8 million and in line with budget. Budget variances between the contract service revenue and other operating revenue have mainly arisen from the adoption of new accounting standards in 2020.

Other comprehensive loss of $1.1 million is higher than budget attributed to actuarial losses on superannuation liabilities driven by a reduction in the discount rate from 1.32 per cent to 0.87 per cent.

Assets and Liabilities

Net assets for the year were $17.3 million, $9 million below the budget mainly due to actuarial losses on superannuation of $9.4 million for 2019 not included at budget, and a further $1.1 million in 2020. Total liabilities totalled $21.7 million which is $8.8 million higher than budget largely due to the reduction in discount rate on superannuation liabilities.

Total assets were $38.9 million and in line with the budget.

Cash flows

Cash receipts were $0.9 million, $2.0 million lower than budget. Lease outgoing expenses and the receipts from recoupment of those expenses of $2.2 million were included in the budget cashflow but net-off for actual results as they are non-cash notional transactions.

Cash payments were $0.5 million, $2.4 million lower than budget mainly attributable to the net-off of lease outgoing expenses and recoupments explained above. Additionally, administration fees paid to NSW Treasury was $0.3 million lower which contributed to the variance.

The actual net cash flows from operating activities were $0.5 million.

Closing cash and cash equivalents were $9.7 million and comparable with the budget of $9.8 million.

Being a residual entity, the EDMHC's activities are shown as "Post Transaction Activities" program group and aggregated in the State Budget outcomes.

19. RELATED PARTIES

(a) Ultimate parent

The NSW Government is the ultimate parent of the EDMHC. The NSW Government is also the ultimate parent of NSW Treasury that provides key management personnel services to the EDMHC.

(b) Key management personnel remuneration

The EDMHC defines key management personnel (KMP) as those having authority and responsibility for planning, directing and controlling the activities of the EDMHC. NSW Government is the ultimate controlling party of the EDMHC, therefore the Treasurer, NSW Treasury secretary, and certain NSW Treasury Deputy Secretaries and Executive Directors are considered as KMP. The NSW Cabinet are considered related parties of the EDMHC because of its role to direct overall government policy and make decisions about State issues.

The EDMHC does not have employees. The key management personnel services were provided by NSW Treasury. There was no remuneration paid to any of the KMP by the agency during the period.

No loans were made to any of the KMP by the agency during the period.

(c) Transactions with related parties

(i) Transactions with KMP

The EDMHC has developed a framework in conjunction with NSW Treasury that supports the identification, recording and authorisation of the related party transactions. The KMP are required to complete annual declarations in relation to the related party transactions. No KMP has declared that he/she and their close family members have made any transactions with the EDMHC during the reporting period.

(ii) Transactions with other related entities

The EDMHC interacts with other government agencies in delivering services to the general public. Services provided by other government agencies are provided to the EDMHC in the same commercial terms as the general public.

Finance officers of the NSW Treasury provide administrative services, including the preparation of the EDMHC financial statements. The cost of these services for the year was $199,789 inclusive of GST and is shown as an administrative charge in the EDMHC.

20. EVENTS AFTER THE REPORTING DATE

There were no events subsequent to the reporting date requiring disclosure.

End of audited Financial Statements

NSW GOVERNMENT | Treasury

Electricity Transmission Ministerial Holding Corporation

Financial Statements for the year ended 30 June 2020

Electricity Transmission Ministerial Holding Corporation

Charter

The Electricity Transmission Ministerial Holding Corporation (ETMHC) was established on 17 December 2015. It is the continuing entity of the former TransGrid State Owned Corporation (SOC) which was subject of a long-term lease transaction, authorised under the E*lectricity Network Assets (Authorised Transactions) Act 2015* (the Act).

TransGrid was converted into the ETMHC immediately after the completion of the lease transaction under Schedule 7 of the Act. ETMHC is the same legal entity as the former TransGrid SOC.

Objectives

The purpose of ETMHC is to act as a lessor of the network assets, hold and manage certain assets, rights and liabilities on behalf of the Crown, to carry out activities or business that relate to the assets, rights and liabilities held by it, and to carry out other functions as may be required under an authorised transaction Act.

Staffing

Administration and accounting services are provided by staff of the NSW Treasury.
The ETMHC has no staff of its own.

INDEPENDENT AUDITOR'S REPORT

Electricity Transmission Ministerial Holding Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Electricity Transmission Ministerial Holding Corporation (the Corporation), 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 Statement of Significant Accounting Policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation 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 45E 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 the Corporation 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

The Corporation's 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 Secretary of the Treasury 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 Department Head.

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.

Secretary's Responsibilities for the Financial Statements

The Secretary of the Treasury 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 Secretary of the Treasury 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 Secretary of the Treasury is responsible for assessing the Corporation's 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 the Corporation carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- 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.

Renee Meimaroglou
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

9 October 2020
SYDNEY

Electricity Transmission Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2020

STATEMENT BY DEPARTMENT HEAD

Pursuant to Section 45F(1B) of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

(a) The accompanying financial statements exhibit a true and fair view of the Electricity Transmission Ministerial Holding Corporation's financial position as at 30 June 2020 and the financial performance for the year then ended; and

(b) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983, Public Finance and Audit Regulation 2015*, Treasurer's Directions and applicable Australian Accounting Standards.

Further I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Michael Pratt
Secretary

9/1A October 2020

Electricity Transmission Ministerial Holding Corporation

Statement of Comprehensive Income
for the year ended 30 June 2020

	Notes	Actual 2020 $'000	Budget 2020 $'000	Actual 2019 $'000
Expenses excluding losses				
Employee related expenses	4	2,759	3,378	3,675
Other operating expenses	5(a)	2,073	2,757	2,532
Finance costs	5(b)	89	192	186
Total expenses excluding losses		**4,921**	**6,327**	**6,393**
Revenue				
Investment revenue	6	3,225	4,598	2,227
Contract service revenue	7(a)	2,438	-	-
Other operating revenue	7(b)	708	3,337	5,487
Total revenue		**6,371**	**7,935**	**7,714**
Other gains/(losses)	8	(148)	-	-
Net result		**1,302**	**1,608**	**1,321**
Other comprehensive income				
Items that will not be reclassified to net result in subsequent period				
Superannuation actuarial gains/(losses)	14(ii)	(12,993)	-	(66,664)
Total other comprehensive income		**(12,993)**	**-**	**(66,664)**
Total comprehensive income		**(11,691)**	**1,608**	**(65,343)**

The accompanying notes form part of these financial statements.

Electricity Transmission Ministerial Holding Corporation

Statement of Financial Position
as at 30 June 2020

	Notes	Actual 2020 $'000	Budget 2020 $'000	Actual 2019 $'000
Current Assets				
Cash and cash equivalents	9	152,397	155,109	151,412
Receivables	10	1,278	715	1,375
Total Current Assets		**153,675**	**155,824**	**152,787**
Non-Current Assets				
Receivables	10	2,242	1,470	2,592
Other financial assets	11	35,829	35,998	33,780
Total Non-Current Assets		**38,071**	**37,468**	**36,372**
Total Assets		**191,746**	**193,292**	**189,159**
Current Liabilities				
Payables	12	36	604	39
Provisions	13	1,013	906	1,477
Other liabilities	15(a)	53	53	315
Contract liabilities	15(b)	265	267	-
Total Current Liabilities		**1,367**	**1,830**	**1,831**
Non-Current Liabilities				
Provisions	13	231,920	166,548	217,178
Total Non-Current Liabilities		**231,920**	**166,548**	**217,178**
Total Liabilities		**233,287**	**168,378**	**219,009**
Net Assets /(Liabilities)		**(41,541)**	**24,914**	**(29,850)**
Equity				
Accumulated funds		(41,541)	24,914	(29,850)
Total Equity		**(41,541)**	**24,914**	**(29,850)**

The accompanying notes form part of these financial statements.

Electricity Transmission Ministerial Holding Corporation

Statement of Changes in Equity
for the year ended 30 June 2020

	Accumulated funds $'000	Total equity $'000
Balance at 1 July 2019	**(29,850)**	**(29,850)**
Net result for the year	1,302	1,302
Other comprehensive income	(12,993)	(12,993)
Total comprehensive income for the year	**(11,691)**	**(11,691)**
Balance at 30 June 2020	**(41,541)**	**(41,541)**
Balance at 1 July 2018	**35,493**	**35,493**
Net result for the year	1,321	1,321
Other comprehensive income	(66,664)	(66,664)
Total comprehensive income for the year	**(65,343)**	**(65,343)**
Balance at 30 June 2019	**(29,850)**	**(29,850)**

The accompanying notes form part of these financial statements.

Electricity Transmission Ministerial Holding Corporation

Statement of Cash Flows
for the year ended 30 June 2020

	Notes	Actual 2020 $'000	Budget 2020 $'000	Actual 2019 $'000
Cash flows from operating activities				
Cash receipts from customers		2,206	3,936	2,923
Cash paid to suppliers and employees		(2,249)	(3,670)	(2,734)
Interest received		1,028	2,382	2,227
Net cash flows from operating activities	18	985	2,648	2,416
Net cash flows from investing activities		-	-	-
Net cash flows from financing activities		-	-	-
Net increase in cash and cash equivalents		985	2,648	2,416
Opening cash and cash equivalents		151,412	152,461	148,996
Closing cash and cash equivalents	9	**152,397**	**155,109**	**151,412**

The accompanying notes form part of these financial statements.

Electricity Transmission Ministerial Holding Corporation

Notes to the financial statements
for the year ended 30 June 2020

NOTES INDEX PAGE

Electricity Transmission Ministerial Holding Corporation

Notes to the financial statements
for the year ended 30 June 2020

1. INFORMATION ON THE ELECTRICITY TRANSMISSION MINISTERIAL HOLDING CORPORATION

The Electricity Transmission Ministerial Holding Corporation (referred to as "ETMHC") is a continuing entity of the TransGrid State Owned Corporation (SOC). TransGrid's electricity network assets were the subject of a long-term lease transaction, authorised under the *Electricity Network Assets (Authorised Transactions) Act 2015* ("the Act"). Immediately after transaction completion, TransGrid was converted into the ETMHC under Schedule 7 of the Act. The ETMHC is the same legal entity as the TransGrid SOC. The functions of the ETMHC are:

- to hold on behalf of the Crown, assets, rights and liabilities acquired by it or transferred to it under an authorised transaction Act;
- to carry out any activities or business that relate to any assets, rights and liabilities held by it, including demanding, collecting and receiving charges, levies, rates and fees;
- such other functions of an authorised transaction as may be prescribed by the regulations.

The ETMHC is a NSW Government entity and is a not-for-profit entity from 17 December 2015. Its principal office is at 52 Martin Place, Sydney NSW 2000, Australia.

The financial statements were authorised for issue by the Secretary of NSW Treasury on the date the accompanying Statement by the Secretary was signed.

The ETMHC is consolidated as part of the NSW Total State Sector Accounts.

2. LONG-TERM LEASE OF THE TRANSGRID NETWORK

The *Electricity Network Assets (Authorised Transactions) Bill 2015* was assented on 4 June 2015 which initiated the process for the long-term lease of the TransGrid network in order to fund infrastructure projects across New South Wales (NSW) as part of the Government's rebuilding NSW plan.

On 25 November 2015, the Premier and Treasurer of NSW announced NSW Electricity Networks Operations Pty Limited (NSWENO) as the successful bidder.

On 15 December 2015, a number of statutory vesting orders under the *Electricity Network Assets (Authorised Transactions) Bill 2015* were received from the Treasurer of NSW. The vesting orders became effective on 16 December 2015 and on the same date, the network assets were leased under a 99-year finance lease to NSWENO.

TransGrid as a SOC was converted to the ETMHC, a General Government Entity. A Ministerial Order on the same date was signed transferring existing employees of TransGrid to NSWENO.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are general-purpose financial statements which have been prepared in accordance with the requirements of:

- Applicable Australian Accounting Standards (including Australian Accounting Interpretations)
- *Public Finance and Audit Act 1983* (the PF&A Act)
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions issued under the PF&A Act

The financial statements are prepared on an accrual basis in accordance with the historical cost convention except where specified otherwise.

All amounts are presented in Australian dollars and rounded to the nearest thousand dollars ($'000) unless otherwise stated.

The principal accounting policies adopted in the preparation of the financial statements are set out below and in the relevant notes.

Use of judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions about the carrying amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Judgements - in the process of applying the ETMHC's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Electricity network land lease classification – ETMHC as lessor

The ETMHC is the lessor in the 99-year lease of the electricity network. At the end of the lease, land will revert back to the ETMHC for nil consideration. The ETMHC has determined, based on an evaluation of the terms and conditions of the arrangements that it does not retain all the significant risks and rewards of ownership of the land, and accounted for the contract as a finance lease. As the lease was prepaid, the transaction was accounted for as a sale.

Estimates and assumptions - the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets, are described below.

The ETMHC based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the ETMHC. Such changes are reflected in the assumptions when they occur.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Valuation of lease receivable – unguaranteed residual value

The ETMHC carries its lease receivable which mainly comprise of the unguaranteed residual value at amortised cost less any impairment. The initial value of the unguaranteed residual value was measured using the discounted cash flow model. The inputs include observable markets data as well as internal data where a degree of judgement was applied to determine the fair value. Judgements include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported value of the residual assets. Details regarding indexation and discount rate used are disclosed in Note 11.

At the end of the reporting period, management reviews whether there are any indicators of impairment. These factors include the level of improvements undertaken by the lessee, volatility of land values, the rate of technological change and competitive conditions.

Workers' Compensation Provision

The liability for workers' compensation is based on an independent actuarial assessment, supplemented by management considerations, to arrive at a best estimate of the expenditure required to settle present obligations at the end of the reporting period.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury.

The liability for claims includes:

- claims incurred but not yet paid
- claims incurred but not reported (IBNR).

The estimate of IBNR are generally subject to a greater degree of uncertainty than reported claims.

Judgements, key assumptions and estimations management has made are disclosed in Note 13 Provision for Outstanding Claims.

Superannuation liabilities

The superannuation valuation is actuarially determined. It is measured as the best estimate of the expected future payments required to settle the present superannuation obligation at the reporting date less the fair value of the superannuation fund assets at the end of the reporting period.

The expected future payments are estimated on the basis of ultimate cost to settle the superannuation obligations, which includes actuarial assumptions such as risk-free interest rate (discount rate), CPI, salary growth and pensioner mortality rates. Changes in assumptions relating to these factors could affect the superannuation valuation reported.

In calculating the superannuation funding requirements under the AASB 1056 *Superannuation Entities*, economic assumptions about the investment return on the superannuation fund assets and the expected CPI increment were made. These assumptions are generally subject to a degree of uncertainty. The actual results may differ from these estimate as the above factors are largely driven by financial market and subject to economic cycles.

Details regarding assumptions and superannuation fund assets allocation are disclosed in Note 14.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Covid-19

Management has considered the impact of COVID-19 on the ETMHC's revenue and receivables, including the impact on estimate and judgements used in the valuation of lease receivable. Management has concluded that COVID-19 has not had a material impact on the ETMHC's operations and preparation of the financial statements for the year ended 30 June 2020.

The Crown Finance Entity (CFE) may provide grant funding to the ETMHC when required. The funding requirement is assessed annually through the State Budget process. The CFE receives appropriations from the Consolidated Fund. Appropriations for each financial year are set out in the Appropriation Bill that is prepared and tabled for that year. Due to COVID-19, the State Budget and related 2020-21 Appropriation Bill has been delayed until November/December 2020. However, pursuant to section 4.10 of the GSF Act, the Treasurer has authorised Ministers to spend specified amounts from Consolidated Fund. This authorisation is current from 1 July 2020 until the release of the 2020-21 Budget or Appropriation Bill.

Statement of compliance

The financial statements and notes comply with applicable Australian Accounting Standards, which include Australian Accounting Interpretations.

Changes in accounting policy, including new or revised Australian Accounting Standards

i. *Effective for the first time in FY2019-20*

The ETMHC applied AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other standards, amendments and interpretations apply for the first time in FY2019-20, but do not have a material impact on the financial statements of the entity.

AASB 15 *Revenue from contracts with Customers*

AASB 15 replaces AASB 111 *Construction Contracts* and AASB 118 *Revenue* and related interpretations. Under AASB 15, revenue is recognised when performance obligations are satisfied, and control of goods and services is transferred to the customer. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised in line with the fulfilment of service obligation.

The adoption of AASB 15 resulted in some changes to the presentation of certain revenue line items of the ETMHC in the current year. There is no financial impact on the ETMHC's financial statements and no change to comparatives.

The ETMHC is the lessor in a 99-year electricity network lease contract. While the lease arrangement is accounted for under AASB 16 *Leases*, various contract service fees and lease outgoing recoupment revenues embedded in the lease contract are non-lease components and are accounted for under AASB 15. The revenue is recognised over time based on the pattern of fulfilment of performance obligation and delivery of service to the lessee.

The ETMHC's contract service revenue mainly consist of:

i) recoupment of lease outgoings: where the service obligation is fulfilled, and revenue entitlement arise when the ETMHC pays the lease outgoing to the relevant government authorities and government trading enterprises.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) contract service income: where income is received from performance of the ongoing administrative tasks associated with the network lease (i.e. administration of subsequent land acquisition and disposal). The cash is received on the anniversary of the lease commencement date and which is paid in advance by the lessee. A contract liability is recognised upon receipt of cash and is reduced by the amounts recognised as income which is allocated over time based on the straight-line labour input method.

These revenue streams are aggregated and disclosed as “Contract service revenue” in the Statement of Comprehensive Income, previously disclosed as “Other operating revenue”. Refer to Note 7 for details.

The unearned contract service income is disclosed as “Contract liabilities”, a new line item, in the Statement of Financial Position. The equivalent of these liabilities was classified as “Other liabilities” in the comparative. Refer to Note 15 for details.

AASB 16 *Leases*

AASB 16 supersedes AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease,* Interpretation 115 *Operating Leases – Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases.

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. As the ETMHC is lessor in the TransGrid network finance lease, the adoption of AASB 16 did not have a material impact on the ETMHC’s financial statements.

The ETMHC has adopted the practical expedient available under AASB 16 paragraph C3 which allows for application of this standard to contracts that were previously identified as leases under AASB 117 and Interpretation 4. Accordingly, after separating the non-lease component contained in the network lease contract, the treatment of the TransGrid network lease, determined at inception, is unchanged under AASB 16.

Finance income is recognised and based on a pattern reflecting a constant periodic rate of return on the ETMHC's net investment in the finance lease. Finance income has been reclassified to investment revenue from other operating revenue in accordance with AASB 16 from 1 July 2019. The estimated unguaranteed residual value is assessed for impairment to ensure the carrying value does not exceed the recoverable amount. Refer to Note 11 for details on indexations and finance lease receivables.

ii. Issued but not yet effective

As mandated by Treasury Circular TC20-01, the ETMHC has not early adopted any new accounting standards, amendments and interpretations that have been issued but are not yet effective.

The following lists the new standards and interpretations that whilst not yet effective, may be applicable to the ETMHC:

- AASB 17 *Insurance Contracts* (operative date 1 July 2021)
- AASB 1059 *Service Concession Arrangements: Grantors* (operative date 1 July 2020)
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059* (operative date 1 July 2020)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* (operative date 1 July 2020)
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* (operative date 1 July 2020)
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* (operative date 1 July 2020)
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059* (operative date 1 July 2020)

Management have assessed the impact of new accounting standards issued but not yet effective and concluded there is no material impact to the ETMHC.

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.

REVENUE

Until 30 June 2019, income was recognised in accordance with AASB 118 and AASB 1004 *Contributions*. Revenue is measured at the fair value of the consideration or contributions received or receivable to the extent it is probable that the economic benefits will flow to the ETMHC and the amount can be measured reliably.

From 1 July 2019, revenue is recognised in accordance with the requirements of AASB 15 or AASB1058 *Income of Not-for-Profit Entities* dependent on whether there is an enforceable contract with specific performance obligation.

Investment revenue

Investment revenue of the EAMHC relates to interest revenue and finance income.

Interest revenue is recognised using the effective interest method as set out in AASB 9 *Financial Instruments: Recognition and Measurement*.

Finance income is recognised reflecting a constant periodic rate of return on the ETMHC's net investment in the finance lease in accordance with AASB 16.

Contract service revenue from 1 July 2019

Contract service revenue is recognised when the relevant performance obligation embedded in contracts with customers are satisfied by transferring the promised services. Performance obligations are completed over time. In assessing the amount of the revenue allocation, the ETMHC has applied the straight-line labour input method with reference to the cost and staff labour hours incurred. Other contract service revenue includes recoupment of lease outgoings. In this instance, revenue entitlement arises when the ETMHC pays the lease outgoing (performance obligation fulfilled) to the relevant government authorities and government trading enterprises.

Other operating revenue – recoupment of administrative costs (comparative period only)

The ETMHC recoups administrative costs from NSWENO (the lessee) and recognises this as other operating revenue.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

EXPENSES

Expenses are recognised when incurred.

Finance officers of the NSW Treasury provide administrative services, including the preparation of the ETMHC financial statements. The cost of these services is shown as an administrative charge in Note 5(a).

Self-insured workers compensation

Claims expenses are recognised as expenses when incurred. Included in claims expenses are actuarially determined revisions to the outstanding provision.

ASSETS

Cash and cash equivalents

Cash and cash equivalents represent the cash at bank and deposits with financial institutions and are recognised in the Statement of Financial Position and reconciled to the Statement of Cash Flows.

Receivables

Receivables comprise amounts due from claims recoverable and customers in the ordinary course of business. Under AASB 9, the classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics.

Financial assets are measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

The ETMHC recognises an allowance for expected credit losses (ECLs) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows and the cash flows that the ETMHC expects to receive, discounted at the original effective interest rate. For trade receivables, the ETMHC applies a simplified approach in calculating ECLs. The ETMHC recognises a loss allowance based on lifetime ECLs at each reporting date.

Other financial assets

The other non-current asset represents the emerging asset, being the present value of the network assets to be returned to the State on the expiry of the 99-year lease term.

Finance Lease – ETMHC as Lessor

A lease is classified at the inception date as a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

A receivable is recognised at an amount equal to the net investment in the lease. Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Gross investment in the lease is the aggregate of the minimum lease payments receivable by the lessor under a finance lease, and any unguaranteed residual value accruing to the lessor.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In accordance with TPP 11-01 Lessor classification of long-term land leases, prepaid lease classified as a finance lease under this policy will effectively be accounted for as a sale. At the inception of the lease, the lessor will derecognise the land and recognise the associated gain or loss on disposal.

Subsequently, finance income is based on a pattern reflecting a constant periodic rate of return on the ETMHC's net investment in the finance lease. The estimated unguaranteed residual values used in computing the gross investment in the lease are subject to an impairment test which takes into consideration factors such as the volatility of land values, the rate of technological change and competitive conditions.

LIABILITIES

Payables

Trade and other payables, including accruals not yet billed, represent liabilities for goods and services provided to the ETMHC prior to the end of the period and there is an obligation to make future payment. The amounts are unsecured and are usually paid within 30 days of recognition.

Subsequent to initial recognition of these liabilities at fair value, they are measured at amortised cost using the effective interest rate method. This measurement is equivalent to the original invoice amount.

Contract and other liabilities

Unearned revenue

The unearned revenue balance represents consideration received in advance from customers in respect of contract service income. Consideration is usually paid in advance upon the contract anniversary date, which is the lease commencement date. If consideration received exceeds services rendered, a contract liability is recognised.

Superannuation

The superannuation valuation is actuarially determined. The net superannuation defined benefit liabilities or assets are recognised as present value of the defined benefit obligation less the fair value of plan assets, adjusted for an asset ceiling. Asset ceiling refers to present value of economic benefits available as refunds from the fund or reduction in future contributions to the fund.

In accordance with AASB 119 *Employee Benefits*, the defined benefit superannuation schemes current and pass service costs and net interest cost reflecting passage of time on the net defined benefit liabilities or assets are recognised as profit and loss item in the Statement of Comprehensive Income. Remeasurements of the net defined benefit liabilities or assets that comprises of actuarial gain or losses, the return in plan assets and any change in the effect of asset ceiling other than the net interest as other comprehensive income in the year in which they occur.

Insurance

The ETMHC maintains a mix of external insurance policies and internal provisioning in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. The treatment of risks and associated liabilities are determined in conjunction with independent insurance advisers and loss adjusters.

Prior to 1 July 2012, TransGrid was a self-insurer for workers' compensation. The liability for claims made, or to be made, against the insurance provision was determined by reference to the *Workers Compensation Act 1987* and the former WorkCover Authority's guidelines to self-insurers. From 1 July 2012, TransGrid's insurance arrangements, including workers' compensation, are provided by the NSW Treasury Managed Fund (TMF).

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurable incidents occurring prior to 1 July 2012 are treated in accordance with the previous insurance arrangements, while incidents from 1 July 2012 onwards are managed under the TMF arrangements.

Provisions for outstanding claims

Provisions are recognised when:

- There is a 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; and
- A reliable estimate can be made of the amount of the obligation.

The expected future payments are then discounted at the risk free rate to a present value at the reporting date.

The liability for outstanding claims is measured in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* as the best estimate of the present value of expected future payments against claims incurred at reporting date. It is the best estimate with no deliberate overstatement or understatement of the liabilities. Where there is a material effect due to the time value of money, a provision is discounted. The increase in the provision resulting from the passage of time is recognised in finance costs.

Claim recoveries receivable

Receivables from claim recoveries are actuarially determined in consultation with claims manager.

The amount of the claim recoveries receivable is equal to gross incurred cost less the retention limit and recoveries received to date. The receivable is recognised when recovery is virtually certain to take place when the corresponding obligation is settled. The measurement of these receivables is affected by factors such as normal inflation and the discount rate used for discounting of future expected receipts. The rates applied are consistent with those used in the valuation of provisions for outstanding claims.

There has not been any key assumption made around the amounts recoverable that would have a significant risk of causing material adjustments to the carrying amount of the receivables within the next annual reporting period.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Comprehensive Income.

Derecognition of financial assets

A financial asset is primarily derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the ETMHC has transferred 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 (a) the ETMHC has transferred substantially all the risks and rewards of the asset, or (b) the ETMHC has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When the ETMHC 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. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the ETMHC continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the ETMHC also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the ETMHC has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the ETMHC could be required to repay.

Income tax

Following the sale of the discontinued operations and the entity's conversion to be a General Government Entity, it is no longer subject to the National Tax Equivalent Regime. As an entity wholly owned by the NSW Government, the ETMHC is exempt from all forms of taxation except Fringe Benefit Tax and the Goods and Services Tax.

Accounting for the Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), with the following exceptions:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Budgeted amounts

The budgeted amounts are drawn from the original budgeted financial statements presented to Parliament in respect of the reporting period. Major variances between the original budgeted amounts and the actual amounts disclosed in the primary financial statements are explained in Note 21.

Going Concern

The financial statements have been prepared on a going concern basis. It is expected that the ETMHC has adequate cash holding and cash inflows to continue operations for the foreseeable future. Further, the State will provide a letter of support confirming provision of financial support to the ETMHC to meet its debts as and when they become due and payable.

4. EMPLOYEE RELATED EXPENSES

	2020 $'000	2019 $'000
Superannuation - defined benefit expense	2,759	3,675
Total	**2,759**	**3,675**

5. OPERATING EXPENSES

a) Other Operating Expenses

Audit fees - audit of financial statements	54	63
Self-insured workers compensation	(195)	102
Admininistrative charge	182	500
Management fees	87	174
Claims handling expense	45	89
Council rates	1,862	1,527
Other	38	77
Total	**2,073**	**2,532**

b) Finance Costs

Unwinding of discount rate	89	186
Total	**89**	**186**

6. INVESTMENT REVENUE

Interest income	1,028	2,227
Finance income[(i)]	2,197	-
Total	**3,225**	**2,227**

7. CONTRACT SERVICE AND OTHER OPERATING REVENUE

a) Contract service revenue

	2020 $'000	2019 $'000
Council rate recoupment[(ii)]	1,862	-
Contract service income[(iii)]	576	-
Total	**2,438**	-

b) Other operating revenue

	2020 $'000	2019 $'000
Finance income[(i)]	-	2,080
Insurance and other recoveries	708	650
Council rate recoupment[(ii)]	-	1,527
Adminstrative income	-	567
Hindsight refund	-	662
Other income	-	1
Total	**708**	**5,487**

(i) At the date of execution of the 99-year finance lease, the ETMHC recognised a finance lease receivable representing the ETMHC's net investment in the lease. As the lease payments were received upfront, no further payments will be received by the ETMHC and the residual asset will be accreted over the term of the lease as finance income. From 1 July 2019, finance income has been reclassified to investment revenue from other operating revenue in accordance with AASB 16.

(ii) This relates to council rates recouped from the lessees under the 99-year finance lease. From 1 July 2019, the recoupment has been reclassified to contract service revenue from other operating revenue in accordance with AASB 15.

(iii) The ETMHC receives annual income from the lessee of $550k, adjusted for CPI, each year to cover for the administration costs incurred in managing its affairs, including the administration of subsequent land acquisitions and disposals associated with the lease. The specific performance is specified under the enforceable network lease contract. Accordingly, revenue recognition is subject to AASB 15 and has been reclassified to contract service revenue from other operating revenue.

