NSW GOVERNMENT | Treasury

2017-18 Crown Related Entities' Annual Reports

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State Rail Authority Residual Holding Corporation

Financial Statements
for the year ended 30 June 2018

State Rail Authority Residual Holding Corporation

Charter

The State Rail Authority Residual Holding Corporation (SRARHC) was constituted under the *Transport Administration Act 1988.* It represents those parts of the former State Rail Authority which were not incorporated into the new Railcorp and Rail Infrastructure Corporation. By 2008 all transfers were completed and there have been no further activities.

Objective

The sole remaining purpose of the SRARHC is to hold the cross-border rolling stock leases that were excluded from the vesting of all State Rail assets rights and liabilities. SRARHC is a named party in the lease agreements.

SRARHC has no assets and liabilities and remains a reporting entity until the last of the lease contracts expire in 2021.

Staffing

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

INDEPENDENT AUDITOR'S REPORT

State Rail Authority Residual Holding Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of State Rail Authority Residual Holding Corporation (the Corporation), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising a Summary of Significant Accounting Policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015

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

Basis for Opinion

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

I am independent of 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' (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

Other information comprises the information included in the Corporation's annual report for the year ended 30 June 2018, other than 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 Secretary of Treasury.

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 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 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 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 except where the Corporation will be dissolved by an Act of Parliament or otherwise cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

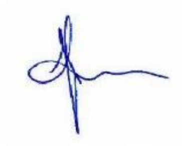
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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

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

My opinion does *not* provide assurance:

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



Aaron Green
Director, Financial Audit Services

11 September 2018
SYDNEY

State Rail Authority Residual Holding Corporation

Financial Statements
for the year ended 30 June 2018

STATEMENT BY DEPARTMENT HEAD

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 State Rail Authority Residual Holding Corporation as at 30 June 2018 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,* 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
Secretary

7th September 2018

Statement of Comprehensive Income
for the year ended 30 June 2018

	2018	2017
	$	$
Expenses excluding losses	-	-
Total expenses excluding losses	-	-
Revenue	-	-
Total revenue	-	-
Gain/(loss) on disposal	-	-
Other gains/(losses)	-	-
Net result	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-

The accompanying notes form part of these financial statements.

State Rail Authority Residual Holding Corporation

Statement of Financial Position
as at 30 June 2018

	2018	2017
	$	**$**
Assets	-	-
Total assets	-	-
Liabilities	-	-
Total liabilities	-	-
Net assets	-	-
Equity	-	-
Total equity	-	-

The accompanying notes form part of these financial statements.

Statement of Changes in Equity
for the year ended 30 June 2018

	2018 $	2017 $
Balance at 1 July	**-**	**-**
Net result for the year	-	-
Other comprehensive income	-	-
Transactions with owners in their capacity as owners	-	-
Balance at 30 June	**-**	**-**

The accompanying notes form part of these financial statements.

State Rail Authority Residual Holding Corporation

Statement of Cash Flows
for the year ended 30 June 2018

	2018	2017
	$	$
Cash flows from operating activities	-	-
Cash flows from investing activities	-	-
Cash flows from financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	-	-
Opening cash and cash equivalents	-	-
Closing cash and cash equivalents	-	-

The accompanying notes form part of these financial statements.

Notes to the financial statements
for the year ended 30 June 2018

1. STATE RAIL AUTHORITY RESIDUAL HOLDING CORPORATION INFORMATION

The State Rail Authority of New South Wales (StateRail) was a statutory body representing the Crown in right of the State of New South Wales, as constituted by the *Transport Administration Act 1988* (the TAA). Since 1 January 2004, pursuant to amendments to the TAA that provided for the restructuring of the Rail Industry, StateRail's principal activities have been to manage the transfer of selected assets, rights and liabilities to Rail Corporation New South Wales (RailCorp), and to manage the disposal of the remainder in consultation with RailCorp.