8. OTHER GAINS/(LOSSES)

Impairment loss on finance lease receivable	(148)	-
Total	**(148)**	**-**

During the year, parcels of land forming part of the leased assets were sold by the lessee to external purchasers. The sale of land is permitted under the lease agreement and constitutes a partial surrender of the lease in respect of the land sold. Under the lease agreement, sales proceeds were paid directly to the lessee by the purchasers. The ETMHC has no claim on the proceeds. Following the sales, the net present value of the relevant land was derecognised from the finance lease receivable as part of annual impairment process, resulting in an impairment loss on the leased assets.

9. CASH AND CASH EQUIVALENTS

	2020 $'000	2019 $'000
Cash at bank	152,397	151,412
Total	**152,397**	**151,412**

For the purpose of the statement of cash flows, cash and cash equivalents include cash at bank. Refer to Note 19 regarding credit risk, liquidity and market risk arising from financial instruments.

10. RECEIVABLES

Current		
Debtors	709	658
GST receivable	34	59
Claim recovery receivables	535	658
Total	**1,278**	**1,375**
Non-Current		
Claim recovery receivables	2,242	2,592
Total	**2,242**	**2,592**

Details regarding credit risk, liquidity risk and market risk, including the financial assets that are either past due or impaired, are disclosed in Note 19.

11. OTHER FINANCIAL ASSETS

Non-current		
Finance lease receivable(i)	35,829	33,780
Total	**35,829**	**33,780**

(i) Finance lease receivable

On completion of the long-term lease transaction, the ETMHC acts as a lessor and NSWENO act as a lessee in a 99-year lease arrangement. TransGrid transferred substantially all risks and rewards incidental to ownership of the leased assets to NSWENO; as such the lease is classified as a finance lease.

Finance lease accounting requires the ETMHC as the Lessor to recognise a finance lease receivable equal to the net investment in the lease, which is the discounted gross investment in the lease comprising the minimum lease payments and unguaranteed residual value. As the lease payments were received upfront, the net investment in the lease corresponds to the present value of the assets that will revert to the Lessor on expiry of the leases.

The residual value in 99 years is estimated at $14.48 billion ($14.55 billion at inception), using an annual indexation of 4 percent. The present value of the lease was $26.85 million ($26.98 million at inception), discounted at nominal pre-tax discount rate of 6.57 percent. Finance income of $2.20 million (2019: $2.08 million) was recognised in the period (refer to Note 6 and Note 7(b)).

11. OTHER FINANCIAL ASSETS (continued)

The results of the annual impairment procedures concluded that there are no indicators of impairment at the reporting date.

The lease contains two clauses:

1. any improvements made by the lessee to the existing land, or acquisition of additional land for the electricity network use are treated as transactions by the ETMHC. However, the State does not benefit from these improvements during the term of the lease as all risks and rewards are with the lessee, and
2. acquisitions or the lease of additional land by the lessee are subject to an option which allows the ETMHC to acquire or lease the additional land for nominal consideration with nil rentals. As an option to buy non-financial items that will not be settled net in cash, the option has been classified as an executory contract which will only be accounted for on exercise.

Reconciliation of net investment in leases	**2020**	**2019**
	$'000	**$'000**
Future undiscounted rentals receivable	-	-
Unguaranteed residual amounts - undiscounted	14,480,944	14,549,310
Less: unearned finance income	14,445,115	14,515,530
Net investment in finance leases	**35,829**	**33,780**
Reconciliation of gross investment in finance leases		
Present value of minimum lease payments unearned finance income	-	-
Unguaranteed residual amounts - undiscounted	14,480,944	14,549,310
Gross investment in finance leases	**14,480,944**	**14,549,310**
Reconciliation of unguaranteed residual amounts (undiscounted)		
Opening balance	14,549,310	
Less disposal - partial surrender of the lease	(68,366)	
Closing balance	**14,480,944**	

12. PAYABLES

Current		
Creditors and accruals	36	39
Total	**36**	**39**

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables are disclosed in Note 19.

13. PROVISIONS

	2020 $'000	2019 $'000
Current		
Outstanding claims[(i)]	1,013	1,477
	1,013	1,477
Non-Current		
Outstanding claims[(i)]	7,159	8,169
Superannuation liability (Note 14(iii))	224,761	209,009
	231,920	217,178
Total	**232,933**	**218,655**

(i) Workers' Compensation outstanding claims provision movements

	2020	2019
Opening balance	9,646	10,248
Payments	(897)	(802)
Actuarial (gains)/losses	(887)	(496)
Change in the discount rate	221	510
Unwinding of discounts	89	186
Closing balance	**8,172**	**9,646**

Claims experience was favourable over the year. Reduction in industrial deafness claims contributed $1.2 million to the actuarial gain for 2020.

(a) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be between 6.89 years (2019: 7.33 years).

(b) The following average inflation rates and discount rates were used in measuring the liability for outstanding claims.

	Workers' Compensation	
	2020 %	2019 %
Not later than one year		
Inflation rate	1.05	2.33
Discount rate	0.23	1.00
Later than one year		
Inflation rate	0.58 - 3.0	0.85 - 3.0
Discount rate	0.26 - 4.5	0.9 - 4.5

Sensitivity Analysis
The outstanding claims liabilities are the best estimate derived from actuarial assumptions regarding future experience. Sensitivity analysis can be used to measure the change in the outstanding claims estimate that would result from a change in the assumptions. Sensitivity analysis of the key valuation assumption changes for the Workers' Compensation liabilities and their impact are shown in the following tables:

Electricity Transmission Ministerial Holding Corporation

Notes to the financial statements
for the year ended 30 June 2020

13. PROVISIONS (continued)

(a) as at 30 June 2020

Variable	Movement in variable	Net Central Estimate $'000	Impact of Change $'000	% Impact
Net Central Estimate[1]		5,394		
Discount rate	+1%	4,947	-447	-8.3%
	-1%	5,914	520	9.6%
Inflation rate	+1%	5,841	447	8.3%
	-1%	5,004	-390	-7.2%
Industrial deafness claims				
Life expectancy of reactivation[2]	+5 years	5,556	162	3.0%
	-5 years	5,222	-172	-3.2%
Reactivation Seed[3]	+10%	5,489	95	1.8%
	-10%	5,298	-96	-1.8%
Maximum entitlement	+10%	5,705	311	5.8%
	-10%	5,082	-312	-5.8%
Proportion reactivate	+1%	5,501	107	2.0%
	-1%	5,287	-107	-2.0%
Dust disease claims				
Seed Reports[3]	+50%	5,803	409	7.6%
	-50%	4,984	-410	-7.6%
Incidence curves[4]	+15% IBNR claims	5,517	123	2.3%
	-15% IBNR claims	5,271	-123	-2.3%
Average claim size[5]	+10%	5,522	128	2.4%
	-10%	5,265	-129	-2.4%

1. The net central estimate is inflated and discounted, net of reinsurance and other recoveries and includes an allowance for claims handling expenses.
2. The life expectancy is used to estimate the expected remaining time that IBNR claims will receive benefits for.
3. Seed reports are the expected number of dust disease claims expected in the first projection year. Reactivation seed reports are the expected number of industrial deafness IBNR claims expected in the first projection year.
4. Incidence curves reflect the expected emergence of dust disease claims in the future. The actuary has tested the sensitivity of the curves by increasing and decreasing the latency period which results in an increase or decrease in the number of future IBNR claims.
5. This includes testing the sensitivity to the average claim size for reported claims (excluding industrial deafness).

13. PROVISIONS (continued)

(b) as at 30 June 2019

Variable	Movement in variable	Net Central Estimate $'000	Impact of Change $'000	% Impact
Net Central Estimate[1]		6,396		
Discount rate	+1%	5,832	-564	-8.8%
	-1%	7,054	658	10.3%
Inflation rate	+1%	6,981	585	9.1%
	-1%	5,887	-509	-8.0%
Industrial deafness claims				
Life expectancy of reactivation[2]	+5 years	6,689	293	4.6%
	-5 years	6,084	-312	-4.9%
Reactivation Seed[3]	+10%	6,411	15	0.2%
	-10%	6,382	-14	-0.2%
Maximum entitlement	+10%	6,824	428	6.7%
	-10%	5,968	-428	-6.7%
Proportion reactivate	+1%	6,508	112	1.8%
	-1%	6,285	-111	-1.7%
Dust disease claims				
Seed Reports[3]	+50%	6,891	495	7.7%
	-50%	5,901	-495	-7.7%
Incidence curves[4]	+15% IBNR claims	6,545	149	2.3%
	-15% IBNR claims	6,248	-148	-2.3%
Average claim size[5]	+10%	6,376	-20	-0.3%
	-10%	6,417	21	0.3%

1. The net central estimate is inflated and discounted, net of reinsurance and other recoveries and includes an allowance for claims handling expenses.
2. The life expectancy is used to estimate the expected remaining time that IBNR claims will receive benefits for.
3. Seed reports are the expected number of dust disease claims expected in the first projection year. Reactivation seed reports are the expected number of industrial deafness IBNR claims expected in the first projection year.
4. Incidence curves reflect the expected emergence of dust disease claims in the future. The actuary has tested the sensitivity of the curves by increasing and decreasing the latency period which results in an increase or decrease in the number of future IBNR claims.
5. This includes testing the sensitivity to the average claim size for reported claims (excluding industrial deafness).

14. UNFUNDED SUPERANNUATION

The following narrative and tables summarise the components of movement in the ETMHC's net superannuation asset/liability recognised in the Statement of Comprehensive Income and Other Comprehensive Income, and the funded status and amounts recognised in the Statement of Financial Position for the defined benefit superannuation funds. Assets and Liability values of the ETMHC's Energy Industries Superannuation Scheme Defined Benefit Funds are provided by the Fund's Actuary, Mercer Consulting (Australia) Pty Ltd.

Nature of the benefits provided by the fund

The Energy Industries Superannuation Scheme (the Scheme) is divided into seven divisions, of which Divisions B, C and D provide defined benefits, that is 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. Divisions B, C and D are closed to new members except for members of eligible schemes who can transfer their entitlements into the Scheme.

Disclosures below are prepared in relation to Divisions B, C and D only; these Divisions are referred to collectively as "the Fund" hereafter.

Description of the regulatory framework

The Scheme was established on 30 June 1997 by a Trust Deed made under an Act of the NSW Parliament, for the purpose of providing retirement benefits for employees of certain Energy Industries bodies in NSW.

The Scheme is regulated primarily by the *Superannuation Industry (Supervision) Act 1993 (Cth)* ("the SIS legislation") but is also subject to regulation under the *Superannuation Administration Act 1996 (NSW).*

The SIS legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions, unless an exemption has been obtained.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises regulated superannuation plans.

The Scheme has received an exemption from annual actuarial valuations and therefore actuarial valuations are only required triennially. The last actuarial valuation of the Scheme was performed as at 30 June 2018. The next actuarial valuation is due to be performed as at 30 June 2021.

Governance

Energy Industries Superannuation Scheme Pty Limited is the Superannuation Scheme Trustee. The Scheme's Trustee is responsible for the governance of the Scheme. The Trustee has a legal obligation to act solely in the best interests of the Scheme beneficiaries. The Trustee has the following roles:

- Administration of the Scheme and payment to the beneficiaries from Scheme assets when required in accordance with the Scheme rules;
- Management and investment of the Scheme assets;
- Compliance with other applicable regulations, and
- Compliance with the Trust Deed.

14. UNFUNDED SUPERANNUATION (continued)

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, resulting in pensions being paid for a longer period and thereby requiring additional employer contributions.
- **Pension indexation risk** – The risk that pensions will increase at a rate greater than assumed, increasing future pensions and thereby requiring additional employer contributions.
- **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 various independent fund managers and have a diversified asset mix, as such effectively diversified and minimised investment risk and liquidity risk.

	As at 30-Jun-20	**As at** 30-Jun-19
Member Numbers		
Contributors	-	-
Deferred benefits	15	16
Pensioners	378	377

Description of significant events

On completion of the 99-year lease transaction, all current employees and their respective defined benefit plans were transferred to NSWENO. The defined benefit plan remaining with the ETMHC relate to the retired employees. There were no significant events that occurred during the year.

(i) Movements in superannuation net asset/(liability) recognised in profit or loss

	2020 $'000	**2019 $'000**
Net interest	(2,759)	(3,675)
Total net expense	**(2,759)**	**(3,675)**

(ii) Movements in superannuation net asset/(liability) recognised in Other Comprehensive Income

Actuarial gains/(losses) on liabilities	(7,946)	(92,886)
Actuarial gains/(losses) on assets	(5,047)	26,222
Total actuarial gains/(losses)	**(12,993)**	**(66,664)**

14. UNFUNDED SUPERANNUATION (continued)

(iii) Reconciliation of the superannuation net asset/(liability)

	2020 $'000	2019 $'000
Net Asset/(liability) at the beginning of the year	**(209,009)**	**(138,670)**
Current service cost	-	-
Net interest income/(expense) on the net defined benefit asset/(liability)	(2,759)	(3,675)
Return on plan assets, excluding amounts included in interest expense/(income)	(5,047)	26,222
Actuarial gains/(losses) arising from changes in demographic assumptions	-	(2,951)
Actuarial gains/(losses) arising from changes in financial assumptions	4,257	(92,111)
Actuarial gains/(losses) arising from liability experience	(12,203)	2,176
Net Asset/(liability) at the end of the year	**(224,761)**	**(209,009)**

(iv) Reconciliation of the defined benefit obligation

	2020 $'000	2019 $'000
Present value of defined benefit obligations at the beginning of the year	**(551,854)**	**(470,749)**
Interest income/(expense)	(7,128)	(12,157)
Actuarial gains/(losses) arising from changes in demographic assumptions	-	(2,951)
Actuarial gains/(losses) arising from changes in financial assumptions	4,257	(92,111)
Actuarial gains/(losses) arising from liability experience	(12,203)	2,176
Benefits paid	22,694	22,976
Taxes, premiums & expenses paid	994	962
Present value of defined benefit obligations at the end of the year	**(543,240)**	**(551,854)**

(v) Reconciliation of the fair value of fund assets

	2020 $'000	2019 $'000
Fair value at the beginning of the year	342,845	332,079
Interest income	4,369	8,482
Actual return on fund assets less interest income	(5,047)	26,222
Benefits paid	(22,694)	(22,976)
Taxes, premiums & expenses paid	(994)	(962)
Fair value at the end of the year	**318,479**	**342,845**

14. UNFUNDED SUPERANNUATION (continued)

Maturity profile of defined benefit obligations

The weighted average duration of the defined benefit obligation is 13 years (30 June 2019 - 12 years) for the continuing operations.

Fair value of fund assets

All Division B, C and D assets are held in Pool B of the Fund. Pool B in turn holds units invested in the Energy Investment Fund, a pooled superannuation trust. As such, assets are not separately invested for each employer and it is not possible or appropriate to disaggregate and attribute Fund assets to individual entities, and the disclosures below relate to total assets of Pool B of the Fund.

	2020 $'000	2019 $'000
Level 1 - Quoted prices in active markets for identical assets	-	-
Level 2 - Significant observable inputs	1,834,949	2,058,058
Level 3 - Unobservable inputs	-	-
Total	**1,834,949**	**2,058,058**

Level 1 - quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares and 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 and unlisted trusts containing 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 and hedge funds.

Some Pool B assets are invested in accordance with member investment choices. For Pool B assets invested in the Energy Investment Fund but not subject to investment choice, the percentage invested in each asset class at the end of the reporting period is:

Asset Category	30 June 2020	30 June 2019
Alternatives	8%	4%
International equities	25%	25%
Australian equities	14%	16%
Infrastructure	8%	6%
Property	13%	11%
Private equity	1%	2%
Cash	13%	5%
Fixed income	18%	31%
Total	**100%**	**100%**

14. UNFUNDED SUPERANNUATION (continued)

Derivatives can be used by investment managers, however strict investment guidelines detail all limits approved on the use of derivatives. The use of derivatives is governed by the investment policies, which permit the use of derivatives to change the Fund's exposure to particular assets. The Trustee requires that derivative financial instruments are not entered into for speculative purposes or to gear the Fund, and that all derivatives positions are (a) fully cash covered; (b) are offset to existing assets; or (c) are used to alter the exposures in underlying asset classes. Compliance with policies and exposure limits are reviewed by the Trustee on a continual basis. As such, the investment managers make limited use of derivatives.

The fair value of Fund assets includes no amounts relating to:

- any of the ETMHC's financial instruments; and
- any property occupied by, or other assets used by, the ETMHC.

Significant actuarial assumptions at the end of the reporting period

	2020	2019
Discount rate	0.87% pa	1.32% pa
Salary increase rate (excluding promotional increases)	N/A	N/A
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	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter
Contributions tax rate	15% p.a.	15% p.a.
Pensioner mortality	The pensioner mortality rates used are as per the triennial valuation of the Scheme as at 30 June 2018 (the rates are disclosed in the triennial report available from the Trustee website). The pension mortality rates are based on experience of the NSW public sector.	The pensioner mortality rates used are as per the triennial valuation of the Scheme as at 30 June 2018 (the rates are disclosed in the triennial report available from the Trustee website). The pension mortality rates are based on experience of the NSW public sector.

Sensitivity analysis

The ETMHC's total defined benefit obligation as at the end of the reporting period under several scenarios is presented below. Scenarios A to D relate to the sensitivity of the total defined benefit obligation to economic assumptions, and scenarios E and F relate to its sensitivity to demographic assumptions.

14. UNFUNDED SUPERANNUATION (continued)

As at 30 June 2020

	Base case	Scenario A - 0.5% discount	Scenario B +0.5% discount rate
Discount rate	0.87% pa	0.37% pa	1.37% 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	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	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
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($000)	543,239	576,489	512,752
	Base case	**Scenario C +0.5% rate of CPI increase**	**Scenario D -0.5% rate of CPI increase**
Discount rate	0.87% pa	0.87% pa	0.87% 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	1.50% for 2019/20; 0.75% for 2020/21; 2.00% for 2021/22; 1.75% for 2022/23; 2.25% for 2023/24; 2.50% for 2024/25 and 2025/26; 2.75% pa to 2029/30; 3.00% pa thereafter	0.50% for 2019/20; -0.25% for 2020/21; 1.00% for 2021/22; 0.75% for 2022/23; 1.25% for 2023/24; 1.50% for 2024/25 and 2025/26; 1.75% pa to 2029/30; 2.00% pa thereafter
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($000)	543,239	577,362	511,683
	Base case	**Scenario E Lower pensioner mortality rates ***	**Scenario F Higher pensioner mortality rates ****
Defined benefit obligation ($000)	543,239	550,881	535,937

* Assumes the short-term pensioner mortality improvement factors for years 2018-2024 also apply for years after 2024.

** Assumes the long-term pensioner mortality improvement factors for years post 2025 also apply for years 2018 to 2024.

14. UNFUNDED SUPERANNUATION (continued)

Sensitivity analysis

As at 30 June 2019

	Base case	Scenario A - 1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	1.32% pa	0.32% pa	2.32% pa
Rate of CPI increase	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($000)	551,854	625,436	490,277
	Base case	**Scenario C +0.5% rate of CPI increase**	**Scenario D -0.5% rate of CPI increase**
Discount rate	1.32% pa	1.32% pa	1.32% pa
Rate of CPI increase	1.75% pa for 2018/19 and 2019/20, 2.00% for 2020/21, 2.25% pa for 2021/22 and 2022/23 then 2.5% pa thereafter	2.25% p.a. for 2018/19 and 2019/20, 2.50% for 2020/21, 2.75% p.a. for 2021/22 and 2022/23 then 3.0% p.a. thereafter	1.25% p.a. for 2018/19 and 2019/20, 1.50% for 2020/21, 1.75% p.a. for 2021/22 and 2022/23 then 2.0% p.a. thereafter
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($000)	551,854	587,824	518,663
	Base case	**Scenario E Lower pensioner mortality rates ***	**Scenario F Higher pensioner mortality rates ****
Defined benefit obligation ($000)	551,854	559,442	544,568

* Assumes the short-term pensioner mortality improvement factors for years 2018-2024 also apply for years after 2024.

** Assumes the long-term pensioner mortality improvement factors for years post 2024 also apply for years 2018 to 2024.

14. UNFUNDED SUPERANNUATION (continued)

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

Asset/Liability matching strategies

The assets of the Scheme are managed using a Liability Driven Investment approach.

Funding arrangements

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at December 2018. Contribution rates are set after discussions between the employer and the trustee. Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

Net Surplus / (Deficit)

The following is a summary of the 30 June 2020 financial position of the Fund calculated in accordance with AASB 1056 *Superannuation Entities*:

	2020 $'000	2019 $'000
Net market value of Fund assets	318,479	342,846
Accrued benefits	(324,875)	(327,020)
Net Surplus/(Deficit)	**(6,396)**	**15,826**

Please note that the above AASB 1056 results are based on the economic assumptions to be used for the 30 June 2020 actuarial valuation, which are based on the AASB 119 basis. The economic assumption under AASB 1056 is different with the assumption used under AASB 119. The AASB 1056 deficit (surplus) will be lower (higher) than the AASB 119 net defined benefit liability (asset) recognised in the Statement of Financial Position, because the expected after-tax rate of return on plan assets is typically higher than the long-term government bond rate. For AASB 1056 financial assumptions, please refer to economic assumptions section for details.

Contribution Recommendations

Recommended contribution rates for the entity are:

	2020	2019
Division B - multiple of member contributions	N/A	N/A
Division C - % member salary	N/A	N/A
Division D - multiple of member contributions	N/A	N/A
Additional lump sum $p.a.	Nil	Nil

14. UNFUNDED SUPERANNUATION (continued)

Economic Assumptions

The economic assumptions adopted for 30 June 2020 AASB1056 calculations above are:

Weighted Average Assumptions	2020	2019
Expected rate of return on Fund Assets	5.0% pa	5.5% pa
Expected salary increase rate	N/A	N/A
Expected rate of CPI Increase	1.9% pa	2.3% pa

Expected contributions

Expected employer contributions to be paid in the period 1 July 2020 to 30 June 2020 is nil.

Impact due to Covid-19

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 EISS's assets in current financial conditions, sensitivities to this assumption for the AASB 1056 results in Table 1 below (results for 2019 shown for comparative purposes).

30 June 2020

	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)	5.0% pa	4.5% pa	5.5% pa
Expected rate of return on Fund assets backing other liabilities (discount rate)	5.0% pa	4.5% pa	5.5% pa
Rate of CPI increase	1.9% pa	1.9% pa	1.9% pa
Salary inflation rate	2.3% for 2020/21, 2.4% for 21/22, 2.5% for 22/23, 2.9% pa thereafter	as base case	as base case
Accrued Benefits ($000)	**$324,875**	**$340,918**	**$310,129**

14. UNFUNDED SUPERANNUATION (continued)

30 June 2019

	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)	5.5% pa	5.0% pa	6.0% pa
Expected rate of return on Fund assets backing other liabilities (discount rate)	5.5% pa	5.0% pa	6.0% pa
Rate of CPI increase	2.3% pa	2.3% pa	2.3% pa
Salary inflation rate	2.6% for 2019/20, 2.8% for 2020/21, 3.3% pa thereafter	as base case	as base case
Accrued Benefits ($000)	**$327,020**	**$343,408**	**$311,919**

15. CONTRACT LIABILITIES AND OTHER LIABILITIES

	2020 $'000	2019 $'000
a) Other liabilities		
Unearned revenue	-	261
Security deposits	53	54
Total	**53**	**315**
b) Contract liabilities		
Unearned revenue	265	-
Total	**265**	**-**

Contract liabilities reconciliation	
Opening balance	-
Transfer-in on AASB15 1st time adoption	261
Contract service invoiced/received	580
Revenue recognised upon performance obligation fulfilled	(576)
Closing balance	**265**

Revenue recognised that was included in the Contract liability balance (adjusted for AASB 15) at the beginning of the year	261
Revenue recognised from performance obligation satisfied in pevious periods	-
Transaction price allocated to the remaining performance obligations from the contract with customers	265

15. CONTRACT LIABILITIES AND OTHER LIABILITIES (continued)

The transaction price allocated to the remaining performance obligations relates to the ongoing administrative tasks associated with the network lease. 100% is expected to be recognised as revenue in the 2020-21 financial year.

16. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent Assets

ETMHC outsourced the workers compensation claim service to Insurance and Care NSW (icare) which is a central government agency. icare utilises an outsourced claim arrangement services including Employers Mutual Limited (EML). EML became ETMHC's claim managers in December 2015. Following the service level agreement, EML performs specific procedures to manage workers compensation claims. Annual audit is conducted to ensure the financial integrity, accountability and relevant internal control procedures are adhered to.

Overpayments of workers compensation claim were made by EML to an ex-Transgrid employee.

Estimated overpayment of $12,000 was made in the current financial year. Investigation is underway to ascertain the total overpayment over the life of the claim. Based on the contractual agreements, ETMHC may recover the overpayment through icare and EML. However, a reliable estimate of the recoverable amount cannot be determined at the date of signing.

Contingent Liabilities

The ETMHC does not have any contingent liabilities to report as at 30 June 2020.

The ETMHC did not have any contingent assets and contingent liabilities to report as at 30 June 2019.

17. FAIR COMPENSATION TRUST ACCOUNT

In accordance with the *Land Acquisition (Just Terms Compensation) Act 1999*, the ETMHC maintains a Trust Account. The ETMHC performs only a custodial role in respect of these monies, and as the monies cannot be used for the achievement of the ETMHC's own objectives, these funds are not recognised in the financial statements. The following is a summary of the transactions in the trust account:

	2020 $'000	2019 $'000
Cash balance at the beginning of the financial year	481	474
Add: Receipts	4	7
Less: Expenditure	-	-
Cash balance at the end of the financial year	**485**	**481**

18. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of net result to net cash provided by operating activities

Net cash from operating activities	985	2,416
Add/(less) non-cash items		
Superannuation actuarial (gain)/loss	12,993	66,664
Finance lease income	2,197	2,080
Gains/(Losses) on disposal of assets	(148)	-
Net changes in assets and liabilities during the financial year		
Increase/(decrease) in receivables	(447)	(658)
(Increase)/decrease in payables	3	561
(Increase)/decrease in provisions	(14,278)	(69,737)
(Increase)/decrease in contract liabilities and other liabilities	(3)	(5)
Net result	**1,302**	**1,321**

19. FINANCIAL INSTRUMENTS

The ETMHC's principal financial instruments are outlined below. The financial instruments arise directly from the ETMHC's operations or are required to finance the ETMHC's operations. The Secretary has overall responsibility for the establishment and oversight of risk management and review of policies for managing risk.

Financial Instrument Categories

			2020 $'000	2019 $'000
Carrying Amount	**Note**	**Categories**		
Financial Assets				
Cash and cash equivalents	9	N/A	152,397	151,412
Receivables	10	Amortised cost	709	658
Financial Liabilities				
Payables	12	Financial liabilities measured at amortised cost	36	39

The above tables exclude statutory receivables/payables and contract liability which are not within the scope of AASB 7 *Financial Instruments: Disclosures* and excludes lease receivables which only represent the unguaranteed residual value.

Financial risk management overview

Financial instruments comprise of cash, trade debtors and trade creditors. The main purpose of these financial instruments was to raise finance or invest surplus cash for the ETMHC's operations, and to manage exposure to price movements.

19. FINANCIAL INSTRUMENTS (continued)

As at 30 June 2020 the ETMHC has exposure to the following risks:

- Credit risk;
- Liquidity risk; and
- Market risk
- Operational risk.

Credit risk

Credit risk arises when there is the possibility that the ETMHC's debtors will default on their contractual obligations, resulting in a financial loss to the ETMHC. The maximum exposure to credit risk is generally represented by the carrying amount of financial assets (net of any allowance for impairment or allowance for credit losses).

Credit risk arises from the financial assets of the ETMHC, including cash and receivables. No collateral is held by the ETMHC.

Cash

Cash comprises bank balances with the NSW Treasury Banking System. Interest is earned on daily bank balance.

Receivables

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Procedures, as established in the Treasurer's Directions, are followed to recover outstanding amounts, including letters of demand.

The ETMHC applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade debtors. To measure the expected credit losses, trade 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 historic loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors. There are no receivables that are past due or considered impaired as at the reporting date. Receivables are written off when there is no reasonable expectation of recovery and no interest earned on trade debtors.

Liquidity risk

Liquidity risk is the risk that the ETMHC will be unable to meet its payment obligations when they fall due. The ETMHC continuously manages risk through monitoring future cash flows and commitment maturities.

Due to the 99-year finance lease transaction (Note 2) TransGrid's main business operations were discontinued therefore the ETMHC's exposure is limited to the value of trade payables.

There were no defaults on payables in the current year, and no assets have been pledged as collateral.

All trade and other payables are expected to be settled by the ETMHC within the next 12 months.

Market risk

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The ETMHC's exposure to market risk is primarily through interest rate risk on its cash holding.

19. FINANCIAL INSTRUMENTS (continued)

The effect on the ETMHC's net result and equity due to a reasonably possible change in risk variable is outlined below for interest rate risk. A reasonably possible change of +/- 1 per cent is used. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

Exposure to interest rate risk is limited to cash at bank at 30 June 2020.

		$'000			
Variable Rate Instruments	**Carrying amount**	**-1%**		**1%**	
		Net result	**Equity**	**Net result**	**Equity**
2020					
Cash and cash equivalents	152,397	(1,524)	(1,524)	1,524	1,524
2019					
Cash and cash equivalents	151,412	(1,514)	(1,514)	1,514	1,514

Operational risk

Operational risk is the risk of suffering financial loss due to mismanagement, error, fraud or unauthorised use of financial products. Appropriate segregation of duties and maintenance of control systems are in place to mitigate operational risk.

Management assessed that the carrying of all financial instruments approximate the fair value largely due to the short term maturities of the instruments.

20. RELATED PARTIES

a) Ultimate parent

The NSW Government is the ultimate parent of the ETMHC. The NSW Government is also the ultimate parent of NSW Treasury that provides key management personnel services to the ETMHC.

(b) Key management personnel remuneration

The ETMHC defines key management personnel (KMP) as those having authority and responsibility for planning, directing and controlling the activities of the entity. NSW Government is the ultimate controlling party of the ETMHC, therefore the Treasurer, the NSW Treasury Secretary, and certain NSW Treasury Deputy Secretaries and Executive Directors are considered as KMP. The NSW Cabinet are considered related parties of the ETMHC because of their role to direct overall government policy and make decisions about State issues.

The ETMHC does not have employees. The key management personnel services were provided by NSW Treasury. There was no remuneration paid to any of the KMP by the ETMHC during the period.

No loans were made to any of the KMP by the agency during the period.

(c) Transactions with related parties

(i) Transactions with KMP

ETMHC has developed a framework in conjunction with NSW Treasury that supports the identification, recording and authorisation of the related party transactions. The KMP is required to complete annual declarations in relation to the related party transactions. No KMP has declared that he/she or their close family members have made any transactions with the ETMHC during the reporting year.

20. RELATED PARTIES (continued)

(ii) Transactions with other related entities

The ETMHC interacts with other government agencies in delivering services to the general public. Services provided by other government agencies are provided to the ETMHC in the same commercial terms as the general public.

Finance officers of the NSW Treasury provide administrative services, including the preparation of the ETMHC financial statements. The cost of these services is shown as an administrative charge in the ETMHC.

21. BUDGET REVIEW

Net result

For the year ended 30 June 2020, the ETMHC made a profit of $1.3 million which was $0.3 million lower than budget.

Total expenses were $1.4 million lower than budget mainly due to the following:

- Operating expenses was lower by $0.6 million caused by the reduction in workers compensation and administrative charges.
- Reduction in superannuation defined benefit expenses of $0.6 million following actuarial valuation.
- Finance cost was lower due to low interest rate.

Total revenue was $1.6 million lower than budget primarily caused by the fall in interest revenue of $1.4 million consequence of the currently low interest rate during the setting.

Other comprehensive income was $13.0 million lower than budget attributed by the actuarial loss on superannuation liabilities following the reduction in discount rate 0.87 per cent (2019: 1.32 per cent).

Assets and Liabilities

Net liabilities for the year were $41.5 million compared to a net asset budget of $24.9 million.

Total assets were $192.0 million which is $1.5 million lower than budget. This was mainly due to the decrease of cash and cash equivalents by $2.7 million partially offset by the increase in claim recovery receivable by $0.7 million from updated claims estimate.

Total liabilities were $233.3 million which is $64.9 million higher than budget due to increase in defined benefit superannuation liabilities of $65.4 million reflecting the reduction in discount rate.

Cash flows

The actual net cash flow from operating activities were $1.0 million which is $1.7 million lower than budget. This was mainly due to the reduction in interest revenue of $1.4 million caused by decreasing interest rate.

Closing cash and cash equivalents were $152.4 million, $2.7 million lower than budget.

Being a residual entity, the ETMHC's activities are shown as "Post Transaction Activities" program group and aggregated in the State Budget outcomes.

22. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial statements

Liability Management Ministerial Corporation

Financial Statements
for the year ended 30 June 2020

Liability Management Ministerial Holding Corporation

Charter

The Liability Management Ministerial Corporation (LMMC) was constituted under the *General Government Liability Management Fund Act 2002* to manage the General Government Liability Management Fund.

Objectives

The LMMC accumulates financial assets to support the long-term fiscal target of eliminating total sector unfunded superannuation liabilities by 30 June 2030.

Staffing

Administration and accounting services are provided by staff of the NSW Treasury. The LMMC has no staff of its own.

AUDITOR-GENERAL

NEW SOUTH WALES

INDEPENDENT AUDITOR'S REPORT

Liability Management Ministerial Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Liability Management Ministerial Corporation (the Corporation), 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 Statement of Significant Accounting Policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation 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 45E 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 the Corporation 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

The Corporation's 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 Secretary of the Corporation 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 department head.

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 Secretary of Treasury's Responsibilities for the Financial Statements

The Secretary of Treasury 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 Secretary of Treasury 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 Secretary of Treasury is responsible for assessing the Corporation's 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 the Department carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- 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.

Renee Meimaroglou
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

9 October 2020
SYDNEY

Liability Management Ministerial Corporation

Financial Statements
for the year ended 30 June 2020

STATEMENT BY THE SECRETARY

Pursuant to Section 41C (1B) of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

(a) The accompanying financial statements exhibit a true and fair view of the financial position of the Liability Management Ministerial Corporation as at 30 June 2020 and the financial performance for the year then ended; and

(a) 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*, Treasurer's Directions and applicable Australian Accounting Standards.

I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Michael Pratt AM
Secretary

9/14 October 2020

Liability Management Ministerial Corporation

Statement of Comprehensive Income
for the year ended 30 June 2020

	Notes	Budget 2020 $'000	Actual 2020 $'000	Actual 2019 $'000
Expenses excluding losses				
Operating expenses	3	21	203	21
Total expenses excluding losses		**21**	**203**	**21**
Revenue				
Investment revenue	4	13,908	98	16,521
Grants and contributions	5	22,402	22,602	21,008
Total revenue		**36,310**	**22,700**	**37,529**
Net result		**36,289**	**22,497**	**37,508**
Other comprehensive income		**-**	**-**	**-**
Total comprehensive income		**36,289**	**22,497**	**37,508**

The accompanying notes form part of these financial statements.

Liability Management Ministerial Corporation

Statement of Financial Position
as at 30 June 2020

	Notes	Budget 2020 $'000	Actual 2020 $'000	Actual 2019 $'000
Assets				
Current assets				
Cash and cash equivalents	6	(45)	10	12
Receivables	7	2	20	-
Total current assets		**(43)**	**30**	**12**
Non-current assets				
Financial assets at fair value	8	241,982	229,657	207,171
Total non-current assets		241,982	229,657	207,171
Total assets		**241,939**	**229,687**	**207,183**
Liabilities				
Current liabilities				
Payables	9	17	22	15
Total current liabilities		**17**	**22**	**15**
Total liabilities		**17**	**22**	**15**
Net assets		**241,922**	**229,665**	**207,168**
Equity				
Accumulated funds		241,922	229,665	207,168
Total equity		**241,922**	**229,665**	**207,168**

The accompanying notes form part of these financial statements.

Liability Management Ministerial Corporation

Statement of Changes in Equity
for the year ended 30 June 2020

	Accumulated Funds $'000	Total Equity $'000
Balance at 1 July 2019	**207,168**	**207,168**
Net result for the year	**22,497**	**22,497**
Other comprenhensive income for the year		-
Total comprehensive income for the year	22,497	22,497
Balance at 30 June 2020	**229,665**	**229,665**
Balance at 1 July 2018	**169,660**	**169,660**
Net result for the year	**37,508**	**37,508**
Other comprenhensive income for the year	-	-
		-
Total comprehensive income for the year	37,508	37,508
Balance at 30 June 2019	**207,168**	**207,168**

The accompanying notes form part of these financial statements.

Liability Management Ministerial Corporation

Statement of Cash Flows
for the year ended 30 June 2020

	Notes	Budget 2020 $'000	Actual 2020 $'000	Actual 2019 $'000
Cash flows from operating activities				
Payments				
Other		(25)	(217)	(28)
Total payments		**(25)**	**(217)**	**(28)**
Receipts				
Grants and contributions		22,402	22,602	21,008
Interest received		3	1	3
Other		2	-	4
Total receipts		**22,407**	**22,603**	**21,015**
Net cash flows from operating activities	6	**22,382**	**22,386**	**20,987**
Cash flows from investing activities				
Purchase of investments		(22,437)	(22,388)	(20,985)
Net cash flows from investing activities		**(22,437)**	**(22,388)**	**(20,985)**
Net cash flows from financing activities		**(55)**	**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**(55)**	**(2)**	**2**
Opening cash and cash equivalents		**10**	**12**	**10**
Closing cash and cash equivalents	6	**(45)**	**10**	**12**

The accompanying notes form part of these financial statements.

Liability Management Ministerial Corporation

Notes to the financial statements
for the year ended 30 June 2020

1. LIABILITY MANAGEMENT MINISTERIAL CORPORATION INFORMATION

The Liability Management Ministerial Corporation (LMMC) is a statutory body under the *Public Finance and Audit Act 1983*. The LMMC was constituted under the *General Government Liability Management Fund Act 2002* (the Act) for the purpose of managing the General Government Liability Management Fund (GGLMF). The GGLMF is a special deposit account which receives funding from the Crown Entity to meet its obligations as required by the Act. The LMMC commenced receiving contributions from the Crown Entity in 2011-12. Prior to this, the LMMC was dormant from 2008 to 2011.

The LMMC accumulates financial assets to support the long term fiscal target of eliminating total sector unfunded superannuation liabilities by 30 June 2030.

The LMMC is a not-for-profit entity with its principal office at 52 Martin Place, Sydney, NSW 2000, Australia. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

These financial statements were authorised for issue by the Secretary of NSW Treasury on the date the accompanying Statement by the Secretary was signed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

The financial statements are general purpose financial statements and are required by:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- *Public Finance and Audit Act 1983* (the Act)
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions issued under the Act

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention.

The LMMC's financial assets are measured at fair value through profit or loss.

The financial statements are presented in Australian dollars and all amounts are rounded to the nearest thousand dollars ($'000).

Use of judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions about the carrying amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

Management has made the following judgement in relation to the LMMC's classification and valuation of its investments:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- The LMMC's investments are classified and measured as fair value through profit or loss in accordance with the AASB 9 *Financial Instruments* (AASB 9). The fair value of the underlying assets has been determined by reference to observable prices based on redemption value and the underlying value provided by the Portfolio manager, New South Wales Treasury Corporation (TCorp). TCorp values underlying financial assets and liabilities using market prices when available, valuation techniques, which discount cash flows to present value based on observable market yields for the same or equivalent securities. Changes in fair value are mainly attributable to fluctuations in market yields and prices arising from changes in market conditions. This information is specifically relevant to Notes 8 and 10 to the financial statements.

Statement of compliance

The financial statements and notes comply with applicable Australian Accounting Standards including Australian Accounting Interpretations.

New, revised or amending standards and interpretations

The LMMC applied AASB 15 Revenue from *Contracts with Customers* (AASB 15) and AASB *1058 Income of Not-for-Profit Entities* (AASB 1058) for the first time in 2019-20. The details of the revenue recognition policy are disclosed in the following sections in Note 2. The adoption of these new accounting standards does not impact on the financial statements. The LMMC is not party to any contract with customers. Accordingly, there is no impact from the adoption of AASB15.

AASB 16 *Leases* (AASB 16) is effective from reporting periods commencing on or after 1 January 2019. For lessees, AASB 16 result in most leases being recognised on the Statement of Financial Position, as the distinction between operating and finance leases is largely removed. The LMMC is not party to any lease arrangements. Accordingly, there is no impact from the adoption of AASB 16.

New standards and interpretations not yet effective

As mandated by Treasury Circular TC20-01, the LMMC has not early adopted any new accounting standards, amendments and interpretations that have been issued but are not yet effective.

- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* (operative date 1 July 2020)
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* (operative date 1 January 2020)
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059* (operative date 1 January 2020)
- AASB 2019-3 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform* (operative date 1 January 2020)
- AASB 2019-7 *Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations* (operative date 1 January 2020)

Management have considered the impact of the new accounting standards issued but not yet effective and concluded there is unlikely to have a material impact to LMMC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE

Until 30 June 2019, income is recognised in accordance with AASB 118 and AASB 1004. Revenue is measured at the fair value of the consideration or contributions received or receivable to the extent it is probable that the economic benefits will flow to the LMMC and the amount is reliably measurable. From 1 July 2019, revenue is recognised in accordance with the requirement of AASB 15 or AASB 1058 dependent on whether there is an enforceable contract with specific performance obligation. The LMMC uses the following criteria to recognise and measure income:

Contributions from the Crown Entity

Contributions from the Crown Entity without sufficiently specific performance obligations is recognised under AASB 1058 when the control of the contributions or the right to receive the contributions is obtained. Control over contributions is normally obtained upon receipt of cash.

Investment revenue

Investment revenue includes interest income and net realised and unrealised gains or losses from changes in the fair value of investments. Interest revenue is recognised using effective interest method as set out in AASB 9. Distribution income is recognised when the price of units held goes ex-distribution. Interest income is recognised on an accrual basis.

EXPENSES

Employee arrangements

The LMMC has no employees. Finance and other personnel of the NSW Treasury provide administrative services, including the preparation of the LMMC's financial statements. The cost of these services is shown as an administration charge in Note 3.

Accounting for the Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, with the following exceptions:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of an asset or as part of an item of expenses; and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the Statement of Cash Flows on a gross basis. However, the GST components of cash flow arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows. The net amount of GST recoverable from or payable to, the ATO, is included as a current asset or current liability in the Statement of Financial Position.

ASSETS

Cash and cash equivalents

Cash and cash equivalents represent the cash at bank and are recognised in the Statement of Financial Position and reconciled to the Statement of Cash Flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Financial assets comprise investments in the TCorpIM Long Term Growth Fund (LTGF) investment facility. The investments in TCorpIM LTGF are classified and measured as fair value through profit or loss under AASB 9. The movement in the fair value of the TCorpIM LTGF incorporates distributions received and unrealised movements in fair value and is reported as investment revenue in the Statement of Comprehensive Income.

Fair value measurement and hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market, in the most advantageous market for the asset or liability.

Under AASB 13 *Fair Value Measurement*, the valuation techniques used in the fair value measurement of the investments in the TCorpIM LTGF is based in the valuation technique as follows:

- Level 1 – derived from quoted prices in active markets for identical assets/liabilities
- Level 2 – derived from inputs other than quoted prices that are observable directly or indirectly
- Level 3 – derived from valuation techniques that include inputs for the asset/liability not based on observable market data (unobservable inputs).

The TCorpIM LTGF is held in Units in trusts and classified under Level 2 fair value hierarchy as prices are observable, however, no active market exists for these funds as they are only accessible to government agencies.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the financial assets expire or if the entity 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:

- the entity has transferred substantially all the risks and rewards of the asset; or
- the entity has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control.

LIABILITIES

Payables

Payables represent liabilities for goods and services provided but not paid for at each reporting date. This occurs when the LMMC must make future payments for the goods and services, even if it has not been billed for them.

Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at original invoiced amount where the effect of discounting is immaterial.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the net result.

EQUITY

Accumulated Funds

The category ‘Accumulated Funds’ includes all current and prior periods retained funds.

TAXATION

The activities of LMMC are exempt from Australian income tax.

BUDGETED AMOUNTS

The budgeted amounts are drawn from the original budgeted financial statements presented to Parliament in respect of the reporting period. Subsequent amendments to the original budget are not reflected in the budgeted amounts. Major variances between the original budgeted amounts and the actual amounts disclosed in the primary financial statements are outlined in Note 12.

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.

	2020 $’000	2019 $’000

3. OPERATING EXPENSES

Audit fees	21	21
Administration charge	182	-
	203	21

4. INVESTMENT REVENUE

Interest income from TCorpIM LTGF - measured at fair value through profit or loss		
Distribution income	17,584	8,891
Net valuation gain/(loss)	(17,487)	7,627
Bank interest	1	3
	98	**16,521**

5. GRANTS AND CONTRIBUTIONS

Contributions from the Crown Entity	22,602	21,008

	2020 $'000	2019 $'000

6. CASH AND CASH EQUIVALENTS

	2020 $'000	2019 $'000
Cash held at financial institutions	10	12

Cash and cash equivalents assets recognised in the Statement of Financial Position are reconciled at the end of financial year to the Statement of Cash Flows as follows:

	2020 $'000	2019 $'000
Cash and cash equivalents (per Statement of Financial Position)	10	12
Cash and cash equivalents (per Statement of Cash Flows)	10	12

Reconciliation of net cash flows from operating activities to net result for the year

	2020 $'000	2019 $'000
Net cash flows from operating activities	**22,386**	**20,987**
Distribution reinvested and gains/(losses) on investments	98	16,518
Increase/(Decrease) in assets	20	(2)
Decrease/(Increase) in liabilities	(7)	5
Net result for the year	**22,497**	**37,508**

7. CURRENT RECEIVABLES

	2020 $'000	2019 $'000
GST receivable	20	-

8. NON-CURRENT FINANCIAL ASSETS AT FAIR VALUE

	2020 $'000	2019 $'000
TCorpIM LTGF	229,657	207,171

The TCorpIM LTGF is classified and measured as fair value through profit or loss in accordance with the AASB 9.

Note 10 provide details of the risk exposure of these financial instruments.

9. PAYABLES

	2020 $'000	2019 $'000
Other accruals	22	15

Payables are non-interest bearing and are generally on 30 day terms. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

10. FINANCIAL INSTRUMENTS

The LMMC's principal financial instruments are outlined in the table below. These financial instruments arise directly from the LMMC's operations of improving the accuracy of the funding plan to fully fund superannuation liabilities. Management has overall responsibility for the establishment and oversight of risk management, investment strategy, monitoring and reviewing the performance of investments and service providers.

Financial instrument categories – the classification is under AASB 9

	Note	Category	Carrying amount 2020 $'000	Carrying amount 2019 $'000
Financial assets				
Cash and cash equivalents	6	N/A	10	12
Financial assets at fair value	8	At fair value through profit or loss (designated as such upon initial recognition)	229,657	207,171
Financial liabilities				
Payables	9	Payables (measured at amortised cost)	22	15
Total			**229,645**	**207,168**

Risk management

The LMMC has appointed TCorp, the State's central financing authority which has recognised expertise in the management of treasury related risks, to advise on, and actively manage its asset portfolio. TCorp manages investment risk in line with its Risk and Compliance Framework.

The assets of the LMMC are invested in the TCorpIM LTGF investment facility in accordance with the investment strategy as per the Memorandum of Understanding between the LMMC and TCorp.

The actual rate of return on the LMMC's assets during the year was 0.11 per cent (2019: 8.88 per cent).

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The LMMC's exposure to market risk is primarily through interest rate risk on its bank deposits and other price risks associated with the movement in the unit price of the TCorpIM LTGF.

Interest rate risk

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

The LMMC's exposure to interest rate risk on its holding of cash and cash equivalents is derived from historically based data. The basis is reviewed annually and amended where required. The LMMC's interest rate risk is immaterial given the low level of cash holding at the reporting date.

10. FINANCIAL INSTRUMENTS (continued)

Other price risk

Exposure to other price risk is through the investment in the TCorpIM LTGF. The LMMC has no direct equity investments.

The LMMC holds units in the following:

	Investment Sectors	Investment Horizon	2020 $'000	2019 $'000
TCorpIM LTGF	Cash, money market instruments, Australian bonds, listed property, Australian & International shares	7 years and over	229,657	207,171

The unit price of each facility is equal to the total fair value of the net assets held by the facility divided by the total number of units on issue for the facility. Unit prices are calculated and published daily.

The sensitivity percentage is derived from historically based data as advised by TCorp. The basis is reviewed annually and amended where required.

Other price risk sensitivity analysis

	Change in unit price		Impact on net result	
	2020 %	2019 %	2020 $'000	2019 $'000
TCorpIM LTGF	+/- 10.0	+/- 13.0	+/-22,965	+/- 26,932

Currency risk

The LMMC has indirect foreign currency exposure within its investment in the TCorpIM LTGF. The TCorpIM LTGF has approximately 40% foreign currency exposure (28% of TCorpIM LTGF is allocated to unhedged international shares, 7% to unhedged emerging market shares and 5% in Emerging Markets Debt).

The level of foreign exchange exposure within the TCorpIM LTGF may change from time to time depending on currency levels and market conditions.

10. FINANCIAL INSTRUMENTS (continued)

(b) Credit risk

Credit risk arises from the financial assets of the LMMC, which comprise of cash and cash equivalents. The LMMC's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments at each reporting date.

The TCorpIM LTGF has not granted any financial guarantees. The TCorpIM LTGF may obtain, or provide, collateral to support amounts due under derivative transactions with certain counterparties. These arrangements are agreed between the TCorpIM LTGF and each counter party and take the form of annexures to the standard industry agreement governing the underlying derivative transaction.

Cash and cash equivalents

Cash comprises bank balances held at a financial institution. Interest is earned on daily bank balances.

Financial assets at fair value

Financial assets at fair value include investments in the TCorpIM LTGF. The investments held are unit holdings, and as such, do not give rise to credit risk.

There are no financial assets that are past due or considered impaired at the reporting date.

(c) Liquidity risk

Liquidity risk is the risk that the LMMC will be unable to meet its payment obligations when they fall due. The LMMC continuously manages risk through monitoring future cash flows.

During the current year there were no defaults of payable. The LMMC's exposure to liquidity risk is deemed insignificant based on prior years' data and current assessment of risk.

Liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with Treasury Circular NSWTC 11-12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. Interest is awarded for late payments. There was no interest awarded for late payment during the year.

Fair value

The financial assets and liabilities of the LMMC at the reporting date comprise mainly monetary financial assets and their carrying values approximate to their fair values. The value of the investments in the TCorpIM LTGF is based on the LMMC's share of the fund, based on the redemption value.

Fair value recognised in the statement of financial position

The LMMC uses the following hierarchy for disclosing the fair value of financial instruments by valuation technique:

- Level 1 – derived from quoted prices in active markets for identical assets/liabilities
- Level 2 – derived from inputs other than quoted prices that are observable directly or indirectly
- Level 3 – derived from valuation techniques that include inputs for the asset/liability not based on observable market data (unobservable inputs).

The LMMC's financial assets at fair value of $229.66 million as at the reporting date (2019: $207.17 million) are classified under level 2 fair value hierarchy.

11. CONTINGENT ASSETS AND LIABILITIES

There are no known contingent assets or contingent liabilities as at the reporting date (2019: Nil).

12. BUDGET REVIEW

The TCorpIM LTGF full year investment revenue of $0.098 million reflected an investment return of 0.11% pa which is significantly lower than the budgeted return rate of 6.30%pa.

13. RELATED PARTY DISCLOSURES

(a) Ultimate parent

The NSW Government is the parent of the LMMC.

(b) Key management personnel remuneration

The LMMC defines key management personnel (KMP) as those having authority and responsibility for planning, directing and controlling the activities of the LMMC. NSW Government is the ultimate controlling party of the LMMC, the Treasurer, NSW Treasury Secretary, and certain Deputy Secretaries and Executive Directors are considered as KMP.

The LMMC does not have employees. The key management personnel services were provided by NSW Treasury. There was no remuneration paid to any of the KMP by the LMMC during the period.

No loans were made to any of the KMP by the LMMC during the period.

(c) Transactions with related parties

(i) Transactions with KMP

The LMMC has developed a framework in conjunction with NSW Treasury that supports the identification, recording and authorisation of the related party transactions. The KMP are required to complete annual declarations in relation to the related party transactions. No KMP has declared that he/she or their close family members have made any transactions with the LMMC during the reporting period.

(ii) Transactions with other related entities

The NSW Cabinet are considered related parties of the LMMC because of its role to direct overall government policy and make decisions about state issues. The Crown Entity provides grants to the LMMC in meeting its objective of accumulating assets to eliminate unfunded superannuation liabilities. The NSW Treasury Corporation provides investment management services to the LMMC.

14. EVENTS AFTER THE REPORTING DATE

There are no material events after reporting date requiring disclosure.

End of audited financial statements

Ports Assets Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2020

Ports Assets Ministerial Corporation

Charter

The Ports Assets Ministerial Corporation (PAMHC) was established on 26 November 2012 by the *Ports Assets (Authorised Transactions) Act 2012* (the Act). This Act authorises and provides for the transfer to the private sector of the State's ports.

Objectives

The Act establishes the Ports Assets Ministerial Holding Corporation to hold ports assets acquired by it or transferred to it by or under the Act or any other Act, to carry on any activity or business that relate to any ports assets held by it, including demanding, collecting and receiving charges, levies, rates and fees, and such other functions for the purposes of an authorised transaction as may be prescribed by the regulations.

Staffing

Administration and accounting services are provided by staff of the NSW Treasury. The PAMHC has no staff of its own.

INDEPENDENT AUDITOR'S REPORT

Ports Assets Ministerial Holding Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Ports Assets Ministerial Holding Corporation (the Corporation), 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 of the Corporation and the consolidated entity. The consolidated entity comprises the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation and the consolidated entity as at 30 June 2020, and of their financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 45E 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 the Corporation and the consolidated entity 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

The Corporation's 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 Secretary of Treasury 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 Corporation Head.

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 Secretary of Treasury's Responsibilities for the Financial Statements

The Secretary of Treasury 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 Secretary of Treasury 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 Secretary of Treasury is responsible for assessing the ability of the Corporation and the consolidated entity 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/ar3.pdf. The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

- that the Corporation or the consolidated entity carried out their activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- 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.

Renee Meimaroglou
Director, Financial Audit Services

Delegate of the -Auditor-General for New South Wales

9 October 2020
SYDNEY

Ports Assets Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2020

STATEMENT BY DEPARTMENT HEAD

Pursuant to Section 45F of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

(a) The accompanying financial statements exhibit a true and fair view of the Ports Assets Ministerial Holding Corporation's financial position as at 30 June 2020 and the financial performance for the year then ended; and

(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* and the Treasurer's Directions and applicable Australian Accounting Standards.

Further I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Michael Pratt AM
Secretary

9/12/4 October 2020

Ports Assets Ministerial Holding Corporation

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2020

	Notes	Actual Consolidated 2020 $'000	Budget Consolidated 2020 $'000	Actual Consolidated 2019 $'000	Actual Parent 2020 $'000	Actual Parent 2019 $'000
Expenses excluding losses						
Operating expenses	3	40,221	40,576	37,617	382	190
Total expenses excluding losses		**40,221**	**40,576**	**37,617**	**382**	**190**
Revenue						
Investment revenue	4	16,371	16,416	15,302	13	31
Grants and contributions	5	600	599	600	300	-
Contract service revenue	6 (a)	39,224	40,135	-	-	-
Other operating revenue	6 (b)	-	-	37,340	-	-
Total Revenue		**56,195**	**57,150**	**53,242**	**313**	**31**
Gains / (losses) on disposal	7	-	-	256	-	-
Net result		**15,974**	**16,574**	**15,881**	**(69)**	**(159)**
Other comprehensive income		-	-	-	-	-
Total comprehensive income		**15,974**	**16,574**	**15,881**	**(69)**	**(159)**

The accompanying notes form part of these financial statements.

Ports Assets Ministerial Holding Corporation

Consolidated Statement of Financial Position
as at 30 June 2020

	Notes	Actual Consolidated 2020 $'000	Budget Consolidated 2020 $'000	Actual Consolidated 2019 $'000	Actual Parent 2020 $'000	Actual Parent 2019 $'000
Assets						
Current assets						
Cash and cash equivalents	9	4,160	2,645	2,518	772	842
Receivables	10	2,061	9	105	17	18
Total current assets		**6,221**	**2,654**	**2,623**	**789**	**860**
Non-current assets						
Other financial assets	11	248,725	248,911	232,380	-	-
Investments	12	-	-	-	156,983	156,983
Total non-current assets		**248,725**	**248,911**	**232,380**	**156,983**	**156,983**
Total assets		**254,946**	**251,565**	**235,003**	**157,772**	**157,843**
Liabilities						
Current liabilities						
Payables	13	4,131	135	162	59	61
Total current liabilities		**4,131**	**135**	**162**	**59**	**61**
Total liabilities		**4,131**	**135**	**162**	**59**	**61**
Net assets		**250,815**	**251,430**	**234,841**	**157,713**	**157,782**
Equity						
Accumulated funds		250,815	251,430	234,841	157,713	157,782
Total equity		**250,815**	**251,430**	**234,841**	**157,713**	**157,782**

The accompanying notes form part of these financial statements.

Ports Assets Ministerial Holding Corporation

Consolidated Statement of Changes in Equity
for the year ended 30 June 2020

	Consolidated Accumulated Funds $'000	Consolidated Total $'000	Parent Accumulated Funds $'000	Parent Total $'000
Balance at 1 July 2019	**234,841**	**234,841**	**157,782**	**157,782**
Net result for the year	15,974	15,974	(69)	(69)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**15,974**	**15,974**	**(69)**	**(69)**
Balance at 30 June 2020	**250,815**	**250,815**	**157,713**	**157,713**
Balance at 1 July 2018	**219,350**	**219,350**	**157,941**	**157,941**
Net result for the year	15,881	15,881	(159)	(159)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**15,881**	**15,881**	**(159)**	**(159)**
Transactions with owners in their capacity as owners				
Increase/(decrease) in net assets from equity transfers	(390)	(390)	-	-
Balance at 30 June 2019	**234,841**	**234,841**	**157,782**	**157,782**

The accompanying notes form part of these financial statements.