By 30 June 2008, all remaining functions, assets (including assets related to the cross-border rolling stock leases), rights and liabilities of StateRail with the unique exception of its rights and liabilities relating to specified ongoing cross border rolling stock leases, were transferred to various agencies, including RailCorp, Rail Infrastructure Corporation and the Crown Entity. As part of the sale and lease agreements, the Crown Entity provided financial guarantees to the transaction parties, effectively removing their rights to make direct claims against StateRail.

StateRail itself was subject to the enactment of an *Amendment of Transport Administration Act 1988 No 109,* presented as *Schedule 4 of the State Revenue and Other Legislation Amendment (Budget) Act 2007*. The commencement date for the Act is 1 July 2007. The effect of the amendment in Schedule 4 is to change the name of StateRail to "State Rail Authority Residual Holding Corporation" (SRARHC), remove it from the definition of NSW rail authorities and place it under the control of the Treasurer. The sole remaining purpose of the re-named SRARHC is to hold the cross-border rolling stock leases that were excluded from the vesting of all other StateRail assets, rights and liabilities. SRARHC is a named party in the lease agreements.

SRARHC has no assets and liabilities and remains a reporting entity until the last of the lease contracts expire in 2021.

SRARHC is a statutory body under the *Public Finance and Audit Act 1983*. It is a not-for-profit entity with its principal office 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards which include Australian Accounting Interpretations
- *Public Finance and Audit Act 1983*
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions

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

The financial statements are presented in Australian dollars and all amounts are rounded to the nearest dollar.

2. SUMMARY 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.

Use of judgements, estimates and assumptions

Management has not applied any significant judgements nor use any significant estimates in preparing the financial statements.

Statement of compliance

The financial statements comply with applicable Australian Accounting Standards including Australian Accounting Interpretations.

New standards and interpretations not yet effective

As mandated by Treasury Circular TC18-01, the SRARHC has not early adopted any new accounting standards, amendments or 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 SRARHC:

AASB 9 *Financial Instruments (December 2014)* (operative date 1 July 2018)

AASB 15 *Revenue from Contracts with Customers* (operative date 1 July 2019)

AASB 16 *Leases* (operative date 1 July 2019)

AASB 1058 *Income of Not-for-Profit Entities* (operative date 1 July 2019)

AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities (operative date 1 July 2019)

It is considered impracticable to presently determine the impact of adopting those new standards and interpretations.

New, revised or amending standards and interpretations

The accounting policies applied in the year are consistent with those of the previous financial year.

There was no impact on the financial performance or position of the SRARHC from the adoption of new, revised or amending standards and interpretations.

INCOME

Income is measured at the fair value of the consideration or contributions received or receivable. In most cases this is the value of the cash exchanged or exchangeable. Income is only recognised if its receipt is probable and the amount is reliably measurable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EXPENSE

Finance officers of the NSW Treasury provide administrative services, including the preparation of the financial statements of the SRARHC. Due to the irregular and varied nature of those services, their value cannot be calculated with any certainty and no charge is made to the entity for them.

The Crown Entity also pays for the entity's audit fees inclusive of GST of $3,960 (2017: $3,850).

ASSETS

Assets are future economic benefits controlled by SRARHC and are only recognised in the Statement of Financial Position if it is probable that the future economic benefits embodied in the asset will eventuate and the asset possesses a cost or other value that can be measured reliably.

LIABILITIES

Liabilities are the future sacrifices of economic benefits that SRARHC is presently obliged to make because of past transactions or other past events. A liability is recognised in the Statement of Financial Position when it is probable that the future sacrifice of economic benefits will be required and the amount of the liability can be measured reliably

TAXATION

The activities of the SRARHC are exempt from income tax.

3. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There are no contingent assets or contingent liabilities.

4. RELATED PARTY DISCLOSURES

There are no related party transactions requiring disclosure other than those already shown elsewhere in these financial statements.

5. 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 2018

Liability Management Ministerial 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.

Objective

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 Corporation has no staff of its own.

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 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising a Summary of Significant Accounting Policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

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

I am independent of 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' (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

Other information comprises the information included in the Corporation's annual report for the year ended 30 June 2018, other than 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 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 the Treasury's Responsibilities for the Financial Statements

The Secretary 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 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 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 except where the Corporation will be dissolved by an Act of Parliament or otherwise cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does *not* provide assurance:

- that 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.