Ports Assets Ministerial Holding Corporation

Consolidated Statement of Cash Flows
for the year ended 30 June 2020

	Note	Actual Consolidated 2020 $'000	Budget Consolidated 2020 $'000	Actual Consolidated 2019 $'000	Actual Parent 2020 $'000	Actual Parent 2019 $'000
Cash flows from operating activities						
Payments						
Operating payments		38,687	36,439	42,076	1,186	969
Total payments		**38,687**	**36,439**	**42,076**	**1,186**	**969**
Receipts						
Interest received		26	59	79	13	31
Grants and contributions		600	599	600	300	-
Other operating receipts		39,703	35,999	41,777	803	760
Total Receipts		**40,329**	**36,657**	**42,456**	**1,116**	**791**
Net cash flows from operating activities	14	1,642	218	380	(70)	(178)
Cash flows from investing activities						
Proceeds from sale of land	7	-	-	390	-	-
Net cash flows from investing activities		**-**	**-**	**390**	**-**	**-**
Net cash flows from financing activities		**-**	**-**	**-**	**-**	**-**
Net increase/(decrease) in cash		**1,642**	**218**	**770**	**(70)**	**(178)**
Opening cash and cash equivalents		2,518	2,427	2,138	842	1,020
Cash transfer to Restart NSW	7	-	-	(390)	-	-
Closing cash and cash equivalent	9	**4,160**	**2,645**	**2,518**	**772**	**842**

The accompanying notes form part of these financial statements.

Ports Assets Ministerial Holding Corporation

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

NOTES INDEX

Ports Assets Ministerial Holding Corporation

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

1. INFORMATION ON THE PORTS ASSETS MINISTERIAL HOLDING CORPORATION

The Ports Assets Ministerial Holding Corporation (PAMHC) was created on 26 November 2012 by the *Ports Assets (Authorised Transactions) Act 2012 (the Act)*. The object of this Act is to authorise and facilitate the transfer of the State's ports to the private sector.

On 1 January 2013, the Treasurer authorised the transfer of specific assets, rights and liabilities relating to the relevant assets at Port Botany, Enfield, Cooks River and Port Kembla from Sydney Ports Corporation and Port Kembla Port Corporation to the Port Botany Lessor Pty Ltd (PBL) and Port Kembla Lessor Pty Ltd (PKL). On 31 May 2013, these Companies entered into 99-year finance leases with an external acquirer. Upfront proceeds received from the acquirer were paid direct to the Restart NSW Fund. On the same date, the ownership of these Companies was transferred from Sydney Ports Corporation and Port Kembla Port Corporation to the PAMHC.

On 1 January 2014, the Treasurer authorised the transfer of specific assets, rights and liabilities relating to the relevant assets at the Port of Newcastle from Newcastle Port Corporation to Port of Newcastle Lessor Pty Limited (PNL). On 30 May 2014, a 98-year finance lease was executed with an external acquirer and the relevant assets were derecognised by PNL. Upfront proceeds received from the acquirer were paid direct to the Restart NSW Fund. On the same date, the ownership of the PNL was transferred from Newcastle Port Corporation to the PAMHC.

The functions of the PAMHC are:

- to hold ports assets acquired by it or transferred to it
- to carry on any activities or business that relate to any ports assets held by it, including demanding, collecting and receiving charges, levies, rates and fees, and
- such other functions for the purposes of an authorised transaction as may be prescribed by the regulations.

The PAMHC uses an outsourcing model for the management of lease and property related matters for its subsidiary lessor companies. The PAMHC has established a Memorandum of Understanding (MoU) with Property NSW (PNSW) for the outsourcing arrangement effective from 1 July 2015. The PNSW receives a management fee for its services.

The PAMHC is a not-for-profit NSW government entity. Its principal office is at 52 Martin Place, Sydney NSW 2000, Australia.

The financial statements were authorised for issue by the Secretary of NSW Treasury on the date the accompanying statement was signed by the Secretary.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

The financial statements are general-purpose financial statements which have been prepared in accordance with the requirements of:

- Applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- the *Public Finance and Audit Act 1983* (the Act)
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions issued under the Act

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for cash flow information.

All amounts presented in Australian dollars and are rounded to the nearest one thousand dollars ($'000).

Principles of consolidation

The consolidated financial statements incorporate the results, assets and liabilities positions of all entities controlled by the PAMHC (Parent Entity) as at the reporting date. The PAMHC and its controlled entities, PBL, PKL and PNL (collectively as the Port Lessor Companies), together are referred to in these financial statements as the PAMHC. The effects of all transactions and balances between entities in the PAMHC are eliminated in full and like transactions and events are accounted for using the same accounting policies. The PAMHC is consolidated as part of the NSW Total State Sector Accounts.

Use of judgements, estimates and assumptions

Judgements - in the process of applying the PAMHC's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Port land and fixtures lease classification – PAMHC *as lessor*

The PAMHC are lessors in a 99-year and 98-year lease of ports land and fixtures. The PAMHC has determined, based on an evaluation of the terms and conditions of the arrangements that they do not retain all the significant risks and rewards of ownership of the land and fixtures, and accounted for the contracts as finance leases. As the leases were prepaid, the transactions were accounted for as a sale.

Estimates and assumptions - the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets, are described below.

The PAMHC based their assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond their control. Such changes are reflected in the assumptions when they occur.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Valuation of lease receivable – unguaranteed residual value

The PAMHC carries their lease receivable which mainly comprise of the unguaranteed residual value at amortised cost less any impairment. The initial value of the unguaranteed residual value was measured using the discounted cash flow model. The inputs include observable markets as well as internal data where a degree of judgement was applied to determine the fair value. Judgements include consideration of inputs such as liquidity risk, credit risk and volatility were taken at inception of the leases. If there is a reduction in the residual value of the unguaranteed residual assets, the income allocation over the leases will be revised. Details regarding indexation and discount rate used are disclosed in Note 11.

At the end of the reporting period, management reviews whether there are any indicators of impairment. These factors include the level of improvements undertaken by the lessee, volatility of land values, the rate of technological change and competitive conditions.

COVID-19

Management has considered the impact of COVID-19 on the PAMHC's revenue and receivables, including the impact on estimate and judgements used in the valuation of lease receivable. Management has concluded that COVID-19 has not had a material impact on the PAMHC's operations and preparation of the financial statements for the year ended 30 June 2020.

Statement of compliance

The financial statements and notes comply with applicable Australian Accounting Standards including Australian Accounting Interpretations.

Changes in accounting policy, including new or revised Australian Accounting Standards

i. Effective for the first time in 2019-20

The PAMHC applied AASB 15 *Revenue from Contracts with Customers*, AASB 16 Leases and AASB 1058 *Income of Not-for-Profit Entities* for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in FY2019-20, but do not have a material impact on the financial statements of the entity.

AASB 15 *Revenue from contracts with Customers*

AASB 15 replaces AASB 111 *Construction Contracts* and AASB 118 *Revenue*. Under AASB 15, revenue is recognised when performance obligations are satisfied, and control of goods and services is transferred to the customer. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised in line with the fulfilment of service obligation.

The adoption of AASB 15 resulted in some changes to the presentation of certain revenue line items of the PAMHC in the current year. There is no financial impact on the PAMHC's financial statements and no change to comparatives.

The PAMHC are lessors in a 99-year and 98-year lease of ports land and fixtures contracts. While the lease arrangements are accounted for under AASB 16 *Leases*, various contract service fees and lease outgoing recoupment revenues embedded in the lease contracts are non-lease components and are accounted for under AASB 15. The revenue is recognised over time based on the pattern of fulfilment of performance obligation and delivery of service to the lessees.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under AASB 15, the PAMHC's contract service revenue mainly consist of recoupment of lease outgoings where the service obligation is fulfilled, and revenue entitlement arise when the PAMHC pays the lease outgoing to the relevant government authorities and government trading enterprises.

These revenues are aggregated and disclosed as "Contract service revenue" in the Statement of Comprehensive Income, previously disclosed as "Other operating revenue". Refer to Note 6 for details.

The unconditional right to recoup the lease outgoings accrued to the PAMHC at the reporting date are included in the Total Receivables. Refer to Note 10 for details.

AASB 16 *Leases*

AASB 16 supersedes AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease*, Interpretation 115 *Operating Leases – Incentives* and Interpretation 127 *Evaluating the Substance of Transactions involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. As the PAMHC consolidates the Port Lessor Companies which are lessors in the ports land and fixtures leases, the adoption of AASB 16 did not have a material impact on the PAMHC's financial statements.

The PAMHC has adopted the practical expedient available under AASB 16 paragraph C3 which allows for application of this standard to contracts that were previously identified as leases under AASB 117 and Interpretation 4. Accordingly, after separating the non-lease component contained in the lease contracts, the treatment of the leases, determined at inception, is unchanged under AASB 16.

Finance income is recognised and based on a pattern reflecting a constant periodic rate of return on the PAMHC's net investment in the finance lease. The estimated unguaranteed residual value is assessed for impairment to ensure the carrying value does not exceed the recoverable amount. Refer to Note 11 for details on indexations and finance lease receivables.

AASB 1058 *Income of Not-for-profit Entities*

AASB 1058 replaces most of the existing requirements in AASB 1004 Contributions. The scope of AASB 1004 is now limited mainly to contributions by owners (including parliamentary appropriations that satisfy the definition of a contribution by owners), administrative arrangements and liabilities of government departments assumed by other entities.

AASB 1058 adopts a residual approach meaning that entities first apply other applicable Australian Accounting Standards (e.g. AASB 1004, AASB 15, AASB 16, AASB 9 *Financial Instruments*, AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*) to a transaction before recognising income under AASB 1058.

The adoption of AASB 1058 resulted in a change to the presentation of the grant revenue in Note 5 which now notes that the grant received from the Crown is without sufficiently specific performance obligations. Income is recognised when PAMHC obtains control over the granted asset, this being when cash is received, unchanged from AASB 1004. There is no financial impact on the PAMHC's financial statements.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ii. Issued but not yet effective

As mandated by Treasury Circular TC20-01, the PAMHC has not early adopted any new accounting standards, amendments and interpretations that have been issued but are not yet effective.

The following lists the new standards and interpretation that whilst not yet effective, may be applicable to the PAMHC:

- AASB 1059 *Service Concession Arrangements: Grantors* (operative date 1 July 2020)
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059* (operative date 1 July 2020)
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* (operative date 1 July 2020)
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* (operative date 1 July 2020)
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059* (operative date 1 July 2020)

Management have considered the impact of new accounting standards issued but not effective and concluded there is no material impact to the PAMHC.

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.

REVENUE

Until 30 June 2019, income is recognised in accordance with AASB 118 and AASB 1004. Revenue is measured at the fair value of the consideration or contributions received or receivable to the extent it is probable that the economic benefits will flow to the PAMHC and the amount is reliably measurable.

From 1 July 2019, revenue is recognised in accordance with the requirement of AASB 15 or AASB 1058 dependent on whether there is an enforceable contract with specific performance obligation.

Investment revenue

Investment revenue relates to interest revenue and finance income from the lease. Interest revenue is recognised using the effective interest method as set out in AASB 9.

Finance income

Finance income is recognised reflecting a constant periodic rate of return on the PAMHC's net investment in the finance leases in accordance with AASB 16. It mainly relates to the unwinding of the interest rate on the finance lease receivable.

Grants and contributions

Grants and contributions are recognised when the PAMHC obtains control of the contribution. Control of contribution is normally obtained upon the receipt of cash.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract service revenue (after 1 July 2019)

Contract service revenue mainly includes recoupment of lease outgoings. Revenue entitlement arises when the PAMHC pays the lease outgoing (performance obligation fulfilled) to the relevant government authorities and government trading enterprises.

Other operating revenue (comparative period only)

The PAMHC recoups administrative costs from the lessees and recognises this as other operating revenue.

EXPENSES

Expenses are recognised when incurred. Land tax is recognised as an expense in the period in which it is incurred and based on land tax assessment notices issued by Revenue NSW. Council rates and water costs are recognised as expenses when incurred and based on rate notices issued by the council and tax invoices issued by the Sydney Water Corporation.

Finance and other personnel of the NSW Treasury provide administrative services, including the preparation of PAMHC's financial statements. The cost of these services is shown as an administration charge in Note 3.

Since 1 July 2015 the PAMHC has outsourced the lease and property management services for its subsidiary lessor companies to PNSW. Total cost incurred for these services for the year was $154,398.67 incl. GST (2019: $179,847.51 incl. GST). The Memorandum of Understanding (MoU) is between the PAMHC and PNSW. It is impractical to calculate and ascertain the costs for individual lessor companies therefore no charge out was made to them.

ASSETS

Cash and cash equivalents

Cash and cash equivalents represent the cash at bank and deposits with financial institutions and are recognised in the Statement of Financial Position and reconciled to the Statement of Cash Flows.

Receivables

Trade and other receivables (excluding finance lease receivable)

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Under AASB 9, the classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics.

Financial assets are measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The PAMHC recognises an allowance for expected credit losses (ECLs) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows and the cash flows that the PAMHC expects to receive, discounted at the original effective interest rate. For trade receivables, the PAMHC applies a simplified approach in calculating ECLs. The PAMHC recognises a loss allowance based on lifetime ECLs at each reporting date.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other financial assets - Leases

The other non-current financial asset represents the emerging asset, being the present value of the network assets to be returned to the State on the expiry of the 99-year and 98-year lease terms.

Finance Leases - PAMHC as lessor

A lease is classified at the inception date as a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

A receivable is recognised at an amount equal to the net investment in the lease. Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Gross investment in the lease is the aggregate of the minimum lease payments receivable by the lessor under a finance lease, and any unguaranteed residual value accruing to the lessor.

In accordance with TPP 11-01 Lessor classification of long-term land leases, a prepaid lease classified as a finance lease under this policy will effectively be accounted for as a sale. At the inception of the lease, the lessor will derecognise the land and recognise the associated gain or loss on disposal.

Subsequently, finance income is based on a pattern reflecting a constant periodic rate of return on the entity's net investment in the finance lease. The estimated unguaranteed residual values used in computing the gross investment in the lease are subject to an impairment test which takes into consideration factors such as the volatility of land values, the rate of technological change and competitive conditions.

Investments

Investments represent the PAMHC's 100 per cent interest in the shares of the Port Lessor Companies. Investments in subsidiaries are accounted for at cost.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the financial assets expire or if the entity 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:

- the PAMHC has transferred substantially all the risks and rewards of the asset; or
- the PAMHC has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control.

LIABILITIES

Payables

Trade and other payables, including accruals not yet billed, represent liabilities for goods and services provided to the PAMHC prior to the end of the period and there is an obligation to make future payment. The amounts are unsecured and are usually paid within 30 days of recognition.

Subsequent to initial recognition of these liabilities at fair value, they are measured at amortised cost using the effective interest rate method. This measurement is equivalent to the original invoice amount.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the net result.

ADMINISTERED ACTIVITIES

The PAMHC administers, but does not control, certain activities on behalf of the Crown Entity. It is accountable for the transactions relating to those administered activities but does not have the discretion to deploy the resources for the achievement of the entity's own objectives.

The administered activities of PAHMC include Port Logistics Contribution (PLC) and Newcastle Community Contribution (NCC). Refer to Note 16 for details.

Transactions and balances relating to these administered activities are not recognised as PAHMC's income, expenses, assets and liabilities, but are disclosed in the accompanying schedules as 'Administered Income', 'Administered Expenses', 'Administered Assets' and 'Administered Liabilities'.

The accrual basis of accounting and applicable accounting standards has been adopted.

Income tax equivalent and other taxes

The PAMHC is wholly owned by the NSW Government and is exempt from all forms of taxation except Fringe Benefit Tax and the Goods and Services Tax.

Accounting for the Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), with the following exceptions:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of an asset or as part of an item of expenses; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Statement of Financial Position.

STATEMENT OF CASH FLOWS

Cash flows are included in the statement of cash flows on a gross basis. However, the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

BUDGETED AMOUNTS

The budgeted amounts are drawn from the original budgeted financial statements presented to Parliament in respect of the reporting period. Subsequent amendments made to the budget are not reflected in the budgeted amounts. Major variances between the original budgeted amounts and the actual amounts disclosed in the primary financial statements are explained in Note 18.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Going Concern

The financial statements have been prepared on a going concern basis. It is expected that the PAMHC has adequate cash holding and cash inflows to continue operations for the foreseeable future. Further, the NSW Treasurer has provided a letter of comfort confirming provision of financial support to the subsidiary Lessor Companies as may be required to meet its debts as and when they become due and payable.

Ports Assets Ministerial Holding Corporation

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

3. OPERATING EXPENSES

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Operating Expenses				
Land tax	27,503	26,091	-	-
Audit fees	91	89	27	26
Property mangement fees	140	163	140	164
Council rates	10,497	10,022	-	-
Consultants	33	-	33	-
Administration Charge	727	-	182	-
Water costs	1,230	1,245	-	-
Other	-	7	-	-
	40,221	**37,617**	**382**	**190**

4. INVESTMENT REVENUE

Interest income	26	60	13	31
Finance income (i)	16,345	15,242	-	-
	16,371	**15,302**	**13**	**31**

(i) Finance income

At the date of execution of the 99 and 98-year finance leases, the Consolidated Entity recognised a finance lease receivable representing the entity's net investment in the leases. As the lease payments were received upfront, no further payments will be received by the Consolidated Entity and the residual assets will be accreted over the term of the leases as finance income.

5. GRANTS AND CONTRIBUTIONS

Grants without sufficiently specific performance obligations from the Crown	600	600	300	-
	600	**600**	**300**	**-**

The Corporation receives its grant funding from the Crown Finance Entity which receives appropriations from the Consolidated Fund. Appropriations for each financial year are set out in the Appropriation Bill that is prepared and tabled for that year. Due to COVID-19, the State Budget and related 2020-21 Appropriation Bill has been delayed until November/December 2020. However, pursuant to section 4.10 of the GSF Act, the Treasurer has authorised Ministers to spend specified amounts from Consolidated Fund. This authorisation is current from 1 July 2020 until the release of the 2020-21 Budget or Appropriation Bill.

6. CONTRACT SERVICE AND OTHER OPERATING REVENUE

(a) Contract Service revenue				
Land tax recoverable from tenants (i)	27,503	-	-	-
Council rates recoverable from tenants (i)	10,497	-	-	-
Water recoupment (ii)	1,224	-	-	-
	39,224	**-**	**-**	**-**

6. CONTRACT SERVICE AND OTHER OPERATING REVENUE (continued)

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
(b) Other operating revenue				
Land tax recoverable from tenants (i)	-	26,091	-	-
Council rates recoverable from tenants (i)	-	10,022	-	-
Water recoupment (ii)	-	1,227	-	-
	-	**37,340**	**-**	**-**

(i) Land tax and council rates recoverable from tenants

This relates to NSW land tax and council rates recovered from the lessees for occupying and subleasing land held by the Port Lessor Companies under the finance leases.

(ii) Water recoupment

The revenue recognised represents water cost recovered from the lessees under the 99-year finance lease.

7. GAINS / (LOSSES) ON DISPOSAL

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Gains / (losses) on disposal	-	256	-	-
	-	**256**	**-**	**-**

On 10 October 2018 PAMHC sold three parcels of land to NSW Ports. The land sale is permitted under long term lease agreement and constitutes a partial surrender of the lease in respect of the land sold. As a result, the net present value of the three blocks of land was derecognised from the value of finance lease receivable. As such, a gain on disposal of the assets of the lease arises as follows:

Cash proceeds paid directly to Restart NSW Fund	*-*	*390*	*-*	*-*
Derecognision of residual interest in land	*-*	*(134)*	*-*	*-*
Gain on disposal	***-***	***256***	***-***	***-***

8. DEEMED APPROPRIATION

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Movement of Section 4.7 GSF Act - deemed appropriations				
Opening balance	-	-	-	-
Adjustment for appropriation deemed on commencement of GSF Section 4.7	2,518	-	842	-
Adjusted opening balance	**2,518**	**-**	**842**	**-**
Add: additions of deemed appropriations	40,329	42,076	1,116	969
Less: expenditure charged against deemed appropriations	(38,687)	(42,076)	(1,186)	(969)
Closing balance	**4,160**	**-**	**772**	**-**

9. CASH AND CASH EQUIVALENTS

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Current Assets - Cash and Cash Equivalents				
Cash at bank	4,160	2,518	772	842
	4,160	**2,518**	**772**	**842**

For the purpose of the Statement of Cash Flows, cash and cash equivalents represents cash at bank. Cash and cash equivalent assets recognised in the Statement of Financial Position are reconciled at the end of the financial year to the Statement of Cash Flows as follows:

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Cash and cash equivalents (per Statement of Financial Position)	4,160	2,518	772	842
Closing cash and cash equivalents (per Statement of Cash Flows)	4,160	2,518	772	842

Refer to Note 15 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

10. RECEIVABLES

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Receivables - current				
Recoupment receivable	2,061	52	-	-
GST receivable	-	53	17	18
	2,061	**105**	**17**	**18**

Details regarding credit risk, liquidity risk and market risk are disclosed in Note 15.

11. OTHER FINANCIAL ASSETS

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Non-Current				
Finance lease receivable (i)	248,725	232,380	-	-
	248,725	**232,380**	**-**	**-**

(i) Finance lease receivable

The Port Lessor Companies are lessors in a 99-year finance lease covering the land and affixed property, plant and equipment at Port Kembla, Port Botany, Enfield Intermodal Logistics Centre and Cooks River Empty Container Park and 98-year finance lease covering the land and affixed property, plant and equipment at the Port of Newcastle.

11. OTHER FINANCIAL ASSETS (continued)

Finance lease accounting requires the Port Lessor Companies to recognise a finance lease receivable equal to the net investment in the lease, which is the discounted gross investment in the lease comprising the minimum lease payments and unguaranteed residual value. As the lease payments were received upfront, the net investment in the lease corresponds to the present value of the residual value assets that will revert to the Port Lessor Companies on expiry of the leases.

Valuations of the residual values were carried out by external advisers at inception of the leases; as at 30 June 2013 for Port Botany and Port Kembla; as at 30 June 2014 for Port Newcastle. A review for indicators of impairment is conducted annually by assessing specific factors such as the level of improvements undertaken by the lessee, volatility of land values, the rate of technological change and competitive conditions.

The total residual value at the end of the leases is estimated at $128.8 billion, using an annual indexation of 3.58 per cent for the Port Botany and Port Kembla leases, and 3.42 per cent for the Port of Newcastle lease. Total present value at the inception of the leases were $155.06 million, discounted at nominal pre-tax discount rate of 7.06 percent for Botany Lessor and Port Kembla Lessor, and 6.85 per cent for Port of Newcastle.

Finance income of $16.345 million (2019: $15.242 million) was recognised in the year (refer to Note 4).

The results of the annual impairment procedures concluded that there are no indicators of impairment at the reporting date.

The leases contain two clauses which deal with improvements made by the lessees to the existing land and fixtures, and the acquisition of additional land for port use. Any improvements made to the existing land vest in the Port Lessor Companies immediately and are already included in the anticipated value of the assets that will revert to the Port Lessor Companies on expiry of the lease, as it has been assumed that a working port will be returned. In addition, acquisitions or the lease of additional land by the lessees are subject to an option which allows the Port Lessor Companies to acquire or lease the additional land.

As an option to buy non-financial items that will not be settled net in cash, the option has been classified as an executory contract which will only be accounted for on exercise.

Reconciliation of net investment in leases

	Consolidated 2020 $'000	Parent 2020 $'000
Future undiscounted rentals receivable	-	-
Unguaranteed residual amounts - undiscounted	128,793,520	-
Less: unearned finance income	128,544,795	-
Net investment in finance leases	**248,725**	-

Reconciliation of gross investment in finance leases

	Consolidated 2019 $'000	Parent 2019 $'000
Present value of minimum lease payments unearned finance income	-	-
Unguaranteed residual amounts - undiscounted	128,793,520	-
Gross investment in finance leases	**128,793,520**	-

12. INVESTMENTS

Investment in subsidiaries	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Opening balance as at 1 July	-	-	156,983	156,983
Closing balance as at 30 June	**-**	**-**	**156,983**	**156,983**

13. PAYABLES

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Current				
Payables and accruals	1,927	162	59	61
GST Payables	2,204	-	-	-
	4,131	**162**	**59**	**61**

Payables are non-interest bearing and are generally on 30-day terms. Details regarding credit risk, liquidity risk and market risk are disclosed in Note 15.

14. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO NET RESULT

	Carrying Amount Consolidated 2020 $'000	Carrying Amount Consolidated 2019 $'000	Carrying Amount Parent 2020 $'000	Carrying Amount Parent 2019 $'000
Net cash flows from operating activities	**1,642**	**380**	**(70)**	**(178)**
Add back: non cash items and non-operating activities				
Gains / (losses) on disposal	**-**	256	**-**	**-**
Finance income	16,345	15,242	-	-
Increase/(decrease) in receivables	1,956	29	(1)	8
(Increase)/decrease in payables	(3,969)	(26)	2	11
Net Result	**15,974**	**15,881**	**(69)**	**(159)**

15. FINANCIAL INSTRUMENTS

The PAMHC's principal financial instruments are cash deposits held with financial institutions as part of the NSW Treasury Banking System, receivables and payables. These instruments expose the PAMHC to interest rate risk on cash balances held and credit risk on short term receivables. These financial instruments arise from the PAMHC's operations and are required to finance those operations. The PAMHC does not enter into or trade financial instruments for speculative purposes and does not use financial derivatives.

The Secretary has overall responsibility for the establishment and oversight of risk management and review policies for managing risk.

15. FINANCIAL INSTRUMENTS (continued)

(a) Financial instrument categories

Financial instruments [(i)]	Note	Categories	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Financial Assets						
Cash and cash equivalents	8	N/A	4,160	2,518	772	842
Receivables	9	Amortised cost	2,061	52	-	-
Financial Liabilities						
Payables	12	Financial liabilities measured at amortised cost	1,927	162	59	61

(i) Excludes prepayments and statutory receivables/payables which are not within the scope of AASB7 'Financial Instruments: Disclosures' and excludes lease receivables which only represent the unguaranteed residual value.

(b) Credit risk

Credit risk arises when there is possibility that the PAMHC's debtors defaulting on their contractual obligations, resulting in a financial loss to the PAMHC. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the PAMHC, including cash and receivables. No collateral is held by the PAMHC.

The entity considers a financial asset in default when contractual payments are 90 days past due.

Cash

Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances at the monthly average TCorp 11am unofficial cash rate, adjusted for a management fee to NSW Treasury.

Receivables

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Procedures, as established in the Treasurer's Directions, are followed to recover outstanding amounts, including letters of demand.

The entity applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade debtors. To measure the expected credit losses, trade 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.

Receivables are written off when there is no reasonable expectation of recovery and no interest earned on trade debtors.

There are no receivables that are past due or considered impaired as at the reporting date.

15. FINANCIAL INSTRUMENTS (continued)

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The PAMHC's exposure to market risk is primarily through interest rates on cash and cash equivalents. The PAMHC does not have any exposure to foreign currency risk, does not enter into commodity contracts and does not trade derivatives.

The effect on the PAMHC's net result and equity due to a reasonably possible change in risk variable is outlined below for interest rate risk. A reasonably possible change of +/- 1 per cent is used. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. The analysis is performed on the same basis as for 2019. The PAMHC 's exposure to interest rate risk follows.

Consolidated Company	Carrying amount $'000	-1% Net result $'000	-1% Equity $'000	+1% Net result $'000	+1% Equity $'000
2020					
Cash and cash equivalents	4,160	(42)	(42)	42	42
2019					
Cash and cash equivalents	2,518	(25)	(25)	25	25

Parent Company	Carrying amount $'000	-1% Net result $'000	-1% Equity $'000	+1% Net result $'000	+1% Equity $'000
2020					
Cash and cash equivalents	772	(8)	(8)	8	8
2019					
Cash and cash equivalents	842	(8)	(8)	8	8

The PAMHC has no exposure to changes in future cash flows associated with the leases, as cash consideration was received up front at the time of execution and remitted directly to the Restart NSW Fund.

(d) Liquidity risk

Liquidity risk is the risk that the PAMHC will be unable to meet its payment obligations when they fall due. The PAMHC continuously manages risk through monitoring future cash flows and commitment maturities. There were no defaults on payables in the current year. No assets have been pledged as collateral and the PAMHC's exposure to liquidity risk is deemed insignificant based on prior period's data and current assessment of risk.

Further, the Treasurer had issued a letter of comfort to the PAMHC subsidiary Port Lessor Companies stating that the State will provide financial support to enable the Port Lessor Companies to meet their debts obligations as required from time to time.

The payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular TC11-12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. Treasury Circular TC11-12 allows the Minister to award interest for late payment. There has been no interest awarded for late payment to date.

15. FINANCIAL INSTRUMENTS (continued)

The table below summarises the maturity profile of the PAMHC financial liabilities. The payables are non-interest bearing and the entity has no exposure to foreign currency risk.

Consolidated Company			Interest rate exposure			Maturity dates		
	Weighted average effective interest rate %	Nominal amount $'000	Fixed interest rate $'000	Variable interest rate $'000	Non-interest bearing $'000	< 1 Year $'000	1 - 5 Years $'000	> 5 Years $'000
2020								
Payables	-	1,927	-	-	1,927	1,927	-	-
Total financial liabilities	**-**	**1,927**	**-**	**-**	**1,927**	**1,927**	**-**	**-**
2019								
Payables	-	162	-	-	162	162	-	-
Total financial liabilities	**-**	**162**	**-**	**-**	**162**	**162**	**-**	**-**

Parent Company			Interest rate exposure			Maturity dates		
	Weighted average effective interest rate %	Nominal amount $'000	Fixed interest rate $'000	Variable interest rate $'000	Non-interest bearing $'000	< 1 Year $'000	1 - 5 Years $'000	> 5 Years $'000
2020								
Payables	-	59	-	-	59	59	-	-
Total financial liabilities	**-**	**59**	**-**	**-**	**59**	**59**	**-**	**-**
2019								
Payables	-	61	-	-	61	61	-	-
Total financial liabilities	**-**	**61**	**-**	**-**	**61**	**61**	**-**	**-**

16. ADMINISTERED ITEMS

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Administered revenue				
Ports Logistics Contribution (i)	7,654	7,694	7,654	7,694
Newcastle Community Contribution (ii)	1,000	1,000	1,000	1,000
Total administered revenue	**8,654**	**8,694**	**8,654**	**8,694**

(i) Port Logistics Contribution (PLC)

The PLC is levied by the PBL (a controlled entity of the PAMHC) to an external party, Port Botany Operations Pty Limited as trustee for the Port Botany Unit Trust, in accordance with the Port Logistics Contribution Deed. A Deed of Novation was entered into on 20 September 2013 which novated the PLC income received with effect from 20 September 2013 to the PAMHC.

It is levied on Twenty Foot Equivalent Units (TEUs) containers imported to or exported from the Port of Botany. The unit price is indexed to increase in line with CPI annually. Income received from 20 September 2013 is treated as administered revenue. The PLC is passed on to the Consolidated Fund upon receipt and is recognised on an accrual basis.

16. ADMINISTERED ITEMS (continued)

(ii) Newcastle Community Contribution (NCC)

The NCC is levied by the PAMHC to the Newcastle Port Manager in accordance with the Newcastle Community Contribution Deed. It is a statutory charge levied to the Newcastle Port Manager in operation of the port. The PAMHC is a collection agent acting on behalf of the Crown. The NCC is passed on to the Consolidated Fund upon receipt and is recognised on an accrual basis as administered revenue.

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Administered assets				
Receivables	2,247	2,246	2,247	2,246
Total administered assets	**2,247**	**2,246**	**2,247**	**2,246**

17. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities

- In entering the 99-year lease of land and fixtures at Port Kembla, Port Botany and Enfield and 98-year lease at Port of Newcastle, the PAMHC through its subsidiary Lessor Companies, has indemnified the Port Lessees in respect of pre-existing environmental damage or contamination at relevant sites.
- Under the transaction documents, the Port Lessor Companies must provide limited compensation to financiers if the Ports Leases are terminated for any reason, including default / breaches of the Port Leases, insolvency of the Port Lessees or Port Managers and force majeure. The compensation payable by the Port Lessor Companies to financiers if either Port Lease is terminated is capped at the lesser of:
  - the remaining value of the Port Leases; and
  - the debt owed to financiers “attributable” to the Port; and
  - a “debt cap” benchmarked against debt appropriate to a long-term investment grade credit rating.
- At balance date, there have been no breaches of the leases or other events that could result in lease termination.
- A parcel of un-remediated land at Koorangang Island which is part of the Newcastle land included in the Newcastle 98-year finance lease was contaminated while owned by Port Newcastle Corporation. As part of the lease arrangements, liabilities in respect of the land remediation costs for the pre-existing land contamination is assumed by the Crown Entity.

Contingent assets

- The State has guaranteed the payment of any compensation by the Port Lessor Companies for the above ‘transaction documents’ contingent liability.
- If any Port Lease terminates, then the Port Lessor Companies can regain possession of the Port land and chattels which are the subject of the Port Lease and certain subleases, and the Port Lessor can deal with them subject to the terms of the transaction documents and all applicable laws. The circumstances in which the Port Lessor may terminate the Port Lease are governed by the Port Lease and other transaction documents.

17. CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

- The Port Lessor Companies hold bank guarantees from the Port Lessees to cover any environmental liability and obligations under the leases/subleases. The guarantee is available in the event that the Port Lessees breach and fail to remedy within 30 days of receiving written notice of the breach.

- At balance date, the Port Lessor Companies have not issued any written notices for breach of the leases**.**

- The Treasurer has confirmed that the State will provide financial support to the Port Lessor Companies as may be required from time to time to enable the Port Lessor Companies to meet their debts as and when they become due and payable.

18. BUDGET REVIEW

Net result

The budget review is for the consolidated entity.

For the year ended 30 June 2020, PAMHC's net result is $16.0 million which is $0.6 million lower than the budget. This is mainly due to the administration charge totalling $0.5m for work performed by NSW Treasury staff that was not budgeted.

Operating expenses total $40.2 million which is slightly lower than the budgeted of $40.6 million. This is driven by a lower land tax expense of $1.4m offset by the administration charge of $0.5m which was approved by the Treasury Secretary in June 2020.

Total revenue is $56.2 million which is $1.0 million lower than budget. Land tax recoupment was $1.2 million lower than budget reflecting a slowdown in the property market and valuation. Council rates were $0.3m higher than budget due to an increase in land values.

Assets and Liabilities

Total assets for the year were $255.0 million, which exceeded the budget by $3.4 million contributed by $1.5 million higher cash balance resulting from deferred expenses due to COVID 19 payment extensions granted into the next financial year. There is a net receivable of $2.1 million for recoupment of expenses (exclusive of GST). This is mainly made up of council rates ($2.0 million) and water rates receivable ($0.1 million).

Total liabilities were $4.1 million which exceeded the budget by $4.0 million. This is driven by deferred expenses for council rates ($1.8 million) and water rates. The payment due date of council rates and water rates were extended to next financial year due to COVID 19. The GST payable on the land tax recoupment ($2.1 million) will be paid to the Australian Taxation Office (ATO) in July 2020.

18. BUDGET REVIEW (continued)

Cash flows

The actual net cash flows from operating activities were $1.6 million, $1.4 million higher than budget due to the GST on land tax recoupment received ($2.0 million) but not paid to the ATO until July 2020 upon lodgement of the June Business Activity Statement.

Both cash payments of $38.7 million and cash receipts of $40.3 million were higher than budget by $2.2 million and $3.7 million, respectively. This is primarily due to unbudgeted administration charge in the year and GST paid and received were omitted from the budget last year.

Closing cash and cash equivalents were $4.2 million, $1.5 million higher than budget. This mainly due to the GST on the land tax recoupment being paid to the ATO in July 2020 and expenses which have been deferred.

19. RELATED PARTY DISCLOSURES

(a) Ultimate parent

PBL, PKL and PNL are subsidiary Lessor Companies of the PAMHC. The NSW Government is the ultimate parent of the PAMHC. The NSW Government is also the ultimate parent of Crown Finance Entity, NSW Treasury and PNSW that provides key management personnel services to the PAMHC.

(b) Key management personnel remuneration

Key management personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the Corporation. The Treasurer, the NSW Treasury Secretary, and certain NSW Treasury Deputy Secretaries and Executive Directors are considered as KMP. The NSW Cabinet are considered related parties of the Corporation because of its role to direct overall government policy and make decisions about State issues. PBL, PKL and PNL are subsidiary Lessor Companies of the PAMHC. The Lessor Company Directors controls the activities and directions of the Lessor Companies therefore are also considered as KMP.

The PAMHC does not have employees. Key management personnel services were provided by NSW Treasury and PNSW. The PAMHC Directors are employees of NSW Treasury and PNSW. No remuneration was paid to any of the KMP by the PAMHC during the reporting period. No loans were made to any of the KMP during the reporting period.

(c) Transactions with related parties

(i) Transactions with KMP

The PAMHC has developed a framework in conjunction with NSW Treasury that supports the identification, recording and authorisation of the related party transactions. The KMP are required to complete annual declarations in relation to the related party transactions. No KMP has declared that he/she or their close family members have made any transactions with the PAMHC during the reporting period.

(ii) Transactions with subsidiaries

PBL, PKL and PNL are subsidiary Lessor Companies of the PAMHC. There were no transactions made with subsidiary Port Lessor Companies during the reporting period. The PAMHC incurred $154,398.67 incl. GST during the year for the property lease management services provided by PNSW on behalf of the Port Lessor Companies (2019: $179,847.51 incl. GST).

19. RELATED PARTY DISCLOSURES (continued)

(iii) Transactions with Director related entities

The PAMHC subsidiary Port Lessor Companies share a common set of directors. There were no transactions made in between the Lessor Companies during the reporting period.

The Directors of the subsidiary Lessor Companies are employee of the NSW Treasury and PNSW. The following are transactions made in between these entities during the reporting period.

Mr. Peter Graham is a Director of the subsidiary lessor companies and an employee of the Department of Planning, Industry and Environment. Since 1 July 2015 the PAMHC has outsourced the lease and property management services for its subsidiary lessor companies to PNSW. Total management fees paid to PNSW during the year for these services was $154,398.67 incl. GST (2019: $179,847.51 incl. GST).

Mr. Peter Wade is a Director of the subsidiary lessor Companies and an employee of the NSW Treasury. The Crown Entity and the PAMHC are both reporting entities under the NSW Treasury cluster. The Crown Entity has provided $600,000 (2019: $600,000) grants to the PAMHC and subsidiary Lessor Company PNL to cover the recurrent costs in 2020.

No other related party transaction occurred in this reporting period.

(iv) Transactions with other related entities

The PAMHC interacts with other government agencies in delivering services to the general public. Services provided by other government agencies to the Corporation including land tax, general Council service and water utility services. These services were provided to the Corporation in the same commercial terms as the general public.

Finance officers of NSW Treasury provide administrative services, including the preparation of financial statements for the Corporation and its subsidiary Lessor Companies. The total cost of these services for the year was $799,154.40 incl. GST (2019: Nil), the expense is shown as an administrative charge by the Corporation.

20. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial statements

Electricity Retained Interest Corporation – Ausgrid

ABN 40 543 372 305

Financial Statements
for the year ended 30 June 2020

Electricity Retained Interest Corporation – Ausgrid

ABN 40 543 372 305

Charter

The Electricity Retained Interest Corporation – Ausgrid (ERIC-A) was established on 4 November 2016 under the *Electricity Retained Interest Corporation Act 2015.*

Objectives

The purpose of ERIC-A is to provide for the effective stewardship and oversight, protecting the value and maximising returns, of the retained interest of the State of New South Wales in Ausgrid's network assets under the *Electricity Network Assets (Authorised Transactions) Act 2015.*

Staffing

Administration and accounting services are provided by staff of the NSW Treasury. The ERIC-A has no staff of its own.

Electricity Retained Interest Corporation - Ausgrid

ABN 40 543 372 305

Directors' Declaration
for the year ended 30 June 2020

Directors' Declaration

Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

(a) The accompanying financial statements exhibit a true and fair view of the Electricity Retained Interest Corporation – Ausgrid's financial position as at 30 June 2020 and the financial performance for the year then ended;

(b) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983, Public Finance and Audit Regulation 2015* and Directions to NSW Treasury Policy and Guidelines Papers; and

(c) There are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the board

Director: Belinda Hutchinson ....

Dated: 28 September 2020

Electricity Retained Interest Corporation - Ausgrid
ABN 40 543 372 305

Directors' Report
for the year ended 30 June 2020

The Directors present their report on the Electricity Retained Interest Corporation - Ausgrid (the Corporation) for the financial year ended 30 June 2020.

Information on Directors

The names of each person who has been a director during the year and to the date of this report are:

Belinda Gibson (Chair) (Appointed 18 July 2016)
Robert Wright (Appointed 18 July 2016)
Steven MacDonald (Appointed 13 November 2019)
Laura Reed (former Chair who retired on 3 November 2019)

Principal activities

The Corporation was established under the *Electricity Retained Interest Corporations Act 2015 No 6* (the Act) to provide for the effective stewardship and oversight of the retained interest of the State in Ausgrid's network assets under the *Electricity Network Assets (Authorised Transactions) Act 2015* and for which it is responsible for the purpose of protecting value and seeking to maximise returns to the State. The retained interest was established on 1 December 2016.

The retained interest is a 49.6 per cent interest in the Ausgrid distribution network business which is constituted by three (3) partnerships:

1. Ausgrid Network Asset Partnership (NAP) holding the regulated network assets;
2. Ausgrid Operator Partnership (NOP) which operates the regulated network assets; and
3. Plus ES Partnership (AUP) which owns and conducts unregulated activities.

The Corporation holds a 49.6 per cent interest in each of NAP, NOP and AUP via controlled entities.

Other than as described in the review of operations below, there has been no significant change in the Corporation's principal activity during the year.

Operating results

The net result of the Corporation was $95.3 million for the year, representing the Corporation's 49.6 per cent share of Ausgrid Partnership's profit/(loss). The Corporation's expenses are reimbursed by the State, while distributions received from its retained interest in Ausgrid are fully repatriated to the State.

Distributions received

Distributions received during the year of $14.9 million was reinvested into the Ausgrid Partnerships.

Review of operations

A review of the operations of the Corporation found that during the year, the Corporation continued to engage in its principal activity. The financial results of the Corporation are disclosed in the attached financial statements. Financial and company secretariat support are provided by staff the of NSW Treasury for the Corporation and its subsidiaries.

Significant changes in state of affairs

During the year the Australian Energy Regulator made determinations regarding Ausgrid's regulated income for both the 2014 to 2019 period and the 2019 to 2024 period, which significantly reduced revenues. With the objective of maintaining Ausgrid's current Baa1 (Moody's) and BBB (Standard & Poors) credit ratings, the Ausgrid Board resolved to use surplus cash to repay debt over the next 2 years, which will restrict cash flow to the Corporation over that period.

Electricity Retained Interest Corporation - Ausgrid
ABN 40 543 372 305

Directors' Report
for the year ended 30 June 2020

On 11 March 2020, the World health Organisation declared COVID-19 a global health pandemic. Since this time, State and Federal governments have implemented restrictions on public and social gatherings, travel and certain business operations. The Ausgrid Group continues to operate and has implemented additional hygiene, working from home, and social distancing measures. The Ausgrid Group provides a regulated essential service and currently maintains a strong financial position, forecast cash balance, and available undrawn borrowing facilities.

Significant events after the balance date

The COVID-19 pandemic is a continuing event post the end of the reporting date. The extent of the impact on the Ausgrid Group's future operations will depend on the duration and actions taken to address the pandemic, which are uncertain as at the date that the Ausgrid accounts were signed on 28 August 2020 and these accounts are signed on 28 September 2020.

No matters or circumstances other than disclosed above have arisen since the end of the reporting date which significantly affected or may significantly affect the operations of the Corporation, the results of those operations or the state of affairs of the Corporation in future financial years.

Indemnification and insurance of directors

Insurance premiums have been paid to cover any legal liabilities relating to professional indemnity and directors' and officers' liability during or since the end of the year for any person who is or has been a director of the Corporation.

By a Deed of Indemnity dated 23 November 2016 (in the case of Belinda Gibson and Robert Wright) and Deed of Indemnity dated 13 November 2019 (in the case of Steven MacDonald), the Corporation has indemnified each Director against:

(a) civil liability (other than a liability to the Corporation or a Subsidiary) for liability incurred in his or her capacity as a Director (unless the liability arises out of conduct involving a lack of good faith); and

(b) liability for costs incurred in defending proceedings (civil or criminal) in which judgement is given in favour of the Director or the Director is acquitted.

Auditor's independence declaration

The directors received the following declaration from the auditor of the Corporation.

Signed in accordance with a resolution of the Directors:

Director: Belinda Gibson ....

Dated: 28 September 2020

To the Directors

ERIC Alpha Holdings Pty Ltd

Auditor's Independence Declaration

As auditor for the audit of the financial statements of ERIC Alpha Holdings Pty Ltd for the year ended 30 June 2020, I declare, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- any applicable code of professional conduct in relation to the audit.

Renee Meimaroglou
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

24 September 2020
SYDNEY

INDEPENDENT AUDITOR'S REPORT

Electricity Retained Interest Corporation – Ausgrid

To Members of the New South Wales Parliament and Members of Electricity Retained Interest Corporation – Ausgrid

Opinion

I have audited the accompanying financial statements of Electricity Retained Interest Corporation – Ausgrid (the Corporation), which comprises 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 Statements of Cash Flows for the year then ended, notes comprising a Statement of Significant Accounting Policies and other explanatory information of the Corporation and the consolidated entity. The consolidated entity comprises the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

In my opinion, the financial statements:

- are in accordance with the *Corporations Act 2001*, including:
  - giving a true and fair view of the Corporation's and consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date
  - complying with Australian Accounting Standards and the Corporations Regulations 2001.
- are in accordance with section 41B of *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 Report' section of my report.

I am independent of the Corporation and the consolidated entity in accordance with the requirements of the:

- Australian Auditing Standards
- *Corporations Act 2001*
- 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 confirm the independence declaration, required by the *Corporations Act 2001*, provided to the directors of the Company on 24 September 2020, would be in the same terms if provided to the directors as at the time of this Independent Auditor's Report.

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

Other Information

The Corporation's 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 directors of the Corporation are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Directors' Declaration and the Directors' Report.

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.

Directors' Responsibilities for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, PF&A Act and the *Corporations Act 2001*, and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the ability of the Corporation and the consolidated entity 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/ar3.pdf. The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

- that the Corporation or the consolidated entity carried out their activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- 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.

Renee Meimaroglou
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

29 September 2020
SYDNEY

Electricity Retained Interest Corporation - Ausgrid

ABN 40 543 372 305

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2020

	Notes	Actual 2020 Consolidated $'000	Budget 2020 Consolidated $'000	Actual 2019 Consolidated $'000	Actual 2020 Parent $'000	Actual 2019 Parent $'000
Share of profit/(loss) in associate	4	95,278	-	80,298	-	-
Grants and other contributions	4	860	1,026	827	845	813
		96,138	1,026	81,125	845	813
Contribution paid	5	-	-	(145,653)	-	-
Directors fees	5	(352)	(368)	(350)	(352)	(350)
Other expenses	5	(508)	(658)	(477)	(493)	(463)
		(860)	(1,026)	(146,480)	(845)	(813)
Net result for the year		**95,278**	**-**	**(65,355)**	**-**	**-**
Other comprehensive income:						
Share of associate's other comprehensive income/(loss) that may be reclassified subsequently to net result		(110,112)	-	(240,635)	-	-
Share of associate's other comprehensive income/(loss) that will not be reclassified subsequently to net result		(4,464)	-	(4,249)	-	-
Total share of associate's other comprehensive income/(loss)	6	(114,576)	-	(244,884)	-	-
Total comprehensive income/(loss)		**(19,298)**	**-**	**(310,239)**	**-**	**-**

The accompanying notes form an integral part of these financial statements.

Electricity Retained Interest Corporation - Ausgrid

ABN 40 543 372 305

Consolidated Statement of Financial Position
as at 30 June 2020

	Notes	Actual 2020 Consolidated $'000	Budget 2020 Consolidated $'000	Actual 2019 Consolidated $'000	Actual 2020 Parent $'000	Actual 2019 Parent $'000
Current assets						
Trade and other receivables		-	328	-	-	-
Total current assets		**-**	**328**	**-**	**-**	**-**
Non-current assets						
Investment in associate	6	3,624,272	3,953,809	3,643,570	-	-
Total non-current assets		**3,624,272**	**3,953,809**	**3,643,570**	**-**	**-**
Total assets		**3,624,272**	**3,954,137**	**3,643,570**	**-**	**-**
Current liabilities						
Trade and other payables		-	328	-	-	-
Total current liabilities		**-**	**328**	**-**	**-**	**-**
Total non-current liabilities		**-**	**-**	**-**	**-**	**-**
Total liabilities		**-**	**328**	**-**	**-**	**-**
Net assets /(liabilities)		**3,624,272**	**3,953,809**	**3,643,570**	**-**	**-**
Equity						
Contributed capital	7	3,852,126	3,947,212	3,852,126	-	-
Reserves	7	(355,905)	6,597	(245,793)	-	-
Accumulated surplus	7	128,051	-	37,237	-	-
Total equity		**3,624,272**	**3,953,809**	**3,643,570**	**-**	**-**

The accompanying notes form an integral part of these financial statements.

Electricity Retained Interest Corporation - Ausgrid

ABN 40 543 372 305

Consolidated Statement of Cash Flows
for the year ended 30 June 2020

	Actual 2020 Consolidated $'000	Budget 2020 Consolidated $'000	Actual 2019 Consolidated $'000	Actual 2020 Parent $'000	Actual 2019 Parent $'000
Net cash flows from operating activities	-	-	-	-	-
Net cash flows from investing activities	-	-	-	-	-
Net cash flows from financing activities	-	-	-	-	-
Net increase/(decrease) in cash	-	-	-	-	-
Opening cash and cash equivalents	-	-	-	-	-
Closing cash and cash equivalents	-	-	-	-	-

The accompanying notes form an integral part of these financial statements.

Electricity Retained Interest Corporation - Ausgrid
ABN 40 543 372 305

Consolidated Statement of Changes in Equity
for the year ended 30 June 2020

	Consolidated				Parent			
	Contributed Capital $'000	Accumulated funds $'000	Reserve $'000	Total $'000	Contributed Capital $'000	Accumulated funds $'000	Reserve $'000	Total $'000
Balance at 1 July 2019	**3,852,126**	**37,237**	**(245,793)**	**3,643,570**	-	-	-	-
Net result for the period	-	95,278	-	95,278	-	-	-	-
Other comprehensive income								
Investment in associate	-	(4,464)	(110,112)	(114,576)	-	-	-	-
Total other comprehensive income	-	(4,464)	(110,112)	(114,576)	-	-	-	-
Total comprehensive income	-	90,814	(110,112)	(19,298)	-	-	-	-
Balance at 30 June 2020	**3,852,126**	**128,051**	**(355,905)**	**3,624,272**	-	-	-	-
Balance at 1 July 2018	**3,852,126**	**106,841**	**(5,158)**	**3,953,809**	-	-	-	-
Net result for the period	-	(65,355)	-	(65,355)	-	-	-	-
Other comprehensive income								
Investment in associate	-	(4,249)	(240,635)	(244,884)	-	-	-	-
Total other comprehensive income	-	(4,249)	(240,635)	(244,884)	-	-	-	-
Total comprehensive income	-	(69,604)	(240,635)	(310,239)	-	-	-	-
Balance at 30 June 2019	**3,852,126**	**37,237**	**(245,793)**	**3,643,570**	-	-	-	-

The accompanying notes form an integral part of these financial statements.

NOTES INDEX

1. INFORMATION ON THE CORPORATION

The Corporation was set up under the *Electricity Retained Interest Corporations Act 2015 No 6* (the Act) to provide for the effective stewardship and oversight of the retained interest of the State in Ausgrid's network assets under the *Electricity Network Assets (Authorised Transactions) Act 2015*, and for which it is responsible for the purpose of protecting value and seeking to maximise returns to the State. The retained interest was established on 1 December 2016.

The retained interest is a 49.6 per cent interest in the Ausgrid distribution network business which is constituted by three (3) partnerships (the Partnerships):

1. Ausgrid Network Asset Partnership (NAP) which holds the regulated network assets;
2. Ausgrid Operator Partnership (NOP) which operates the regulated network assets; and
3. Plus ES Partnership (AUP) which owns and conducts unregulated activities.

The Corporation holds a 49.6 per cent interest in each of the NAP, NOP and AUP via controlled entities.

The Corporation is a not-for-profit entity from 4 November 2016. Its principal office is at 52 Martin Place, Sydney NSW 2000, Australia.

The consolidated financial statements of the Corporation and its subsidiaries were authorised for issue in accordance with a resolution of the Directors on the date the accompanying Directors' Report was signed.

The Corporation is a NSW Government entity and consolidated as part of the NSW Total State Sector Accounts.

2. BASIS FOR CONSOLIDATION

Subsidiaries

The consolidated financial statements of the Corporation include the Corporation as parent and its subsidiaries (refer to "Entities within the Group") as at the reporting date. The Corporation achieves control through the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the subsidiary)
- Exposure, or rights, to variable returns from its involvement with the subsidiary
- The ability to use its power over the investee to affect its returns

The Corporation has considered all relevant facts and circumstances in assessing whether it has power over a subsidiary, including:

- The contractual arrangement(s) with the other vote holders of the subsidiary
- Rights arising from other contractual arrangements
- The Corporation's voting rights and potential voting rights

The Corporation re-assesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements.

2. BASIS FOR CONSOLIDATION (continued)

Profit or loss and each component of the other comprehensive income are attributed to the equity holders of the parent of the Corporation and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Corporation are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Corporation loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. The Corporation’s retained investment is recognised at fair value.

Entities within the Group

The Corporation’s Group comprises of the following entities:

Electricity Retained Interest Corporation – Ausgrid (the Corporation), ERIC Alpha Holdings Pty Ltd (Alpha Holdings), four ERIC Alpha Asset Trusts (NAPTs), four ERIC Alpha Operator Trusts (NOPTs), four ERIC Alpha AUP Trusts (NAUPTs) and the associated four ERIC Alpha Asset Corporations (NAPT Trustee), four ERIC Alpha Operator Corporations (NOPT Trustee) and four ERIC Alpha AUP Corporations (NAUPT Trustee) companies. NAPTs, NOPTs and NAUPTs hold the legal interests of the retained interest.

NAPTs:

- ERIC Alpha Asset Corporation 1 Pty Ltd (ACN 612 974 044) as trustee for the ERIC Alpha Asset Trust 1
- ERIC Alpha Asset Corporation 2 Pty Ltd (ACN 612 975 023) as trustee for the ERIC Alpha Asset Trust 2
- ERIC Alpha Asset Corporation 3 Pty Ltd (ACN 612 975 032) as trustee for the ERIC Alpha Asset Trust 3
- ERIC Alpha Asset Corporation 4 Pty Ltd (ACN 612 975 078) as trustee for the ERIC Alpha Asset Trust 4

NOPTs:

- ERIC Alpha Operator Corporation 1 Pty Ltd (ACN 612 975 096) as trustee for the ERIC Alpha Operator Trust 1
- ERIC Alpha Operator Corporation 2 Pty Ltd (ACN 612 975 121) as trustee for the ERIC Alpha Operator Trust 2
- ERIC Alpha Operator Corporation 3 Pty Ltd (ACN 12 975 185) as trustee for the ERIC Alpha Operator Trust 3
- ERIC Alpha Operator Corporation 4 Pty Ltd (ACN 612 975 210) as trustee for the ERIC Alpha Operator Trust 4

NAUPTs:

- ERIC Alpha AUP Corporation 1 Pty Ltd (ACN 621 524 374) as trustee for the ERIC Alpha AUP Trust 1
- ERIC Alpha AUP Corporation 2 Pty Ltd (ACN 621 524 454) as trustee for the ERIC Alpha AUP Trust 2
- ERIC Alpha AUP Corporation 3 Pty Ltd (ACN 621 524 525) as trustee for the ERIC Alpha AUP Trust 3
- ERIC Alpha AUP Corporation 4 Pty Ltd (ACN 621 524 605) as trustee for the ERIC Alpha AUP Trust 4

Under the Act, a Fund has been established for the Corporation in the Special Deposit Account (SDA) where all financial returns, including distribution income, return of capital and any financial distribution, derived by the Corporation or any subsidiary of the Corporation from the retained interest for which the Corporation is responsible, must be deposited. This SDA is controlled by the State, and not the Corporation. Therefore, the Corporation, or the entities it controls, does not recognise the SDA within its financial statements and do not themselves pay distributions.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are general-purpose financial statements prepared on an accrual basis and in accordance with the following requirements:

- Applicable Australian Accounting Standards (including Australian Accounting Interpretations)
- *Public Finance and Audit Act 1983* (the PF&A Act)
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions issued under the PF&A Act

The presentation of these financial statements is consistent with the not-for-profit classification of the General Government entity.

All amounts are presented in Australian dollars and rounded to the nearest thousand dollars ($'000), unless otherwise stated.

Comparative information

In all cases, except when an Australian Accounting Standard permits or requires otherwise, comparative information is presented in respect of the previous year for the amounts reported in the financial statements.

Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions about the carrying amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, and any future periods affected. Any judgements, estimates and assumptions management have made are disclosed in the relevant notes to the financial statements.

Statement of compliance

The financial statements and notes comply with applicable Australian Accounting Standards including Australian Accounting Interpretations.

Changes in accounting policy, including new or revised Australian Accounting Standards

i. Effective for the first time in FY2019-20

The Corporation applied AASB 1058 *Income of Not-for-Profit Entities* for the first time. The nature and effect of the changes as a result of the adoption of AASB 1058 is described below.

Several other standards, amendments and interpretations apply for the first time in FY2019-20, but do not have an impact on the financial statements of the entity.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 1058 *Income of Not-for-profit Entities*

AASB 1058 replaces most of the existing requirements in AASB 1004 *Contributions*. The scope of AASB 1004 is now limited mainly to contributions by owners (including parliamentary appropriations that satisfy the definition of a contribution by owners), administrative arrangements and liabilities of government departments assumed by other entities. AASB 1058 adopts a residual approach, entities first apply other applicable Australian Accounting Standards to a transaction before recognising income under AASB 1058.