Aaron Green
Director, Financial Audit Services

12 September 2018
SYDNEY

Liability Management Ministerial Corporation

Financial Statements
for the year ended 30 June 2018

STATEMENT BY DEPARTMENT HEAD

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 2018 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*, 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
Secretary

7th September 2018

Liability Management Ministerial Corporation

Statement of Comprehensive Income
for the year ended 30 June 2018

	Note	Actual 2018 $'000	Budget 2018 $'000	Actual 2017 $'000
Expenses excluding losses				
Operating expenses	3	21	20	20
Total expenses excluding losses		**21**	**20**	**20**
Revenue				
Investment revenue	4	13,924	9,072	12,806
Grants and contributions	5	20,330	20,330	19,671
Total revenue		**34,254**	**29,402**	**32,477**
Net result		**34,233**	**29,382**	**32,457**
Other comprehensive income		**-**	**-**	**-**
Total comprehensive income		**34,233**	**29,382**	**32,457**

The accompanying notes form part of these financial statements.

Liability Management Ministerial Corporation

Statement of Financial Position
as at 30 June 2018

	Note	Actual 2018 $'000	Budget 2018 $'000	Actual 2017 $'000
Assets				
Current assets				
Cash and cash equivalents	6	10	10	10
Receivables	7	2	2	2
Total current assets		**12**	**12**	**12**
Non-current assets				
Financial assets at fair value	8	169,668	165,827	135,432
Total non-current assets		**169,668**	**165,827**	**135,432**
Total assets		**169,680**	**165,839**	**135,444**
Liabilities				
Current liabilities				
Payables	9	20	20	17
Total current liabilities		**20**	**20**	**17**
Total liabilities		**20**	**20**	**17**
Net assets		**169,660**	**165,819**	**135,427**
Equity				
Accumulated funds		169,660	165,819	135,427
Total equity		**169,660**	**165,819**	**135,427**

The accompanying notes form part of these financial statements.

Liability Management Ministerial Corporation

Statement of Changes in Equity
for the year ended 30 June 2018

	Accumulated Funds $'000	Total Equity $'000
Balance at 1 July 2017	**135,427**	**135,427**
Net result for the year	34,233	34,233
Other comprehensive income	-	-
Total comprehensive income for the year	**34,233**	**34,233**
Balance at 30 June 2018	**169,660**	**169,660**
Balance at 1 July 2016	**102,970**	**102,970**
Net result for the year	32,457	32,457
Other comprehensive income	-	-
Total comprehensive income for the year	**32,457**	**32,457**
Balance at 30 June 2017	**135,427**	**135,427**

The accompanying notes form part of these financial statements.

Statement of Cash Flows
for the year ended 30 June 2018

	Note	Actual 2018 $'000	Budget 2018 $'000	Actual 2017 $'000
Cash flows from operating activities				
Payments				
Other		(20)	(22)	(15)
Total payments		**(20)**	**(22)**	**(15)**
Receipts				
Grants and contributions		20,330	20,330	19,671
Interest received		2	5,081	2
Other		2	2	1
Total receipts		**20,334**	**25,413**	**19,674**
Net cash flows from operating activities	6	**20,314**	**25,391**	**19,659**
Cash flows from investing activities				
Purchase of investments		(20,314)	(25,391)	(19,674)
Net cash flows from investing activities		**(20,314)**	**(25,391)**	**(19,674)**
Net cash flows from financing activities		**-**	**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**-**	**-**	**(15)**
Opening cash and cash equivalents		10	10	25
Closing cash and cash equivalents	6	**10**	**10**	**10**

The accompanying notes form part of these financial statements.

Notes to the financial statements
for the year ended 30 June 2018

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

These general purpose financial statements have been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- *Public Finance and Audit Act 1983*
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions

The accrual basis of accounting has been adopted in the preparation of the financial statements.

The financial assets are measured at fair value. Other financial statement items are prepared in accordance with the historical cost convention.

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.