For the Corporation, the adoption of AASB 1058 resulted in a change to the presentation of the grant revenue received from the Crown Entity. The revenue line item shown in Note 4 now notes that the grant received from the Crown Entity is without sufficiently specific performance obligations. Income is recognised when the Corporation obtains control over the granted asset, this being when cash is received, unchanged from AASB 1004. There is no financial impact on the Corporation's financial statements and no change to comparatives.

ii. Issued but not yet effective

As mandated by Treasury Circular TC20-01, the Corporation has not early adopted any new accounting standards, amendments and interpretations that have been issued but are not yet effective.

The following lists the new standards and interpretation that whilst not yet effective, may be applicable to the Corporation:

- AASB 1059 *Service Concession Arrangements: Grantors* (operative date 1 July 2020)
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059* (operative date 1 July 2020)
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* (operative date 1 July 2020)
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* (operative date 1 July 2020)
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* (operative date 1 July 2020)
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059* (operative date 1 July 2020

Management have considered the impact of new accounting standards issued but not yet effective and concluded there is no material impact to the Corporation.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into consideration contractually defined terms of payment.

Until 30 June 2019, income is recognised in accordance with AASB 118 *Revenue* and AASB 1004. From 1 July 2019, revenue is recognised in accordance with the requirement of AASB 15 or AASB 1058, dependent on whether there is an enforceable contract with specific performance obligation

Distribution income

Distribution income is recognised reflecting the quarterly distributions from the Partnerships. This is offset by the contribution paid to the State as all financial returns must be deposited into the SDA. The SDA is controlled and reported by the Crown Entity. Refer to Note 4.

Grants and other contributions

Grants and contributions are recognised when the Corporation obtains control of the contribution. Control of contribution is normally obtained upon the receipt of cash.

Expenses

Expenses are recognised when incurred.

Finance and other personnel of the NSW Treasury provide administrative services, including the preparation of the Corporation's financial statements. The cost of these services is shown as an administration charge in Note 5.

Cash and cash equivalents

Cash and cash equivalents are not recognised in the Consolidated Statement of Financial Position as the cash and cash equivalents are held in a SDA controlled and reported by the Crown Entity.

Investment in associate

The State's retained interest in Ausgrid is accounted in the Corporation's investment in its associate as per AASB 128 *Investments in Associates and Joint Ventures* using the equity method. The reporting period for Ausgrid and the Corporation are in line with each other.

The Corporation has significant influence over its associates through the Board who participate in the financial and operating policy decisions of the investee, but do not have control or joint control over those policies.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Corporation's share of net assets of the associate since the acquisition date. The Corporation recognises its investment based on 49.6 per cent of the associate's net assets with the exception of property, plant and equipment (PPE) which are adjusted to fair value in accordance with Treasury's Policy and Guidelines Paper TPP 14-01 *Valuation of Physical Non-current Assets at Fair Value*, AASB 13 *Fair Value Measurement* and AASB 116 *Property, Plant and Equipment*.

A fair value analysis of the associate's PPE is performed annually. An external advisor was engaged to provide an opinion on the methodology and value adopted by the Corporation to account for its interest in Ausgrid as 30 June 2020.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A value in use model was used applying a discounted cash flow (DCF) approach, discounting free cash flows using a long-term after tax weighted average cost of capital (WACC) and mid-period discounting. The cash flow forecasts are based on the latest Ausgrid business plans up to 30 June 2025. The fair value of PPE is determined by deducting the carrying value of working capital and intangible assets and goodwill not related to PPE from the DCF value of the consolidated Ausgrid business. Growth related EDITDA, movements of non-cash revenue items, changes in working capital and maintenance capital are excluded from operating cash flows to determine the DCF value of the consolidated Ausgrid business.

Key assumptions used by the external advisor in the discounted cash flow analysis were:
- The distributor licence and 10 per cent of the goodwill are not related to the network service provider;
- A post tax WACC of 5.96 – 6.39 per cent (mid-point of 6.17 per cent);
- A 6-year (to 30 June 2026) cashflow horizon and applying an EBITDA multiple of 14.2 to 15.7 times as a proxy for long term cashflows.

The Corporation applied a discount rate of 6.17 per cent (2019: 7.13 per cent). The table below shows the sensitivity on a value which is approximate to the valued fair value amount from a change in discount rate of +/- 0.25 per cent:

Discount Sensitivity	+0.25% ($M)	Valuation Amount ($M)	-0.25% ($M)
30 June 2020	16,256	17,204	18,275
30 June 2019	15,800	16,700	17,600

The Corporation applied a terminal value growth rate of 2 per cent. The table below shows the sensitivity on a value which is approximate to the valued fair value amount from a change in the terminal value growth rate of +/- 0.5 per cent:

Discount Sensitivity	+0.50% ($M)	Valuation Amount ($M)	-0.50% ($M)
	19,113	17,204	15,707

The current strategic environment presents several material risks and uncertainties to the Ausgrid business which could materially impact the medium-term business performance. These include regulatory value risks, COVID-19 and the economic environment resulting from government measures. The impact of these measures on future financing capacity, macro-economic measures such as GDP, inflation and interest rates, as well as supply and demand drivers are not fully known.

Due to the market volatility and economic uncertainty, the key parameters and assumptions used in the fair value model may be different with the actual results. Key inputs in the valuation model includes weighted average cost of capital which was used as discount rate and the business growth rate which was used for the projection of future cashflow. Sensitivities to the key assumptions for the fair value result are shown in the table above. The sensitivity analysis above has been modelled for the mid-point of the Ausgrid’s PPE valuation range.

Changes in the Corporation’s share of the associate’s operating results, adjusted to ensure consistency with the Corporation’s accounting policy, if any, are reflected in surplus or deficit. Where a change is recognised directly in the associate’s equity, the Corporation recognises its share in other comprehensive income.

Going Concern

The State will provide the Corporation support in the form of contributions to meet its debt obligations as and when they become due and payable. Hence, the financial statements are prepared on a going concern basis.

Electricity Retained Interest Corporation - Ausgrid

ABN 40 543 372 305

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

4. INCOME

	2020 Consolidated $'000	2019 Consolidated $'000	2020 Parent $'000	2019 Parent $'000
Share of profit/(loss) in associate	95,278	80,298	-	-
Grants and other contribution[1]	860	827	845	813
Total	**96,138**	**81,125**	**845**	**813**

[1.] The Corporation does not have a bank account. The Electricity Retained Interest Corporation - Ausgrid Fund (the Fund) was established under Section 32 of the Act to facilitate all financial transactions of the Corporation. The Fund is a SDA controlled and reported by the Crown Entity.

Dividend distributions from the Partnerships are paid into the Fund and subsequently remitted to the State's Consolidated Fund. Operational expenditures of the Corporation are to be met by the Fund which effectively is a grant contribution from the Crown Entity. The grant received is without sufficiently specific performance obligations.

5. EXPENSES

	2020 Consolidated $'000	2019 Consolidated $'000	2020 Parent $'000	2019 Parent $'000
Contribution paid				
Contribution paid to Crown Entity	-	145,653	-	-
	-	**145,653**	**-**	**-**
Director fees				
Fees	321	320	321	320
Superannuation contribution	31	30	31	30
	352	**350**	**352**	**350**
Other expenses				
Audit fees	87	85	75	74
Admininstration charge	275	250	275	250
Other	146	142	143	139
	508	**477**	**493**	**463**
Total expenses	**860**	**146,480**	**845**	**813**

6. INVESTMENT IN ASSOCIATE

The Corporation's Group investment in an associate represents 100 per cent interest in shares of Alpha Holdings Pty Ltd, which has an investment in associate consisting of the NSW Government's 49.6 per cent share in the Ausgrid Partnerships; IFM Investors and AustralianSuper holds the other 50.4 per cent.

	2020 Consolidated $'000	2019 Consolidated $'000	2020 Parent $'000	2019 Parent $'000
Investment in associate	3,624,272	3,643,570	-	-
	3,624,272	**3,643,570**	**-**	**-**

6. INVESTMENT IN ASSOCIATE (continued)

The Corporation’s share of associate’s assets and liabilties

	2020 Consolidated $'000	2019 Consolidated $'000	2020 Parent $'000	2019 Parent $'000
Current assets	395,312	321,459	-	-
Non-current assets	10,920,432	10,540,456	-	-
	11,315,744	10,861,915	-	-
Current liabilities	278,752	358,199	-	-
Non-current liabilities	7,412,720	6,860,146	-	-
	7,691,472	7,218,345	-	-
Net assets	**3,624,272**	**3,643,570**	**-**	**-**

The Corporation’s share of associate’s profit

	2020 Consolidated $'000	2019 Consolidated $'000	2020 Parent $'000	2019 Parent $'000
Revenue	1,136,336	1,288,608	-	-
Profit before income tax	95,278	80,298	-	-
Profit after income tax	**95,278**	**80,298**	**-**	**-**
Other comprehensive income	(114,576)	(244,884)	-	-
Total comprehensive income	**(19,298)**	**(164,586)**	**-**	**-**

The Corporation’s share of associate’s commitments for expenditure

	2020 Consolidated $'000	2019 Consolidated $'000	2020 Parent $'000	2019 Parent $'000
Capital expenditure	94,736	145,328	-	-
Operating leases as lessee	-	5,952	-	-
Operating leases as lessor	-	7,936	-	-

Reconciliation of Movements

	2020 Consolidated $'000	2019 Consolidated $'000	2020 Parent $'000	2019 Parent $'000
Balance at the beginning of the financial year	3,643,570	3,953,809	-	-
Additional investment in existing associate	-	21,328	-	-
Share of associates net profit/(loss)	95,278	80,298	-	-
Share in other comprehensive income	(114,576)	(244,884)	-	-
Dividends received	(14,880)	(166,981)	-	-
Dividends reinvestment	14,880	-	-	-
Balance at the end of the financial year	**3,624,272**	**3,643,570**	**-**	**-**

7. EQUITY

	2020 Consolidated $'000	2019 Consolidated $'000	2020 Parent $'000	2019 Parent $'000
Contributed capital - retained interest in partnerships	3,852,126	3,852,126	-	-
Accumulated surplus	128,051	37,237	-	-
Reserves	(355,905)	(245,793)	-	-
Closing Balance	**3,624,272**	**3,643,570**	**-**	**-**

Contributed capital

Contributed capital represents fully paid ordinary shares issued to ERIC Alpha Holdings Pty Ltd for $1 consideration on incorporation under one or more vesting orders made by the Treasurer of NSW under the *Electricity Network Assets (Authorised Transactions) Act 2015*. Contributed capital excludes stamp duty.

8. BUDGET REVIEW

Net result

The net result of the Corporation was $95.3 million, representing the Corporation's 49.6 percent share of Ausgrid Partnership's profit.

Total expenses for 2019-20 were $0.9 million, $0.2 million lower than budget mainly due to less consultancy expenses incurred during the year.

Total revenue was $96.1 million in 2019-20, $95.1 million higher than budget primarily attributed to $95.3 million of the Corporation's 49.6 per cent share of Ausgrid Partnership's profit.

Assets and Liabilities

Total assets for the year were $3,624 million, $330 million lower than budget due to the reduction in the investment value in the Ausgrid Partnership.

Total liabilities for the year were nil. For the budget, $0.3 million of creditors were net off the same amount of debtors.

Cash flows

The Corporation does not have a bank account. Under Section 32 of the Act, the Electricity Retained Interest Corporation – Ausgrid (the Fund) was established as a Special Deposit Account (SDA) to facilitate all financial and investment return of the Corporation, disburse the operational cost incurred by the Corporation and make payments into the Consolidated Fund as directed by the Treasurer. A separate annual report is prepared for the Fund in accordance with section 35 of the Act to disclose the cashflow of the Corporation. The published Budget Paper for the Corporation discloses the activities of the SDA which is controlled and reported by the Crown Entity. These activities are not recognised by the Corporation.

9. LEGAL INTEREST IN THE NETWORK PARTNERSHIP TRUSTS

The Corporation, through Ausgrid Network Asset Partnership Trusts (NAPTs), Ausgrid Network Asset Operator Partnership Trusts (NOPTs) and Ausgrid Network Unregulated Partnership Trusts (AUPTs) holds a 49.6 per cent legal equity interest in the NAP, NOP and AUP. Refer to Note 2 "Entities within the Group" for details.

All financial returns of the Partnerships derived by the Corporation or any subsidiary of the Corporation from the retained interest for which the Corporation is responsible, must be payable directly into the SDA which is controlled by the State, in accordance with the Act. The Corporation recognises the retained interest in Partnerships in the Consolidated Statement of Financial Position using the equity method.

10. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

At the reporting date, the Corporation's contingent assets of nil (2019: nil) and contingent liabilities of $19.84 million (2019: $17.86 million) represent its share in the associate's contingent assets and contingent liabilities.

11. COMPENSATION OF KEY MANAGEMENT PERSONNEL

	2020 Consolidated $'000	2019 Consolidated $'000
Short-term employee benefits	321	320
Post-employment benefits	31	30
Other long-term benefits	-	-
Termination benefits	-	-
Total	**352**	**350**

Short-term employee benefits include director salaries and post-employment benefits include superannuation.

12. RELATED PARTIES

(a) Ultimate parent

The NSW Government is the ultimate parent of the Corporation. The NSW Government is also the ultimate parent of NSW Treasury that provides key management personnel services to the Corporation.

(b) Key management personnel remuneration

The Corporation defines key management personnel (KMP) as those having authority and responsibility for planning, directing and controlling the activities of the Corporation. NSW Government is the ultimate controlling party of the Corporation, therefore the Treasurer, NSW Treasury Secretary, the Corporation Directors, and certain NSW Treasury Deputy Secretaries and Executive Directors are considered as KMP. The NSW Cabinet are considered related parties of the Corporation because of its role to direct overall government policy and make decisions about State issues.

The Corporation does not have employees. The key management personnel services were provided by NSW Treasury. The Corporation Directors are independent members who have been appointed by the Treasurer.

No loans were made to any of the KMP by the Corporation during the year. Refer to Note 11 Compensation of Key Management Personnel for total remuneration payable to the Directors

(c) Transactions with related parties

(i) Transactions with KMP

The Corporation has developed a framework in conjunction with NSW Treasury that supports the identification, recording and authorisation of the related party transactions. The KMP is required to complete annual declarations in relation to the related party transactions. No KMP has declared that he/she and their close family members have made any transactions with the Corporation during the year.

12. RELATED PARTIES (continued)

(ii) Transactions with Director related entities

The Directors of the Corporation are also Directors for the Partnerships. Distributions from the Partnerships to the Corporation during the year are reported in the Consolidated Statement of Comprehensive Income. No other transactions were made between the Corporation and the Partnerships during the year.

(iii) Transactions with other related entities

Services provided by other government agencies to the Corporation include payroll, accounting and finance, administrative and company secretariat services. These services were provided to the Corporation in the same commercial terms as for any other agencies.

Finance officers of NSW Treasury provide administrative services, including the preparation of the Corporation's financial statements. The cost of these services is shown as an administrative charge in the Corporation.

As the Corporation does not have a bank account, all expenses incurred by the Corporation are funded by the Crown as grant income.

13. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial statement

Electricity Retained Interest Corporation – Endeavour Energy

ABN 61 573 737 242

Financial Statements
for the year ended 30 June 2020

Electricity Retained Interest Corporation – Endeavour Energy

ABN 61 573 737 242

Charter

The Electricity Retained Interest Corporation – Endeavour Energy (ERIC-E) was established on 2 June 2017 under the *Electricity Retained Interest Corporation Act 2015.*

Objectives

The purpose of ERIC-E is to provide for the effective stewardship and oversight, protecting the value and maximising returns, of the retained interest of the State of New South Wales in Endeavour Energy's distribution network assets under the Electricity Network Assets (Authorised Transactions) Act 2015.

Staffing

Administration and accounting services are provided by staff of the NSW Treasury. The ERIC-E has no staff of its own.

Directors' Declaration

Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

(a) The accompanying financial statements exhibit a true and fair view of the Electricity Retained Interest Corporation – Endeavour Energy's financial position as at 30 June 2020 and the financial performance for the year then ended;

(b) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, *Public Finance and Audit Regulation 2015* and NSW Treasury Policy and Guidelines Papers and Directions; and

(c) There are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Director: ....

Dated: 28/9/20

Electricity Retained Interest Corporation-Endeavour Energy

ABN 61 573 737 242

Directors' Report
for the year ended 30 June 2020

The Directors present their report on Electricity Retained Interest Corporation - Endeavour Energy (the Corporation) for the financial year ended 30 June 2020.

Information on Directors

The names of each person who has been a director during the period and to the date of this report are:

Trevor Danos AM (Chair) (Reappointed on 2 June 2020 for a three-year term)
Helen Conway (Reappointed on 2 June 2020 for a two-year term)
Scott Davies (Reappointed on 2 June 2020 for a three-year term

Directors have been in office since the date of appointment to the date of this report unless otherwise stated.

Principal activities

The Corporation was set up under the *Electricity Retained Interest Corporations Act 2015 No 6* (the Act) to provide for the effective stewardship and oversight of the retained interest of the State in Endeavour's Energy distribution network business under the *Electricity Network Assets (Authorised Transactions) Act 2015* and for which it is responsible for the purpose of protecting value and seeking to maximise returns to the State. The retained interest was acquired on 14 June 2017.

The retained interest is a 49.6 per cent interest in the Endeavour Energy distribution network business which is constructed by three (3) partnerships:

1. Endeavour Energy Network Asset Partnership (NAP) holding regulated assets;
2. Endeavour Energy Network Operator Partnership (NOP) which operates the regulated assets; and
3. Endeavour Energy Network Unregulated Partnership (NUP) which owns and conducts unregulated activities.

The Corporation holds a 49.6 per cent interest in each of NAP, NOP and NUP via controlled entities.

Other than as described in the review of operations below, there has been no significant change in the Corporation's principal activity during the year.

Operating results

The net result of the Corporation was $27 million for the year, representing the Corporation's 49.6 per cent share of Endeavour Energy Partnerships' profit and loss. All expenses of the Corporation are reimbursed by the State, while distributions received from its retained interest in Endeavour Energy are fully repatriated to the State.

Distributions received

Total distribution received as at the reporting date was $87 million.

Review of operations

A review of the operations of the Corporation found that during the year, the Corporation continued to engage in its principal activity. The financial results of the Corporation are disclosed in the attached financial statements. Financial and company secretariat support are provided by staff of the NSW Treasury for the Corporation and its subsidiaries.

Significant changes in state of affairs

During the year the Australian Energy Regulator made determinations regarding Endeavour's regulated income for both the 2014 to 2019 period and the 2019 to 2024 periods, which reduced revenues.

Electricity Retained Interest Corporation-Endeavour Energy

ABN 61 573 737 242

Directors' Report
for the year ended 30 June 2020

On 11 March 2020, the World Health Organisation declared COVID-19 a global health pandemic. Since this time, State and Federal governments have implemented restrictions on public and social gatherings, travel and certain business operations. The Endeavour Energy Group continues to operate and has implemented additional hygiene, working from home, and social distancing measures. The Endeavour Energy Group provides a regulated essential service and currently maintains a strong financial position, forecast cash balance, and available undrawn borrowing facilities.

Significant events after the balance date

The COVID-19 pandemic is a continuing event post the end of the reporting date. The extent of the impact on the Endeavour Energy Group's future operations will depend on the duration and actions taken to address the pandemic, which are uncertain as at the date that the Endeavour Energy accounts were signed on 27 August 2020 and the Corporation's accounts are signed on 28 September 2020.

No matters or circumstances have arisen since the end of the reporting date which significantly affected or may significantly affect the operations of the Corporation, the results of those operations or the state of affairs of the Corporation in future financial years.

Indemnification and insurance of directors

Insurance premiums have been paid to cover any legal liabilities relating to professional indemnity and directors' and officers' liability during or since the end of the year for any person who is or has been a director of the Corporation.

By a Deed of Indemnity dated 8 June 2017, the Corporation has indemnified each director against:

(a) civil liability (other than a liability to the Corporation or a Subsidiary) for liability incurred in his or her capacity as a director (unless the liability arises out of conduct involving a lack of good faith); and

(b) liability for costs incurred in defending proceedings (civil or criminal) in which judgement is given in favour of the director or the director is acquitted.

Auditor's independence declaration

The directors received the following declaration from the auditor of the Corporation.

Signed in accordance with a resolution of the directors:

Director: ....

Dated: 28/9/20

To the Directors

ERIC Epsilon Holdings Pty Ltd

Auditor's Independence Declaration

As auditor for the audit of the financial statements of ERIC Epsilon Holdings Pty Ltd for the year ended 30 June 2020, I declare, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- any applicable code of professional conduct in relation to the audit.

Renee Meimaroglou
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

24 September 2020
SYDNEY

INDEPENDENT AUDITOR'S REPORT

Electricity Retained Interest Corporation – Endeavour Energy

To Members of the New South Wales Parliament and Members of Electricity Retained Interest Corporation – Endeavour Energy

Opinion

I have audited the accompanying financial statements of Electricity Retained Interest Corporation – Endeavour Energy (the Corporation), which comprises 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 Statements of Cash Flows for the year then ended, notes comprising a Statement of Significant Accounting Policies and other explanatory information of the Corporation and the consolidated entity. The consolidated entity comprises the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

In my opinion, the financial statements:

- are in accordance with the *Corporations Act 2001*, including:
  - giving a true and fair view of the Corporation's and consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date
  - complying with Australian Accounting Standards and the Corporations Regulations 2001.
- are in accordance with section 41B of *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 Report' section of my report.

I am independent of the Corporation and the consolidated entity in accordance with the requirements of the:

- Australian Auditing Standards
- *Corporations Act 2001*
- 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 confirm the independence declaration, required by the *Corporations Act 2001*, provided to the directors of the Company on 24 September 2020, would be in the same terms if provided to the directors as at the time of this Independent Auditor's Report.

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

Other Information

The Corporation's 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 directors of the Corporation are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Directors' Declaration and the Directors' Report.

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.

Directors' Responsibilities for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, PF&A Act and the *Corporations Act 2001*, and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the ability of the Corporation and the consolidated entity 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/ar3.pdf. The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

- that the Corporation or the consolidated entity carried out their activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- 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.

Renee Meimaroglou
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

29 September 2020
SYDNEY

Electricity Retained Interest Corporation-Endeavour Energy
ABN 61 573 737 242

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2020

	Notes	Actual 2020 Consolidated $'000	Budget 2020 Consolidated $'000	Actual 2019 Consolidated $'000	Actual 2020 Parent $'000	Actual 2019 Parent $'000
Revenue						
Share of profit/(loss) of associates	4	113,288	121,000	141,623	-	-
Grants and other contribution	4	828	1,027	797	816	785
Other revenue	4	5,078	5,170	4,997	-	-
		119,194	**127,197**	**147,417**	**816**	**785**
Expenses						
Contribution paid	5	90,867	126,170	37,954	-	-
Directors' fees	5	353	370	349	353	349
Other expenses	5	476	657	448	463	436
		91,696	**127,197**	**38,751**	**816**	**785**
Net result		**27,498**	-	**108,666**	-	-
Other comprehensive income						
Share of associate's other comprehensive income/(loss) that may be reclassified subsequently to net result		(81,840)	-	(158,262)	-	-
Share of associate's other comprehensive income/(loss) that will not be reclassified subsequently to net result		(3,819)	-	(5,109)	-	-
Total other comprehensive income/(loss)	6	**(85,659)**	**-**	**(163,371)**	**-**	**-**
Total comprehensive income/(loss)		**(58,161)**	-	**(54,705)**	-	-

The accompanying notes form an integral part of the financial statements

Electricity Retained Interest Corporation-Endeavour Energy
ABN 61 573 737 242

Consolidated Statement of Financial Position
as at 30 June 2020

	Notes	Actual 2020 Consolidated $'000	Budget 2020 Consolidated $'000	Actual 2019 Consolidated $'000	Actual 2020 Parent $'000	Actual 2019 Parent $'000
Current assets						
Receivables	7	2,761	363	-	-	-
Total current assets		**2,761**	**363**	**-**	**-**	**-**
Non-current assets						
Investment in associate	6	1,918,578	2,032,702	1,977,997	-	-
Total non-current assets		**1,918,578**	**2,032,702**	**1,977,997**	**-**	**-**
Total assets		**1,921,339**	**2,033,065**	**1,977,997**	**-**	**-**
Current liabilities						
Payables	8	251	363	-	-	-
Total current liabilities		**251**	**363**	**-**	**-**	**-**
Total non-current liabilities		**-**	**-**	**-**	**-**	**-**
Total liabilities		**251**	**363**	**-**	**-**	**-**
Net assets		**1,921,088**	**2,032,702**	**1,977,997**	**-**	**-**
Equity						
Contributed capital	10	1,946,448	2,046,292	1,946,448	-	-
Reserves	10	(255,180)	(13,590)	(173,340)	-	-
Accumulated surplus	10	229,820	-	204,889	-	-
Total equity		**1,921,088**	**2,032,702**	**1,977,997**	**-**	**-**

The accompanying notes form an integral part of the financial statements

Electricity Retained Interest Corporation-Endeavour Energy
ABN 61 573 737 242

Consolidated Statement of Cash Flows
for the year ended 30 June 2020

	Actual 2020 Consolidated $'000	Budget 2020 Consolidated $'000	Actual 2019 Consolidated $'000	Actual 2020 Parent $'000	Actual 2019 Parent $'000
Net cash flows from operating activities	-	-	-	-	-
Net cash flows from investing activities	-	-	-	-	-
Net cash flows from financing activities	-	-	-	-	-
Net increase/(decrease) in cash	-	-	-	-	-
Opening cash and cash equivalents	-	-	-	-	-
Closing cash and cash equivalents	-	-	-	-	-

The accompanying notes form an integral part of the financial statements

Electricity Retained Interest Corporation-Endeavour Energy
ABN 61 573 737 242

Consolidated Statement of Changes in Equity
for the year ended 30 June 2020

	Consolidated				Parent			
	Contributed Capital $'000	Accumulated Funds $'000	Reserves $'000	Total $'000	Contributed Capital $'000	Accumulated Funds $'000	Reserves $'000	Total $'000
Balance at 1 July 2019	**1,946,448**	**204,889**	**(173,340)**	**1,977,997**	-	-	-	-
Changes in accounting policy	-	**1,252**	-	**1,252**	-	-	-	-
Restated balance at 1 July 2019	**1,946,448**	**206,141**	**(173,340)**	**1,979,249**	**-**	**-**	**-**	**-**
Net result for the year	-	27,498	-	27,498	-	-	-	-
Other comprehensive income								
Investment in associates	-	(3,819)	(81,840)	(85,659)	-	-	-	-
Total other comprehensive income	-	(3,819)	(81,840)	(85,659)	-	-	-	-
Total comprehensive income	-	23,679	(81,840)	(58,161)	-	-	-	-
Balance at 30 June 2020	**1,946,448**	**229,820**	**(255,180)**	**1,921,088**	**-**	**-**	**-**	**-**
Balance at 1 July 2018	**1,946,448**	**101,332**	**(15,078)**	**2,032,702**	**-**	**-**	**-**	**-**
Net result for the year	-	108,666	-	108,666	-	-	-	-
Other comprehensive income								
Investment in associates	-	(5,109)	(158,262)	(163,371)	-	-	-	-
Total other comprehensive income	-	(5,109)	(158,262)	(163,371)	-	-	-	-
Total comprehensive income	-	103,557	(158,262)	(54,705)	-	-	-	-
Balance at 30 June 2019	**1,946,448**	**204,889**	**(173,340)**	**1,977,997**	-	-	-	-

The accompanying notes form an integral part of the financial statements

Electricity Retained Interest Corporation-Endeavour Energy

ABN 61 573 737 242

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

NOTES INDEX

1. INFORMATION ON THE CORPORATION

The Corporation was set up under the *Electricity Retained Interest Corporations Act 2015 No 6* (the Act) to provide for the effective stewardship and oversight of the retained interest of the State in Endeavour's Energy distribution network assets under the *Electricity Network Assets (Authorised Transactions) Act 2015* and for which it is responsible for the purpose of protecting value and seeking to maximise returns to the State. The retained interest was acquired on 14 June 2017.

The retained interest is a 49.6 per cent interest in the Endeavour Energy distribution network business which is constructed by three (3) partnerships (the Partnerships):

1. Endeavour Energy Network Asset Partnership (NAP) which holds regulated assets;
2. Endeavour Energy Network Operator Partnership (NOP) which operates the regulated assets; and
3. Endeavour Energy Network Unregulated Partnership (NUP) which owns and conducts unregulated activities.

The Corporation holds a 49.6 per cent interest in each of the NAP, NOP and NUP via controlled entities.

The Corporation is a not-for-profit entity from 2 June 2017. Its principal office is at 52 Martin Place, Sydney NSW 2000, Australia.

The consolidated financial statements of the Corporation and its subsidiaries were authorised for issue in accordance with a resolution of the Directors on the date the accompanying Directors' Report was signed.

The Corporation is a NSW Government entity and consolidated as part of the NSW Total State Sector Accounts.