Notes to the financial statements
for the year ended 30 June 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management has made the following judgement in relation to LMMC's classification and valuation of its investments:

LMMC's investments are classified as fair value through profit or loss. 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 accounting policies applied in the year are consistent with those of the previous financial year.

Significant impacts on the accounting policies from the adoption of new accounting standards and Interpretations, if any, are disclosed in the relevant accounting policy.

New standards and interpretations not yet effective

As mandated by Treasury Circular TC18-01, the LMMC 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 LMMC:

AASB 9 *Financial Instruments (2014)* (operative date 1 July 2018)

AASB 15 *Revenue from Contracts with Customers* (operative date 1 July 2018)

AASB 1058 *Income of Not-for-profit Entities* (operative date 1 July 2019)

AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities (operative date 1 July 2019)

It is considered impracticable to presently determine the impact of adopting the listed accounting standards and interpretations

REVENUE

Revenue is recognised when it is probable that economic benefits will flow to the entity and it can be reliably measured. Revenue is measured at the fair value of consideration received or receivable. The LMMC uses the following criteria to recognise and measure income:

Contributions from the Crown Entity

Contributions received from the Crown Entity are recognised as income when the LMMC obtains control of the contributions or the right to receive the contributions. Control over contributions is normally obtained upon receipt of cash.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment revenue

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial instruments: Recognition and Measurement*. Investment revenue includes interest income and net realised and unrealised gains or losses from changes in the fair value of investments. 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 officers of NSW Treasury provide administrative services, including the preparation of the financial statements of the LMMC. Due to the irregular and varied nature of those services, their value cannot be calculated with any certainty and accordingly, no expense is recognised for them.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- for when the GST cannot be recovered from the Australian Taxation Office (ATO), then it is either part of the cost of acquiring an asset, or part of an item of expense
- for receivables and payables which are recognised as including GST.

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 Australian Taxation Office are classified as operating cash flows. The net GST recoverable from or payable to, the ATO, is included as part of receivables or payables 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.

Financial assets

Financial assets comprise investments in the TCorpIM Long Term Growth Fund Investment Facility (TCorpIM LTGF). The financial assets are designated at fair value through profit or loss as they are managed and their performance is evaluated on a fair value basis. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under AASB 13, the valuation techniques used in the fair value measurement of TCorpIM LTGF investments are 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 investments are 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.

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.

EQUITY

Accumulated Funds

The category ‘Accumulated Funds’ includes all current and prior periods retained funds.

TAXATION

The activities of the 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.

Notes to the financial statements
for the year ended 30 June 2018

3. OPERATING EXPENSES

	2018 $'000	2017 $'000
Audit fees	21	20

4. INVESTMENT REVENUE

Financial assets at fair value through profit or loss- TCorpIM LTGF Investment Facility		
Distribution income	11,469	8,715
Net valuation gain/(loss)	2,453	4,089
Bank interest	2	2
	13,924	**12,806**

5. GRANTS AND CONTRIBUTIONS

Contributions from the Crown Entity	20,330	19,671

6. CASH AND CASH EQUIVALENTS

Cash held at financial institutions	10	10

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:

Cash and cash equivalents (per Statement of Financial Position)	10	10
Bank overdraft	-	-
Cash and cash equivalents (per Statement of Cash Flows)	10	10

Reconciliation of net cash flows from operating activities to net result for the year

Net cash flows from operating activities	**20,314**	**19,659**
Distribution reinvested and gains/(losses) on investments	13,922	12,804
Decrease/(Increase) in liabilities	(3)	(6)
Net result for the year	**34,233**	**32,457**

Notes to the financial statements
for the year ended 30 June 2018

7. CURRENT RECEIVABLES

	2018 $'000	2017 $'000
GST receivable	2	2

8. NON-CURRENT FINANCIAL ASSETS AT FAIR VALUE

	2018 $'000	2017 $'000
TCorpIM LTGF Investment Facility	169,668	135,432

As at 30 June 2018, total investments of the LMMC are financial assets designated at fair value through profit or loss.

Note 10 provide details of the risk exposure of these financial instruments.