2. BASIS FOR CONSOLIDATION

Subsidiaries

The consolidated financial statements of the Corporation include the Corporation as parent and its subsidiaries (refer to "Entities within the Group"). The Corporation achieves control through the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the subsidiary)
- Exposure, or rights, to variable returns from its involvement with the subsidiary
- The ability to use its power over the investee to affect its returns

The Corporation has considered all relevant facts and circumstances in assessing whether it has power over a subsidiary, including:

- The contractual arrangement(s) with the other vote holders of the subsidiary
- Rights arising from other contractual arrangements
- The Corporation's voting rights and potential voting rights

The Corporation re-assesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements.

2. BASIS FOR CONSOLIDATION (continued)

Profit or loss and each component of the other comprehensive income are attributed to the equity holders of the Corporation and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Corporation are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Corporation loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. The Corporation's retained interest is recognised at fair value.

Entities within the Group

The Corporation's Group comprises of the following entities:

Electricity Retained Interest Corporation - Endeavour Energy (the Corporation), ERIC Epsilon Holdings Pty Ltd (Epsilon Holdings), four ERIC Epsilon Asset Trusts (NAPTs), four ERIC Epsilon Operator Trusts (NOPTs), four ERIC Epsilon Contestable Services Trusts (NUPTs) and the associated four ERIC Epsilon Asset Corporations (NAPT Trustee), four ERIC Epsilon Operator Corporations (NOPT Trustee) and four ERIC Epsilon Contestable Services Corporations (NUPT Trustee). The NAPTs, NOPTs and NUPTs listed below hold the legal interests of the retained interest.

NAPTs:

- ERIC Epsilon Asset Corporation 1 Pty Ltd (ACN 617 221 575) as trustee for the ERIC Epsilon Asset Trust 1 ABN 32 495 216 900
- ERIC Epsilon Asset Corporation 2 Pty Ltd (ACN 617 221 655) as trustee for the ERIC Epsilon Asset Trust 2 ABN 19 263 127 578
- ERIC Epsilon Asset Corporation 3 Pty Ltd (ACN 617 221 708) as trustee for the ERIC Epsilon Asset Trust 3 ABN 38 439 539 729
- ERIC Epsilon Asset Corporation 4 Pty Ltd (ACN 617 221 726) as trustee for the ERIC Epsilon Asset Trust 4 ABN 14 189 519 460

NOPTs:

- ERIC Epsilon Operator Corporation 1 Pty Ltd (ACN 617 221 735) as trustee for the ERIC Epsilon Operator Trust 1 ABN 97 830 110 255
- ERIC Epsilon Operator Corporation 2 Pty Ltd (ACN 617 221 744) as trustee for the ERIC Epsilon Operator Trust 2 ABN 21 361 312 116
- ERIC Epsilon Operator Corporation 3 Pty Ltd (ACN 617 221 753) as trustee for the ERIC Epsilon Operator Trust 3 ABN 71 809 200 912
- ERIC Epsilon Operator Corporation 4 Pty Ltd (ACN 617 221 771) as trustee for the ERIC Epsilon Operator Trust 4 ABN 25 428 963 442

2. BASIS FOR CONSOLIDATION (continued)

NUPTs:

- ERIC Epsilon Contestable Services Corporation 1 Pty Ltd (ACN 621 653 736) as trustee for the ERIC Epsilon Contestable Services Trust 1 ABN 73 951 673 559
- ERIC Epsilon Contestable Services Corporation 2 Pty Ltd (ACN 621 653 843) as trustee for the ERIC Epsilon Contestable Services Trust 2 ABN 66 106 852 060
- ERIC Epsilon Contestable Services Corporation 3 Pty Ltd (ACN 621 653 923) as trustee for the ERIC Epsilon Contestable Services Trust 3 ABN 56 270 439 221
- ERIC Epsilon Contestable Services Corporation 4 Pty Ltd (ACN 621 654 055) as trustee for the ERIC Epsilon Contestable Services Trust 4 ABN 68 238 710 360

Under the Act, a Fund has been established for the Corporation in the Special Deposit Account (SDA) where all financial returns, including distribution income, return of capital and any financial distribution, derived by the Corporation or any subsidiary of the Corporation from the retained interest for which the Corporation is responsible, must be deposited. This SDA is controlled by the State, and not the Corporation. Therefore, the Corporation, or the entities it controls, does not recognise the SDA within its financial statements, and do not themselves pay distributions.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are general-purpose financial statements prepared on an accrual basis and in accordance with the following requirements:

- Applicable Australian Accounting Standards (including Australian Accounting Interpretations)
- *Public Finance and Audit Act 1983* (the PF&A Act)
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions issued under the PF&A Act

The presentation of these financial statements is consistent with the not-for-profit classification of the General Government entity.

All amounts are presented in Australian dollars and rounded to the nearest thousand dollars ($'000), unless otherwise stated.

Comparative information

In all cases, except when an Australian Accounting Standard permits or requires otherwise, comparative information is presented in respect of the previous year for the amounts reported in the financial statements.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions about the carrying amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, and any future periods affected. Any judgements, estimates, and assumptions management have made are disclosed in the relevant notes to the financial statements.

Statement of compliance

The financial statements and notes comply with applicable Australian Accounting Standards, which include Australian Accounting Interpretations.

Changes in accounting policy, including new or revised Australian Accounting Standards

i. Effective for the first time in 2019-20

The Corporation applied AASB 1058 *Income of Not-for-Profit Entities* for the first time. The nature and effect of the changes as a result of the adoption of AASB 1058 is described below.

Several other standards, amendments and interpretations apply for the first time in FY2019-20, but do not have an impact on the financial statements of the entity.

AASB 1058 *Income of Not-for-profit Entities*

AASB 1058 replaces most of the existing requirements in AASB 1004 *Contributions*. The scope of AASB 1004 is now limited mainly to contributions by owners (including parliamentary appropriations that satisfy the definition of a contribution by owners), administrative arrangements and liabilities of government departments assumed by other entities. AASB 1058 adopts a residual approach, entities first apply other applicable Australian Accounting Standards to a transaction before recognising income under AASB 1058.

For the Corporation, the adoption of AASB 1058 resulted in a change to the presentation of the grant revenue received from the Crown Entity. The revenue line item shown in Note 4 now notes that the grant received from the Crown Entity is without sufficiently specific performance obligations. Income is recognised when the Corporation obtains control over the granted asset, this being when cash is received, unchanged from AASB 1004.

In accordance with the transition provisions in AASB 1058, the Corporation has adopted AASB 1058 using the modified retrospective approach with the cumulative effect of initially applying the standard at the date of initial application. As a result, the effect of adopting AASB 1058 for the Transitional Asset Management Services Agreement (TAMSA) rebate for June 2019 are as follows:

Impact on Statement of Comprehensive Income (increase/(decrease)):

	Note	30 June 2020 $000 AASB 1058	30 June 2020 $000 Without adoption of AASB 1058	30 June 2020 $000 Impact of AASB 1058
Revenue				
Other revenue	4	5,078	6,330	(1,252)
Operating result		**27,498**	**28,750**	**(1,252)**
Net result		**27,498**	**28,750**	**(1,252)**

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact on Statement of Financial Position (increase/(decrease))

	Note	30 June 2020 $000 AASB 1058	30 June 2020 $000 Without adoption of AASB 1058	30 June 2020 $000 Impact of AASB 1058
Assets				
Receivables	7	2,761	-	2,761
Liabilities				
Payables	8	251	-	251
Total adjustment to equity				
Accumulated Funds	10	229,820	228,568	1,252

ii. Issued but not yet effective

As mandated by Treasury Circular TC20-01, the Corporation has not early adopted any new accounting standards, amendments and interpretations that have been issued but are not yet effective.

The following lists the new standards and interpretations that whilst not yet effective, may be applicable to the Corporation:

- AASB 1059 *Service Concession Arrangements: Grantors* (operative date 1 July 2020)
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059* (operative date 1 July 2020)
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* (operative date 1 July 2020)
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* (operative date 1 July 2020)
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* (operative date 1 July 2020)
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059* (operative date 1 July 2020)

Management have considered the impact of new accounting standards issued but not effective and concluded there is no material impact to the Corporation.

Revenue and other income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into consideration contractually defined terms of payment.

Until 30 June 2019, income is recognised in accordance with AASB 118 *Revenue* and AASB 1004. From 1 July 2019, income is recognised in accordance with the requirements of AASB 15 or AASB 1058, dependent on whether there is a contract with a customer defined by AASB 15.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Distribution income

Distribution income is recognised reflecting the quarterly distributions from the Partnerships which the State retains. This is offset by the contribution paid to the State as all financial returns must be deposited into the SDA. The SDA is controlled and reported by the Crown Entity. Refer to Note 6.

Grants and other contribution

Grants and contributions are recognised when the Corporation obtains control of the contribution. Control of contribution is normally obtained upon the receipt of cash.

Expenses

Expenses are recognised when incurred.

Finance and other personnel of the NSW Treasury provide administrative services, including the preparation of the Corporation's financial statements. The cost of these services is shown as an administration charge in Note 5.

ASSETS

Cash and cash equivalents

Cash and cash equivalents are not recognised in the Corporation's Consolidated Statement of Financial Position as the cash and cash equivalents are held in a SDA controlled and reported by the Crown Entity.

Investment in associates

The State's retained interest in Endeavour Energy is accounted in the Corporation's investment in associate as per AASB 128 *Investments in Associates and Joint Ventures* using the equity method. The reporting period for Endeavour Energy and the Corporation are in line with each other.

The Corporation has significant influence over its associate through the Board who participate in the financial and operating policy decisions of the investee, but do not have control or joint control over those policies.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Corporation's share of net assets of the associate since the acquisition date. The Corporation recognises its investment based on 49.6 per cent of the associate's net assets with the exception of property, plant and equipment (PPE) which are adjusted to fair value, in accordance with Treasury's Policy and Guidelines Paper TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value*, AASB 13 *Fair Value Measurement* and AASB 116 *Property, Plant and Equipment*.

A fair value analysis of the associate's PPE is performed annually. An external advisor was engaged to provide an opinion on the methodology and value adopted by the Corporation to account for its interest in Endeavour Energy as 30 June 2020.

A value in use model was used applying a discounted cash flow (DCF) approach, discounting free cash flows using a long-term after tax weighted average cost of capital (WACC) and mid-period discounting. The cash flow forecasts are based on the latest Endeavour Energy business plan up to 30 June 2025. The fair value of PPE is determined by deducting the carrying value of working capital and intangible assets and goodwill not related to PPE from the DCF value of the consolidated Endeavour Energy business. Growth related EDITDA, movements of non-cash revenue items, changes in working capital and maintenance capital are excluded from operating cash flows to determine the DCF value of the consolidated Endeavour Energy business.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Key assumptions used by the external advisor in the discounted cash flow analysis were:

- The distributor licence and goodwill equivalent to 23% of total assets are not related to the network service provider;
- A post tax WACC of 5.70 – 6.16 per cent (mid-point of 5.93 per cent);
- A 6-year (to 30 June 2026) cashflow horizon and applying an EBITDA multiple of 14.6 to 16.5 times as a proxy for long term cashflows.

The Corporation applied a discount rate of 6.16 per cent (2019: 6.9 per cent). The table below shows the sensitivity on a value which is approximate to the valued fair value amount from a change in discount rate of +/- 0.25 per cent:

Discount Sensitivity	+0.25% ($M)	Valuation Amount ($M)	-0.25% ($M)
30 June 2020	7,499	7,981	8,525
30 June 2019	7,245	7,655	8,116

The Corporation applied a terminal value growth rate of 2 per cent. The table below shows the sensitivity on a value which is approximate the valued fair value amount from a change in terminal value growth rate of +/- 0.50 per cent:

Terminal Value Growth Sensitivity	+0.50% ($M)	Valuation Amount ($M)	-0.50% ($M)
30 June 2020	8,940	7,981	7,228

The current strategic environment presents several material risks and uncertainties to the Endeavour Energy business which could materially impact the medium-term business performance. These include regulatory value risks, COVID-19 and the economic environment resulting from government measures. The impact of these measures on future financing capacity, macro-economic measures such as GDP, inflation and interest rates, as well as supply and demand drivers are not fully known.

Due to the market volatility and economic uncertainty, the key parameters and assumptions used in the fair value model may be different with the actual results. Key inputs in the valuation model includes weighted average cost of capital which was used as discount rate and the business growth rate which was used for the projection of future cashflow. Sensitivities to the key assumptions for the fair value result are shown in the table above. The sensitivity analysis above has been modelled for the low band of the Endeavour Energy's PPE valuation range.

Changes in the Corporation's share of the associate's operating results, adjusted to ensure consistency with the Corporation's accounting policy, if any, are reflected in surplus or deficit. Where a change is recognised directly in the associate's equity, the Corporation recognises its share in other comprehensive income.

Receivables

The Corporation's receivables consist of the Transitional Asset Management Service Agreement (TAMSA) rebate which is due but not received as at the reporting date.

An allowance for expected credit losses (ECLs) is recognised if there is a material difference between the contractual cash flows and the cash flows that the Corporation expects to receive. The Corporation determines that the ECL is insignificant.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goods and Services Tax

The Corporation is registered for goods and services tax (GST). Revenues are recognised net of the amount of GST. Expenses recognised are GST inclusive. The Corporation's principal business activity is the investment and management of the State's interest in the Endeavour Energy distribution network. As an investor, the Corporation is making a financial supply. Under the GST legislation, an entity cannot claim input tax credit associated with a financial supply activity.

Going Concern

The State will provide the Corporation support in the form of contributions to meet its debt obligations as and when they become due and payable. As a result, the financial statements are prepared on a going concern basis.

4. INCOME

	2020 Consolidated $'000	2019 Consolidated $'000	2020 Parent $'000	2019 Parent $'000
Share of profit / (loss) of associate	113,288	141,623	-	-
Grants and other contributions[1]	828	797	816	785
Other revenue[2]	5,078	4,997	-	-
Total	**119,194**	**147,417**	**816**	**785**

[1.] The Corporation does not have a bank account. The Electricity Retained Interest Corporation – Endeavour Energy Fund (the Fund) was established under Section 32 of the Act to facilitate all financial transactions of the Corporation. The Fund is a SDA controlled and reported by the Crown Entity as the Treasurer controls the Fund.

Dividend distribution from the Partnerships are paid into the Fund and subsequently remitted to the State's Consolidated Fund. Operational expenditures of the Corporation are met by the Fund which effectively is a grant contribution from the Crown Entity. The grant received is without sufficiently specific performance obligations.

[2.] The Corporation receives its share of the transition advisory fee paid by the Endeavour Energy Group back under the Transitional Asset Management Service Agreement (TAMSA). The rebate is received quarterly until 30 June 2022.

5. EXPENSES

	2020 Consolidated $'000	2019 Consolidated $'000	2020 Parent $'000	2019 Parent $'000
Contribution paid				
Contribution paid to Crown Entity	90,867	37,954	-	-
	90,867	**37,954**	**-**	**-**
Director fees				
Fees	322	319	322	319
Superannuation contribution	31	30	31	30
	353	**349**	**353**	**349**
Other expenses				
Audit fees	87	85	76	73
Administration charge	275	250	275	250
Other	114	113	112	113
	476	**448**	**463**	**436**
Total expenses	**91,696**	**38,751**	**816**	**785**

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

6. INVESTMENT IN ASSOCIATE

The Corporation's Group investment in an associate represents 100 per cent interest in the shares of the ERIC Epsilon Holdings Pty Ltd, which has an investment in an associate consisting of NSW Government's 49.6 per cent share in the Endeavour Energy Partnerships; the Edwards partner Consortium holding the other 50.4 percent.

	2020	2019	2020	2019
	Consolidated $'000	Consolidated $'000	Parent $'000	Parent $'000
Investment in associate	1,918,578	1,977,997	-	-
Total	**1,918,578**	**1,977,997**	**-**	**-**
The Corporation's share of associate's assets and liabilities				
Current assets	298,295	271,510	-	-
Non-current assets	5,172,784	5,000,076	-	-
	5,471,079	5,271,586	-	-
Current liabilities	177,370	183,768	-	-
Non-current liabilities	3,375,131	3,109,821	-	-
	3,552,501	3,293,589	-	-
Net assets	**1,918,578**	**1,977,997**	**-**	**-**
The Corporation's share of associate's profit				
Revenue	667,021	693,458	-	-
Profit before income tax	113,288	141,623	-	-
Profit after income tax	**113,288**	**141,623**	**-**	**-**
Other comprehensive income	(85,659)	(163,371)	-	-
Total comprehensive income	**27,629**	**(21,748)**	**-**	**-**
The Corporation's share of associates's commitments for expenditure				
Capital expenditure	105,450	100,242	-	-
Operating leases as lessee	-	6,101	-	-
Operating leases as lessor	-	397	-	-
Reconciliation of movements				
Balance at the beginning of the financial year	1,977,997	2,032,702	-	-
Share of associates net profit/(loss)	113,288	141,623	-	-
Share of associates other comprehensive income/(loss)	(85,659)	(163,371)	-	-
Dividends received	(87,048)	(32,957)	-	-
Balance at the end of the financial year	**1,918,578**	**1,977,997**	**-**	**-**

7. RECEIVABLES

	2020 Consolidated $'000	2019 Consolidated $'000	2020 Parent $'000	2019 Parent $'000
Current				
TAMSA rebate receivable	2,761	-	-	-
	2,761	**-**	**-**	**-**

8. PAYABLES

Current				
GST Payable	251	-	-	-
	251	**-**	**-**	**-**

9. FINANCIAL INSTRUMENTS

The Corporation's principal financial instruments are receivables which arise from the Corporation's operations. The receivables relate to TAMSA rebates which were invoiced but not received as at the reporting date.

Receivables are written off when there is no reasonable expectation of recovery and no interest earned on trade debtors. There were no receivables that are past due or considered impaired as at the reporting date.

The receivables expose the Corporation to credit risk which arises when there is the possibility that the Corporation's debtors default on their contractual obligations, resulting in a financial loss to the Corporation. The maximum exposure to credit risk is the carrying amount. This is shown in the table below.

Financial instruments (i)	Note	Categories	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Financial Assets						
Receivables	7	Amortised Cost	2,761	-	-	-

(i) Excludes prepayments and statutory receivables/payables which are not within the scope of AASB7 'Financial Instruments: Disclosures'

10. EQUITY

	2020 Consolidated $'000	2019 Consolidated $'000	2020 Parent $'000	2019 Parent $'000
Contributed Capital - retained interest in Partnerships[1]	1,946,448	1,946,448	-	-
Reserves	(255,180)	(173,340)	-	-
Accumulated surplus	229,820	204,889	-	-
Closing Balance	**1,921,088**	**1,977,997**	**-**	**-**

[1.] Contributed capital represents fully paid ordinary shares issued to ERIC Epsilon Holdings Pty Ltd for $1 consideration on incorporation under one or more vesting orders made by the Treasurer of NSW under the Electricity Network Assets (Authorised Transactions) Act 2015. Contributed capital excludes stamp duty.

11. BUDGET REVIEW

Net result

The net result of the Corporation was $27 million at the end of the year, representing the Corporation’s 49.6 per cent share of Endeavour Energy Partnerships’ net result and the rebate of fees payable under the TAMSA. The Corporation’s expenses are paid by the State, while distributions received from its retained interest in Endeavour Energy Group are fully repatriated to the State.

Total expenses were $92 million, $36 million lower than budget mainly due to lower distributions received from the Partnerships which were subsequently remitted to the Consolidated Fund in accordance with the Treasurer’s direction.

Total revenue was $119 million, $8 million lower than budget due to the Corporation’s $113 million share of the Partnerships’ net profit, of which $121 million in distributions was budgeted.

Assets and Liabilities

Total assets for the year were $1,921 million, $112 million lower than the budget due to movements in the total share of associate’s comprehensive income or loss.

Cash flows

The Corporation does not have a bank account. Under Section 32 of the Act, the Electricity Retained Interest Corporation – Endeavour Fund (the Fund) was established as a Special Deposit Account (SDA) to facilitate all financial and investment return of the Corporation, disburse the operational cost incurred by the Corporation and make payments into the Consolidated Fund as directed by the Treasurer. A separate annual report is prepared for the Fund in accordance with section 35 of the Act to disclose the cashflow of the Corporation.

The published Budget Paper for the Corporation discloses the activities of the SDA which is controlled and reported by the Crown Entity. These activities are not recognised by the Corporation.

12. LEGAL INTEREST IN THE NETWORK PARTNERSHIP TRUSTS

The Corporation, through Endeavour Energy Network Asset Partnership Trusts (NAPTs), Endeavour Energy Network Operator Partnership Trusts (NOPTs) and Endeavour Energy Network Unregulated Partnership Trusts (NUPTs), holds a 49.6 per cent legal equity interest in NAP, NOP and NUP (the Partnerships). Refer to Note 2 “Entities within the Group” for details.

All financial returns of the Partnerships derived by the Corporation or any subsidiary of the Corporation from the retained interest for which the Corporation is responsible, must be payable directly into the SDA which is controlled by the State, in accordance with the Act. The Corporation recognises the retained interest in the Partnerships in the Consolidated Statement of Financial Position using the equity method.

13. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Corporation's contingent assets is $1.64 million (2019: $1.49 million) and contingent liabilities of $1.79 million (2019: $2.23 million) represents its 49.6 per cent share in the associate's contingent assets and contingent liabilities.

14. COMPENSATION OF KEY MANAGEMENT PERSONNEL

	2020 Parent $'000	2019 Parent $'000
Short-term employee benefits	322	319
Post-employment benefits	31	30
Other long-term benefits	-	-
Termination benefits	-	-
Total	**353**	**349**

15. RELATED PARTIES

(a) Ultimate parent

The NSW Government is the ultimate parent of the Corporation. The NSW Government is also the ultimate parent of NSW Treasury that provides key management personnel services to the Corporation.

(b) Key management personnel remuneration

The Corporation defines key management personnel (KMP) as those having authority and responsibility for planning, directing and controlling the activities of the Corporation. NSW Government is the ultimate controlling party of the Corporation, therefore the Treasurer, the NSW Treasury Secretary, the Corporation Directors, and certain NSW Treasury Deputy Secretaries and Executive Directors are considered as KMP. The NSW Cabinet are considered related parties of the Corporation because of its role to direct overall government policy and make decisions about State issues.

The Corporation does not have employees. The key management personnel services were provided by NSW Treasury. The Corporation Directors are independent members who have been appointed by the Treasurer.

Refer to Note 14 Compensation of Key Management Personnel for total remuneration payable to the Directors.

No loans were made to any of the KMP by the Corporation during the year.

(c) Transactions with related parties

(i) Transactions with KMP

The Corporation has developed a framework in conjunction with NSW Treasury that supports the identification, recording and authorisation of the related party transactions. The KMP is required to complete annual declarations in relation to the related party transactions. No KMP has declared that he/she and their close family members have made any transactions with the Corporation during the year.

(ii) Transactions with Director related entities

The Directors of the Corporation are also Directors for the Partnerships. Distributions from the Partnerships to the Corporation during the year are reported in the Consolidated Statement of Comprehensive Income. No other transactions were made between the Corporation and the Partnerships during the year.

15. RELATED PARTIES (continued)

(iii) Transactions with other related entities

Services provided by other government agencies to the Corporation include payroll, accounting and finance, administrative and company secretariat services. These services were provided to the Corporation in the same commercial terms as for any other agencies.

Finance officers of NSW Treasury provide administrative services, including the preparation of the Corporation's financial statements. The cost of these services is shown as an administrative charge in the Corporation.

As the Corporation does not have a bank account, all expenses incurred by the Corporation are funded by the Crown as grant income.

16. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial statements

NSW GOVERNMENT | Treasury

Roads Retained Interest Pty Ltd

ABN 98 624 812 773

Financial Statements
for the year ended 30 June 2020

Roads Retained Interest Pty Ltd

ABN 98 624 812 773

Charter

The Roads Retained Interest Pty Ltd (RRIPL) was established on 1 June 2018 under the Corporations Act 2001.

Objectives

The key function of RRIPL is to provide effective stewardship and oversight of the State's retained interest in the WestConnex Group. The RRIPL is responsible for protecting the value of the State's investment and maximising returns.

Staffing

Administration and accounting services are provided by staff of the NSW Treasury. The RRIPL has no staff of its own.

Roads Retained Interest Pty Ltd

ABN 98 624 812 773

Directors Report

The Directors present their report on the Roads Retained Interest Pty Ltd (RRIPL) for the year ended 30 June 2020. RRIPL's comparative covers the period from its incorporation on 1 June 2018 through to 30 June 2019.

Information on Directors

The names of each person who has been a director during the year and to the date of this report are:

John O'Sullivan (Appointed 14 June 2018)
Peter McVean (Appointed 18 June 2018 and Chair from 27 May 2019)
Cameron Robertson (Appointed 27 October 2018)

Directors have been in office since the date of appointment, to the date of this report unless otherwise stated.

Principal activities

RRIPL (the Corporation) was established on 1 June 2018 under the *Corporations Act 2001* to hold the State's 49 per cent retained interest in the WestConnex Group. The Corporation's function is to provide effective stewardship and oversight of the retained interest for which it is responsible, for the purpose of protecting value and seeking to maximise returns to the State.

No significant changes in the nature of the Corporation's principal activity occurred during the reporting year.

Operating results

The Corporation reported a net loss of $75.9 million for the year. Total distributions received of $74.5 million from its retained interest in the WestConnex Group was contributed into the NSW Generations Fund (NGF), a fund dedicated to paying down the debts of the State.

Distributions paid or recommended

Total distributions paid at the reporting date was $117.8 million. This relates to a return of capital from the WestConnex Group and was directed into the NGF, the State's debt retirement fund.

Review of operations

A review of the operations of the Corporation and the results of those operations found that during the year, the Corporation continued to engage in its principal activity, the results of which are disclosed in the attached financial statements. NSW Treasury provide financial and company secretariat support services for the Corporation.

Significant changes in state of affairs

There have been no significant changes in the state of affairs of the Corporation during the year.

On 11 March 2020, the World Health Organisation declared COVID-19 a global health pandemic. Since this time, State and Federal governments have implemented restrictions on public and social gatherings, travel and certain business operations. The WestConnex Group, which provides an essential toll road service continues to operate without interruption to the business and has implemented additional hygiene, working from home, and social distancing measures. Over the March – June 2020 period, daily traffic volumes were approximately 75 per cent of earlier utilisation (as an average) and by the end of the reporting period, volumes had improved to be approximately 83 per cent of earlier utilisation. As at the reporting date, the COVID-19 impact on the WestConnex business (against budget) was a five per cent reduction in the traffic volumes and 7 per cent reduction in toll revenue for the reporting period. Despite this impact, the WestConnex Group maintains a strong financial position.

Significant events after the balance date

The COVID-19 pandemic is a continuing event post the end of the reporting date. The extent of the impact on the WestConnex Group's future operations will depend on the duration and actions taken to address the pandemic, which are uncertain as at the date signing the Corporation's accounts.

No other matters or circumstances have arisen since the end of the reporting year which significantly affected or may significantly affect the operations of the Corporation, the results of those operations or the state of affairs of the Corporation in future financial years.

Roads Retained Interest Pty Ltd

ABN 98 624 812 773

Indemnification and insurance of Directors and officers

Insurance premiums were paid to cover any legal liabilities relating to professional indemnity and directors and officers during or since the end of the reporting year for any person who is or has been an officer of the Corporation.

The Corporation has entered into Deeds of Indemnity with each of the Corporation's directors under which the Corporation has indemnified each director against:

(a) civil liability (other than a liability to the Corporation) for liability incurred in his or her capacity as a director (unless the liability arises out of conduct involving a lack of good faith); and

(b) liability for costs incurred in defending proceedings (civil or criminal) in which judgement is given in favour of the director or the director is acquitted.

Auditor's independence declaration

The Directors received the following declaration from the auditor of the Corporation.

Signed in accordance with a resolution of the Directors:

Director: ....

Dated: 25 Sept 2020

To the Directors

Roads Retained Interest Pty Ltd

Auditor's Independence Declaration

As auditor for the audit of the financial statements of Roads Retained Interest Pty Ltd for the year ended 30 June 2020, I declare, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- any applicable code of professional conduct in relation to the audit.

Renee Meimaroglou
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

21 September 2020
SYDNEY

INDEPENDENT AUDITOR'S REPORT

Roads Retained Interest Pty Ltd

To Members of the New South Wales Parliament and Members of Roads Retained Interest Pty Ltd

Opinion

I have audited the accompanying financial statements of Roads Retained Interest Pty Ltd (the Company), which comprise the directors' declaration, 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 Cash Flows and the Statement of Changes in Equity for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- are in accordance with the *Corporations Act 2001*, including:
  - giving a true and fair view of the Company's financial position as at 30 June 2020 and its performance for the year ended on that date
  - complying with Australian Accounting Standards and the Corporations Regulations 2001
- are in accordance with section 45F 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 the Company in accordance with the requirements of the:

- Australian Auditing Standards
- *Corporations Act 2001*
- 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 / councils]
- precluding the Auditor-General from providing non-audit services.

I confirm the independence declaration, required by the *Corporations Act 2001*, provided to the directors of the Company on 21 September 2020, would be in the same terms if provided to the directors as at the time of this Independent Auditor's Report.

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

Other Information

The Company's 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 directors of the Company are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise Director's Report.

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.