9. PAYABLES

	2018 $'000	2017 $'000
Other accruals	20	17

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

	Note	Category	Carrying amount 2018 $'000	Carrying amount 2017 $'000
Financial assets				
Cash and cash equivalents	6	N/A	10	10
Financial assets at fair value	8	At fair value through profit or loss (designated as such upon initial recognition)	169,668	135,432
Financial liabilities				
Payables	9	Payables (measured at amortised cost)	20	17
Total			**169,658**	**135,425**

Notes to the financial statements
for the year ended 30 June 2018

10. FINANCIAL INSTRUMENTS (continued)

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 in accordance with the investment strategy as per the Memorandum of Understanding between LMMC and TCorp.

The actual rate of return on the LMMC assets during the year was 9.62 per cent (2017: 11.48 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.

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**	**2018 $'000**	**2017 $'000**
TCorpIM LTGF Investment Facility	Cash, money market instruments, Australian bonds, listed property, Australian & International shares	7 years and over	169,668	135,432

Notes to the financial statements
for the year ended 30 June 2018

10. FINANCIAL INSTRUMENTS (continued)

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. The basis is reviewed annually and amended where required.

Other price risk sensitivity analysis

	Change in unit price		Impact on net result	
	2018 %	**2017 %**	**2018 $'000**	**2017 $'000**
TCorpIM LTGF Investment Facility	+/- 15.0	+/- 16.0	+/-25,450	+/- 21,669

Currency risk

LMMC has indirect foreign currency exposure within its investment in the TCorpIM LTGF, which has approximately 39% foreign currency exposure (28% of TCorpIM LTGF is allocated to unhedged international shares, 7% to unhedged emerging market shares and 4% 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.

(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 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 within the TCorpIM LTGF 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.

Notes to the financial statements
for the year ended 30 June 2018

10. FINANCIAL INSTRUMENTS (continued)

(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 loans 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 their fair values. The value of 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).

LMMC's financial assets at fair value of $169.67 million as at the reporting date (2017: $135.43 million) are classified under level 2 fair value hierarchy.

Notes to the financial statements
for the year ended 30 June 2018

11. CONTINGENT ASSETS AND LIABILITIES

There are no known contingent assets or contingent liabilities as at the reporting date (2017: Nil).

12. BUDGET REVIEW

Statement of Comprehensive Income

The TCorpIM LTGF full year investment revenue of $13.92 million reflected an investment return of 9.62% pa which is higher than the budgeted return rate of 5.95%pa.

Statement of Cash Flows

Lower interest received in actuals compared to budget was due to the reinvestment of distributions revenue during the year. This has no impact on the Statement of Cash Flows.

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. 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.

Notes to the financial statements
for the year ended 30 June 2018

14. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial statements

Ports Assets Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2018

Ports Assets Ministerial Holding 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.

Objective

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 the staff of the NSW Treasury. The Corporation 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 the Ports Assets Ministerial Holding Corporation (the Corporation), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, 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 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 2018, 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' (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

Other information comprises the information included in the annual report of the Corporation and the consolidated entity for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Secretary 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's Responsibilities for the Financial Statements

The Secretary 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 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 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 except where operations will cease as a result of an administrative restructure.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

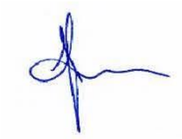
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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.

My opinion does not 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.



Aaron Green
Director, Financial Audit Services

18 September 2018
SYDNEY

Ports Assets Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2018

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 2018 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.

San Midha
A/Secretary

17 September 2018

Statement of Comprehensive Income
for the year end 30 June 2018

	Notes	Actual Consolidated 2018 $'000	Budget Consolidated 2018 $'000	Actual Consolidated 2017 $'000	Actual Parent 2018 $'000	Actual Parent 2017 $'000
Expenses excluding losses						
Operating expenses	3	34,967	41,502	34,715	210	180
Total expenses excluding losses		**34,967**	**41,502**	**34,715**	**210**	**180**
Revenue						
Investment revenue	4	48	14,323	46	24	22
Grants and Contributions	5	600	600	300	600	300
Other revenue	6	48,976	40,846	47,807	-	-
Total Revenue		**49,624**	**55,769**	**48,153**	**624**	**322**
Net result		**14,657**	**14,267**	**13,438**	**414**	**142**
Other comprehensive income		-	-	-	-	-
Total comprehensive income		**14,657**	**14,267**	**13,438**	**414**	**142**

The accompanying notes form part of these financial statements.