Directors' Responsibilities for the Financial Statements

The directors of the Company are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the PF&A Act, *Corporations Act 2001* and for such internal control as the directors determine 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 directors are responsible for assessing the Company's 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:

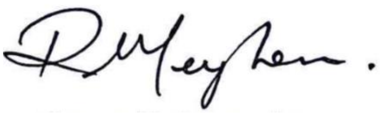
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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 the Company carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- 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.



Renee Meimaroglou
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

2 October 2020
SYDNEY

Roads Retained Interest Pty Ltd

ABN 98 624 812 773

Directors' Declaration
For the year ended 30 June 2020

Directors' Declaration

In accordance with a resolution of Directors of Roads Retained Interest Pty Ltd, and pursuant to section 45F of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

(a) The accompanying financial statements exhibit a true and fair view of the Roads Retained Interest Pty Ltd financial position as at 30 June 2020 and the financial performance for the year then ended;

(b) The financial statements comply with Australian Accounting Standards and have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983, Public Finance and Audit Regulation 2015, Corporations Act 2001* and applicable NSW Treasury Policy and Guidelines Papers; and

(c) There are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Director: ....

Dated: 25 Sep 2020

Roads Retained Interest Pty Ltd

ABN 98 624 812 773

Statement of Comprehensive Income
for the year ended 30 June 2020

	Notes	Actual 30 June 2020 $'000	Budget 30 June 2020 $'000	Actual 1 June 2018 - 30 June 2019 $'000
Revenue				
Interest Income	3	499	44	84
Share of profit/(loss) in associate	3	(75,460)	-	(5,595)
Grants and contributions	4	-	-	3,500
Distribution income		-	86,730	-
		(74,961)	**86,774**	**(2,011)**
Expenses				
Directors fees	5	386	493	393
Operating expenses	6	567	835	703
Contribution paid		-	85,402	-
		953	**86,730**	**1,096**
Net result/(loss)		**(75,914)**	**44**	**(3,107)**
Other comprehensive income				
Share of associate's other comprehensive income/(loss) that may be reclassified subsequently to net result		(43,120)	-	(139,555)
Total other comprehensive income/(loss)	9	(43,120)	-	(139,555)
Total comprehensive income/(loss)		**(119,034)**	**44**	**(142,662)**

The accompanying notes form an integral part of these financial statements.

Roads Retained Interest Pty Ltd

ABN 98 624 812 773

Statement of Financial Position
as at 30 June 2020

	Notes	Actual 30 June 2020 $'000	Budget 30 June 2020 $'000	Actual 30 June 2019 $'000
Current assets				
Cash and cash equivalents	8	943	2,953	44,687
Total current assets		**943**	**2,953**	**44,687**
Non-current assets				
Investment in associate	9	6,322,492	6,702,843	6,423,988
Total non-current assets		**6,322,492**	**6,702,843**	**6,423,988**
Total assets		**6,323,435**	**6,705,796**	**6,468,676**
Current liabilities				
Payables	10	78	481	59
Total current liabilities		**78**	**481**	**59**
Total non-current liabilities		**-**	**-**	**-**
Total liabilities		**78**	**481**	**59**
Net assets		**6,323,357**	**6,705,315**	**6,468,617**
Equity				
Contributed capital	11	6,585,053	6,705,271	6,611,279
Accumulated surplus/(deficit)	11	(79,021)	44	(3,107)
Reserves	11	(182,675)	-	(139,555)
Total equity		**6,323,357**	**6,705,315**	**6,468,617**

The accompanying notes form an integral part of these financial statements.

Roads Retained Interest Pty Ltd

ABN 98 624 812 773

Statement of Cash Flows
for the year ended 30 June 2020

	Notes	Actual 30 June 2020 $'000	Budget 30 June 2020 $'000	Actual 1 June 2018 - 30 June 2019 $'000
Cash flows from operating activities				
Payments				
Directors fees	5	(382)	(493)	(393)
Other payments		(551)	(956)	(644)
Contribution paid		-	(85,402)	-
Total payments		**(933)**	**(86,851)**	**(1,037)**
Receipts				
Grants and contributions	4	-	-	3,500
Interest received	3	499	44	84
Distribution income		-	86,730	-
Total receipts		**499**	**86,774**	**3,584**
Net cash flows from operating activities		**(434)**	**(77)**	**2,547**
Cash flows from investing activities				
Investment to associate		(91,564)	(91,564)	(142,646)
Return of capital from associate		74,480	-	1,103,512
Distributions received from equity accounted investments		-	-	19,600
Net cash flows from investing activities		**(17,084)**	**(91,564)**	**980,466**
Cash flows from financing activities				
Capital contribution		91,564	91,564	142,646
Return of capital		(117,790)	-	(1,080,972)
Net cash flows from financing activities		**(26,226)**	**91,564**	**(938,326)**
Net increase/(decrease) in cash		**(43,744)**	**(77)**	**44,687**
Opening cash and cash equivalents		44,687	3,030	-
Closing cash and cash equivalents	7, 8	**943**	**2,953**	**44,687**

The accompanying notes form an integral part of these financial statements.

Roads Retained Interest Pty Ltd

ABN 98 624 812 773

Statement of Changes in Equity
for the year ended 30 June 2020

	Contributed capital $'000	Accumulated surplus $'000	Reserves $'000	Total $'000
Balance at 1 July 2019	**6,611,279**	**(3,107)**	**(139,555)**	**6,468,617**
Net result for the year	-	(75,914)	-	(75,914)
Other comprehensive income				
Investment in associate	-	-	(43,120)	(43,120)
Total other comprehensive income	-	-	(43,120)	(43,120)
Total comprehensive result for the year	-	(75,914)	(43,120)	(119,034)
Owner related equity transactions				
Equity contribution from Crown	91,564	-	-	91,564
Return of Capital	(117,790)	-	-	(117,790)
Total owner related equity transactions	(26,226)	-	-	(26,226)
Balance at 30 June 2020	**6,585,053**	**(79,021)**	**(182,675)**	**6,323,357**
Balance at 1 June 2018	-	-	-	-
Net result for the period	-	(3,107)	-	(3,107)
Other comprehensive income				
Investment in associate	-	-	(139,555)	(139,555)
Total other comprehensive income	-	-	(139,555)	(139,555)
Total comprehensive result for the year	-	(3,107)	(139,555)	(142,662)
Owner related equity transactions				
Retained interest from sale of WCX	7,549,605	-	-	7,549,605
Equity contribution from Crown	142,646	-	-	142,646
Return of Capital	(1,080,972)	-	-	(1,080,972)
Total owner related equity transactions	6,611,279	-	-	6,611,279
Balance at 30 June 2019	**6,611,279**	**(3,107)**	**(139,555)**	**6,468,617**

The accompanying notes form an integral part of the financial statements.

Roads Retained Interest Pty Ltd

ABN 98 624 812 773

Notes to the financial statements
for the year ended 30 June 2020

NOTES INDEX

Roads Retained Interest Pty Ltd

ABN 98 624 812 773

Notes to the financial statements
for the year ended 30 June 2020

1. ROADS RETAINED INTEREST PTY LTD INFORMATION

Roads Retained Interest Pty Ltd (the Corporation) was established under the *Corporations Act 2001* to hold the State of New South Wales' (the State) retained interest in the WestConnex Group (WCX Group).

The Corporation's function is to provide effective stewardship and oversight of the State's 49 per cent retained interest in the WCX Group. The Corporation is responsible for protecting the value of the State's investment and maximising returns.

Incorporated on 1 June 2018, the Corporation is a not-for-profit entity. Its principal office is at 52 Martin Place, Sydney NSW 2000, Australia.

The financial statements were authorised for issue in accordance with a resolution of the Directors on the date the accompanying Directors' Declaration was signed.

The Corporation is a NSW Government entity and consolidated as part of the NSW Total State Sector Accounts. The Corporation is considered a GSF agency under the *Government Sector Finance Act 2018 (GSF Act)*.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are general-purpose financial statements prepared on an accrual basis and in accordance with the following requirements:

- applicable Australian Accounting Standards (including Australian Accounting Interpretations)
- *Public Finance and Audit Act 1983* (the PF&A Act)
- *Public Finance and Audit Regulation 2015*
- *Corporations Act 2001*
- Treasurer's Directions issued under the PF&A Act.

The presentation of these financial statements is consistent with the not-for-profit classification of the General Government entity.

All amounts are presented in Australian dollars and rounded to the nearest thousand dollars ($'000), unless otherwise stated.

Comparative information

In all cases, except when an Australian Accounting Standard permits or requires otherwise, comparative information is presented in respect of the period from 1 June 2018 to 30 June 2019 for the amounts reported in the financial statements.

Going Concern

The State provided the Corporation with contributions to meet debt obligations as and when they become due and payable. As a result, the financial statements are prepared on a going concern basis.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions about the carrying amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected. Any judgements, key assumption and estimations management have made are disclosed in the relevant notes to the financial statements.

Statement of compliance

The financial statements and notes comply with applicable Australian Accounting Standards, which include Australian Accounting Interpretations.

Changes in accounting policies, including new or revised Australian Accounting Standards

i. Effective for the first time in 2019-20

A number of standards, amendments and interpretations apply for the first time in FY2019-20. Most notably, AASB 15 *Revenue from contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* replaced AASB 111 *Construction Contracts*, AASB 118 *Revenue*, most requirements of AASB 1004 *Contributions* and related interpretations.

Under AASB 15, revenue is recognised when contractual performance obligations are satisfied, and control of goods and services is transferred to the customer. AASB 1058 adopts a residual approach, entities first apply other applicable Australian Accounting Standards.

The adoption of the new revenue standards have no impact on the Corporation. The Corporation's operating revenue mainly consist of interest income which is covered within the scope of existing AASB 9 *Financial Instruments* and share of profit and loss from investment in associate which is reported in accordance with AASB 128 *Investments in Associates and Joint Ventures* using the equity method.

Other amendments and interpretations apply for the first time in 2019-20 also have no impact on the financial statements of the Corporation.

ii. Issued but not yet effective

As mandated by Treasury Circular TC20-01 *Mandates of options and major policy decisions under Australian Accounting Standards*, the Corporation has not early adopted any new accounting standards, amendments or interpretations that have been issued but are not yet effective.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management have assessed the impact of the new accounting standards and interpretation issued but yet effective, listed below, and concluded there is no material impact to the Corporation.

- AASB 1059 *Service Concession Arrangements: Grantors* (operative date 1 July 2020)
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059* (operative date 1 July 2020)
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* (operative date 1 July 2021)
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* (operative date 1 July 2021)
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* (operative date 1 July 2021)
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059* (operative date 1 July 2021)

Revenue and other income

Until 30 June 2019, income is recognised in accordance with AASB 118 and AASB 1004. Revenue is measured at the fair value of the consideration or contributions received or receivable to the extent it is probably that economic benefits will flow to the Corporation and the amount reliably measured.

From 1 July 2019, revenue is recognised in accordance with the requirements of AASB 15 or AASB 1058 dependent on whether there is an enforceable contract with specific performance obligation.

Government contribution

The Corporation obtains control of the contribution or the right to receive the contribution, when it is probable that the economic benefits of the contribution will flow to the Corporation, and the amount of the contribution can be measured reliably. Control is normally obtained upon the receipt of cash.

Deemed appropriations

Deemed appropriations is a new concept introduced by the GSF Act. Deemed appropriation money is government money that a GSF agency receives or recovers (including from the Commonwealth or another entity) that:

(a) forms part of the Consolidated Fund, and
(b) is not appropriated under the authority of an Act.

A reconciliation of the movement in the Corporation's deemed appropriation is provided in Note 7.

Expenses

Expenses are recognised when incurred.

Finance officers of the NSW Treasury provide administrative services, including the preparation of the Corporation's financial statements. The cost of these services is show as an administration charge in Note 6.

Current Income Tax Expense

The Corporation is a tax-exempt entity and is not required to pay income tax.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents represent the cash at bank and is recognised in the Statement of Financial Position and reconciled to the Statement of Cash Flows.

Investment in associates

The State's retained interest in WCX Group reported by the Corporation is accounted as per *AASB 128 Investments in Associates and Joint Ventures* using the equity method.

The Corporation has significant influence through the Board who participate in the financial and operating policy decisions of the WCX Group as directors of WCX Group entities, but do not have control or joint control over those policies.

Under the equity method, the Corporation initially measured the cost of its investment in the WCX Group at fair value in accordance with AASB 13 *Fair Value Measurement*. The fair value of the investment was determined by reference to the purchase price paid by Sydney Transport Partners Consortium (STP) for the 51 per cent controlling interest. As the Corporation has a minority interest, its investment in the WCX Group at acquisition was less than 49 per cent of the fair value of the subsidiaries of the WCX Group due to the inclusion of a control premium.

The carrying amount of the investment is adjusted to recognise changes in the Corporation's share of net assets, results of operations and other comprehensive income of the WCX Group since the acquisition date. When there has been a change recognised directly in the equity of the WCX Group, the Corporation recognises its share of those changes in the Statement of Changes in Equity.

An impairment assessment is conducted annually as at the reporting date, the Corporation measures and recognises the retained interest at its fair value.

Payables

Trade and other payables, including accruals not yet billed, represent liabilities for goods and services provided to the Corporation prior to the period and there is an obligation to make future payment. The amounts are unsecured and are usually paid within 30 days of recognition.

Subsequent to initial recognition of these liabilities at fair value, they are measured at amortised cost using the effective interest rate method. This measurement is equivalent to the original invoice amount.

Contributed capital

Ordinary shares are classified as equity.

Distributions

Unless the directors of WCX Group unanimously resolve otherwise within 45 days of the end of the relevant quarter, WCX Group makes a quarterly distribution to each investor/unit holder within 90 days after the end of each quarter of at least 85 per cent of the surplus cash as required by clause 14.2 of the WCX Investor Agreement. WCX Group may also make a capital distribution which represents return of capital in excess of accumulative profit or loss. The Corporation recognises its share of the WCX Group's distributions when it is declared or received. Distributions for the current financial year but declared post reporting date will be recognised in the following year. Distributions received from WCX Group reduce the carrying amount of the investment.

Under rule 75 of the Corporation's constitution, all financial distributions made by the Corporation are to be paid to the shareholder by making payment into the NSW Generations Fund (NGF).

Roads Retained Interest Pty Ltd

ABN 98 624 812 773

Notes to the financial statements
for the year ended 30 June 2020

3. INCOME

	30 June 2020	1 June 2018 - 30 June 2019
	$'000	$'000
Interest Income	499	84
Share of profit/(loss) in associate	(75,460)	(5,595)
Total	**(74,961)**	**(5,511)**

4. GRANTS

Grants received from the Crown	-	3,500
Total	-	**3,500**

5. DIRECTORS FEES

Directors fees	347	353
Superannuation contribution	39	40
Total	**386**	**393**

6. OPERATING EXPENSES

Audit fees	72	75
Consultants	9	35
Administration charge	440	550
Other	46	43
Total	**567**	**703**

7. DEEMED APPROPRIATION

The GSF Act become effective from in 1 July 2019. The deemed appropriations provisions apply to government money that was received or recovered before 1 July 2019. According to section 13(4) and 13(5) of the GSF Regulations, Treasury mandates that for expenditure occurred before 1 July 2019, it is taken that deemed appropriations money have been given on the day the money was received. For the rest of deemed appropriations money received before 1 July 2019, it is determined that the appropriation occured on 1 July 2019.

Movement of Section 4.7 GSF Act - deemed appropriations:

Opening balance	-	-
Adjustment for appropriation deemed on commencement of GSF Section 4.7	44,687	-
Adjusted opening balance	**44,687**	**-**
Add: additions of deemed appropriations[1]	166,543	1,224,655
Less: expenditure charged against deemed appropriations[1]	(210,287)	(1,224,655)
Closing balance	**943**	**-**

[1] Including capital contribution from Crown Finance Entity and return of capital which were paid to NGF.

Roads Retained Interest Pty Ltd

ABN 98 624 812 773

Notes to the financial statements
for the year ended 30 June 2020

8. CASH AND CASH EQUIVALENTS

	30 June 2020 $'000	30 June 2019 $'000
Cash at bank	943	44,687
Total	**943**	**44,687**

9. INVESTMENT IN ASSOCIATE

The Corporation's investment in associate represents 49 per cent interest in the WCX Group, with STP holding the other 51 per cent interest. The principal place of business of the associate is in Australia.

Investment in associate	6,322,492	6,423,988
	6,322,492	**6,423,988**

Share of associate's assets, liabilities and net results

Current assets	495,390	683,550
Non-current assets	10,217,992	9,798,618
	10,713,382	**10,482,168**
Current liabilities	103,390	149,940
Non-current liabilities	4,287,500	3,908,240
	4,390,890	**4,058,180**
Net assets	**6,322,492**	**6,423,988**
Revenue	704,620	917,734
Profit before income tax	(68,110)	(787)
Profit after income tax	**(75,460)**	**(5,595)**
Other comprehensive income	(43,120)	(139,555)
Total comprehensive income	**(118,580)**	**(145,150)**

The Corporation's share of profit for the comparative period is calculated based on the operating results of the WCX Group from 27 September 2018, post the acquisition of the 49 per cent interest.

Reconciliation of movements

Opening balance	**6,423,988**	**-**
Initial investment in associate	-	7,549,605
Additional investment in associate	91,564	142,645
Share of associates net profit/(loss)	(75,460)	(5,595)
Share in other comprehensive income	(43,120)	(139,555)
Return on capital received[1]	(74,480)	(1,103,512)
Distributions received	-	(19,600)
Closing balance	**6,322,492**	**6,423,988**

[1] Does not include distributions for FY20 Q3 & Q4 which were declared in July 2020.

Roads Retained Interest Pty Ltd

ABN 98 624 812 773

Notes to the financial statements
for the year ended 30 June 2020

9. INVESTMENT IN ASSOCIATE (continued)

The Corporation's share of associate's commitments for expenditure

	30 June 2020 $'000	30 June 2019 $'000
Capital expenditure	708,991	1,319
Operating leases as lessee	-	-
Operating leases as lessor	-	-

10. PAYABLES

Current		
Payable and accruals	78	59
Total	**78**	**59**

11. EQUITY

Contributed capital - retained interest	6,585,053	6,611,279
Accumulated surplus/(loss)	(79,021)	(3,107)
Reserves	(182,675)	(139,555)
Closing Balance	**6,323,357**	**6,468,617**

Movements in issued shares:

	Number of ordinary shares fully paid	Number of ordinary shares partly paid	Total number of ordinary shares[1]
Balance 1 July 2019	8,921,747,886	980	8,921,748,866
Balance 30 June 2020	8,921,747,886	980	8,921,748,866

Reconciliation of unpaid shares outstanding at reporting date:

	Fully paid ordinary shares $'000	Partly paid ordinary shares $'000	Total $'000
Balance 1 July 2019	-	746,215	746,215
Contributed capital	-	(91,564)	(91,564)
Balance 30 June 2020	-	**654,651**	**654,651**

[1] Ordinary shares

The Corporation was initially capitalised at $1.00 on incorporation by the issue of one fully paid ordinary share. It was further capitalised on 26 September 2018 when the Corporation issued to its sole shareholder (the NSW Treasurer) 8,921,747,885 fully paid ordinary shares of $1.00 each and 980 partly paid shares of at an issue value of $907,000 each with an initial payment (on 26 September 2018) of $0.001 each ($0.98 in aggregate). These share issuances were funded by promissory notes issued by the State which were used to fund the purchase price (excluding stamp duty) for the Corporation's acquisition of 49 per cent WCX Group interest.

11. EQUITY (continued)

Payments on the 980 partly paid shares (by the shareholder) are made pursuant to a defined payment schedule which directly corresponds to capital contributions the Corporation is obliged to make to WCX Group through to March 2023 as part of the funding structure to for the construction of the Stage 3, M4-M5 tunnel project.

Both of the fully paid and partly paid shares carry the right to receive dividends and to share in the proceeds of winding up of the Corporation. In the case of the partly paid shares, the entitlements are pro-rata to the amount paid-up on those shares (to the issue value) at the relevant date.

12. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Corporation is a party to an Equity Commitment Deed (dated 27 September 2018), under which it is required to contribute equity when called upon for the funding of the Stage 3 (M4-M5 tunnel project) construction. The future capital amount is $655 million as at the reporting date (2019: $746 million).

In addition, with its 49 per cent investment in WCX Group, the Corporation assumes the responsibility for this portion of WCX Group's reported contingent liabilities as detailed below:

As at 30 June 2020, D&C contractor claims have been received with respect to WCX M5 and WCX M4-M5 Group entities. The validity of these claims is currently being assessed and the outcome of these cannot be foreseen at present and cannot be reliably measured. TfNSW has been notified of claims where potential upstream claims exist in accordance with requirements of the Project Deed. Finalisation of these matters is subject to further discussion and negotiation.

13. COMPENSATION OF KEY MANAGEMENT PERSONNEL

Short-term employee benefits	347	353
Post-employment benefits	39	40
Other long-term benefits	-	-
Termination benefits	-	-
Total	**386**	**393**

Short-term employee benefits include director salaries and post employment benefits include superannuation benefits.

14. FINANCIAL INSTRUMENTS

The Corporation's principal financial instruments are outlined below. These financial instruments arise directly from the entity's operations or are required to finance its operations. The Board has overall responsibility for the establishment and oversight of risk management and review of policies for managing risk.

Financial instrument categories

	Note	Category	2020	2019
Financial Assets				
Cash and cash equivalents	8	N/A	943	44,687
Financial Liabilities				
Trade and other payables	10	Financial liabilities measured at amortised cost	78	59

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14. FINANCIAL INSTRUMENTS (continued)

Financial Risk Management Overview

Financial instruments comprise of cash and other payables. The main purpose of these financial instruments was to raise finance or invest surplus cash for the Corporation's operations, and to manage exposure to price movements. The activities of the Corporation expose it to market and liquity risks.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 of the financial statements.

Market risk

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

The effect on the Corporation's net result and equity due to a reasonably possible change in risk variable is outlined below for interest rate risk. A reasonably possible change of +/- 1 per cent is used. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

Exposure to interest rate risk is limited to cash at bank.

		-1%		+1%	
	Carrying amount $'000	Net result $'000	Equity $'000	Net result $'000	Equity $'000
2020					
Cash and cash equivalents	943	(9)	(9)	9	9
2019					
Cash and cash equivalents	44,687	(447)	(447)	447	447

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due. The Corporation continuously manages risk through monitoring future cash flows and commitment maturities. There were no defaults on payables in the current year.

The Corporation's exposure is limited to the value of payables. All payables are expected to be settled within the next 12 months.

15. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO NET RESULT

Reconciliation of cash flows from operating activities to the net result as reported in the Statement of Comprehensive Income as follows:

	30 June 2020 $'000	1 June 2018 - 30 June 2019 $'000
Net result for the year	(75,914)	(3,107)
Non-cash items		
Share of loss in associate	75,460	5,595
	(454)	2,488
Change in operating assets and liabilities		
Increase/(decrease) in liabilties	20	58
Net cash inflow from operating activities	**(434)**	**2,546**

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16. BUDGET REVIEW

Net result

The net result of the Corporation was a deficit of $75.9 million compared to budget of $0.04 million at the end of the reporting period representing the Corporation's 49 per cent share in WCX Group's profit/(loss). The primary driver for the deficit relates to increase in the WCX Group's amortisation cost following opening of M4 East motorway in July 2019.

Total expenses were $1.0 million, $85.8 million lower than budget due to a change in the nature of the distribution received by the Corporation which is then paid into the NGF. Originally budgeted for an income distribution, the distributions received and payment to the NGF were made in the form of return of capital.

Total revenue for the year was a loss of $75.0 million, $161.7 million lower than budget, resulting from the Corporation's 49 per cent share of WCX Group's operation loss of $75.5 million and a budgeted dividend distribution of $86.7 million from profit which did not materialise.

The Corporation's share of WCX Group's other comprehensive income was a loss of $43.1 million due to hedging loss incurred by WCX for their interest rate swap exposures.

Assets and Liabilities

Total assets for the year were $6.3 billion, $381.9 million lower than the budget due to the reduction in the investment carrying value in the WCX Group. Among which $145.2 million and $118.6 million were recognised in respect of the Corporation's share of WCX Group's operating loss and other comprehensive loss for 2019 and 2020 which was not anticipated at budget. Aggregated return of capital being $97.0 million ($22.5 million in 2019 and $74.5 million in 2020) which dilutes the investment in associate valuation.

Total liabilities for the year were $0.1 million which mainly consists of payables accrued at year end. It is $0.4 million lower than budget due to early settlement of NSW Treasury administration charge.

Contributed capital was $6.6 billion (inclusive of minority discount) at reporting date and $120.2 million lower than budget due to $117.8 million return of capital received from WCX Group's capital distribution.

Reserves is negative at $182.7 million at reporting date, driven by the hedge loss on interest rate swap incurred by WCX Group.

Cash flows

The actual net cash flows used in operating activities was $0.4 million and was comparable with budget. Individually, total payments and total receipts were lower than budget due to the change in characterisation of the distributions, from dividend income to return of capital, received from WCX Group which were subsequently paid into NGF.

Net cash outflow from investing activities of $17.1 million consists of capital injection of $91.6 million to WCX Group (as equity contributions for funding of Stage 3 construction) which was offset by capital distributions of $74.5 million received from WCX Group. The WCX Group capital distribution of $74.5 million was unbudgeted and was paid to NGF.

Net cash outflow from financing activities of $26.2 million was due to payments of $117.8 million of financial distributions from the Corporation to the NGF which was offset by $ 91.6 million of equity injection received from the Crown Finance Entity to meet the Corporation's share of capital contribution to WCX Group for funding of Stage 3 construction. The Corporation's share of capital contributions is in accordance with the Equity Commitment Deed.

Cash and cash equivalents held at reporting date was $0.9 million and was $2.0 million lower than budget.

Being a residual entity, the Corporation's activities are shown as "Post Transaction Activities" program group and aggregated in the State Budget outcomes.

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17. RELATED PARTIES

(a) Ultimate parent

The NSW Government is the ultimate parent of the Corporation. The NSW Government is also the parent of NSW Treasury that provides key management personnel services to the Corporation.

(b) Key management personnel remuneration

The Corporation defines key management personnel (KMP) as those having authority and responsibility for planning, directing and controlling the activities of the Corporation. NSW Government is the ultimate controlling party of the Corporation, therefore the Treasurer, NSW Treasury Secretary, Deputy Secretaries and Executive Directors are considered as KMP (in addition to the Directors). The NSW Cabinet are considered related parties of the Corporation because of its role to direct overall government policy and make decisions about State issues.

The Corporation does not have employees. The KMP services were provided by NSW Treasury. The Corporation's Directors are independent members who have been appointed by the Treasurer. Refer to Note 13 Compensation of Key Management Personnel for total remuneration payable to the Directors.

No loans were made to any of the KMP by the Corporation during the period.

(c) Transactions with related parties

(i) Transactions with KMP

The Corporation has developed a framework in conjunction with NSW Treasury that supports the identification, recording and authorisation of the related party transactions. The KMP is required to complete annual declarations in relation to the related party transactions. No KMP has declared that he/she and their close family members have made any transactions with the Corporation during the reporting period.

(ii) Transactions with other related entities

Services provided by other government agencies to the Corporation include payroll, accounting and finance, administrative and company secretariat services. These services were provided to the Corporation in the same commercial terms as for any other agencies.

Finance officers of NSW Treasury provide administrative services, including the preparation of the Corporation's financial statements. The cost of these services is shown as an administrative charge in the Corporation.

The Corporation also makes contributions into the NGF in line with the *NSW Generations Fund Act 2018*.

18. EVENTS AFTER THE REPORTING DATE

There were no events subsequent to the reporting date requiring disclosure.

End of audited financial statements

Appendix

Internal Audit and Risk Management Attestation Statement for the 2019-2020 Financial Year for Liability Management Ministerial Corporation (LMMC)

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

	Core Requirements	For each requirement, please specify whether compliant, non-compliant, or in transition
Risk Management Framework		
1.1	The agency head is ultimately responsible and accountable for risk management in the agency	**Compliant**
1.2	A risk management framework that is appropriate to the agency has been established and maintained and the framework is consistent with AS/NZS ISO 31000:2018	**Compliant**
Internal Audit Function		
2.1	An internal audit function has been established and maintained	**Compliant**
2.2	The operation of the internal audit function is consistent with the International Standards for the Professional Practice of Internal Auditing	**Compliant**
2.3	The agency has an Internal Audit Charter that is consistent with the content of the 'model charter'	**Compliant**
Audit and Risk Committee		
3.1	An independent Audit and Risk Committee with appropriate expertise has been established	**Compliant**
3.2	The Audit and Risk Committee is an advisory committee providing assistance to the agency head on the agency's governance processes, risk management and control frameworks, and its external accountability obligations	**Compliant**
3.3	The Audit and Risk Committee has a Charter that is consistent with the content of the 'model charter'	**Compliant**

Membership

The chair and members of the Audit and Risk Committee are:

- Independent Chair, Victoria Weekes, appointed April 2017, second term expires April 2022.
- Independent Member, Paul Ruiz, appointed December 2017, first term expires December 2020.
- Independent Member, Deborah O'Toole, appointed December 2017, first term expires December 2020.
- Independent Member, Julie Elliott, appointed September 2019, first term expires September 2022.

Michael Pratt
Secretary
Date: 9/10/20

Su-Lin Macdonald
Director of Internal Audit and Risk
Date: 9/10/2020

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