Ports Assets Ministerial Holding Corporation

Statement of Financial Position
as at 30 June 2018

	Notes	Actual Consolidated 2018 $'000	Budget Consolidated 2018 $'000	Actual Consolidated 2017 $'000	Actual Parent 2018 $'000	Actual Parent 2017 $'000
Assets						
Current assets						
Cash and cash equivalents	7	2,138	1,625	1,696	1,020	517
Receivables	8	76	37	80	10	51
Total current assets		**2,214**	**1,662**	**1,776**	**1,030**	**568**
Non-current assets						
Receivables	8	217,272	217,273	202,994	-	-
Investments	9	-	-	-	156,983	156,983
Total non-current assets		**217,272**	**217,273**	**202,994**	**156,983**	**156,983**
Total assets		**219,486**	**218,935**	**204,770**	**158,013**	**157,551**
Liabilities						
Current liabilities						
Payables	10	136	178	77	72	24
Total current liabilities		**136**	**178**	**77**	**72**	**24**
Total liabilities		**136**	**178**	**77**	**72**	**24**
Net assets		**219,350**	**218,757**	**204,693**	**157,941**	**157,527**
Equity						
Accumulated funds		219,350	218,757	204,693	157,941	157,527
Total equity		**219,350**	**218,757**	**204,693**	**157,941**	**157,527**

The accompanying notes form part of these financial statements.

Ports Assets Ministerial Holding Corporation

Statement of Changes in Equity
for the year ended 30 June 2018

	Consolidated		Parent	
	Accumulated Funds $'000	Total $'000	Accumulated Funds $'000	Total $'000
Balance at 1 July 2017	204,693	204,693	157,527	157,527
Net result for the year	14,657	14,657	414	414
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**14,657**	**14,657**	**414**	**414**
Balance at 30 June 2018	**219,350**	**219,350**	**157,941**	**157,941**
Balance at 1 July 2016	191,255	191,255	157,385	157,385
Net result for the year	13,438	13,438	142	142
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**13,438**	**13,438**	**142**	**142**
Balance at 30 June 2017	**204,693**	**204,693**	**157,527**	**157,527**

The accompanying notes form part of these financial statements.

Ports Assets Ministerial Holding Corporation

Statement of Cash Flows
for the year ended 30 June 2018

	Notes	Actual Consolidated 2018 $'000	Budget Consolidated 2018 $'000	Actual Consolidated 2017 $'000	Actual Parent 2018 $'000	Actual Parent 2017 $'000
Cash flows from operating activities						
Payments						
Operating expenses		39,028	45,458	38,962	792	977
Total payments		**39,028**	**45,458**	**38,962**	**792**	**977**
Receipts						
Interest received		54	45	57	35	24
Grants and contributions		600	600	300	600	300
Other		38,816	44,802	38,600	660	660
Total Receipts		**39,470**	**45,447**	**38,957**	**1,295**	**984**
Net cash flows from operating activities	11	442	(11)	(5)	503	7
Net increase/(decrease) in cash		**442**	**(11)**	**(5)**	**503**	**7**
Opening cash and cash equivalents		1,696	1,636	1,701	517	510
Closing cash and cash equivalents	7	**2,138**	**1,625**	**1,696**	**1,020**	**517**

The accompanying notes form part of these financial statements.

Notes to the financial statements
for the year ended 30 June 2018

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Notes to the financial statements
for the year ended 30 June 2018

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 to the private sector of the State's ports.

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. 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 the 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of:

- Australian Accounting Standards (which include Australian Accounting Interpretations)
- the requirements of *the Public Finance and Audit Act 1983* and *Public Finance and Audit Regulation 2015* and
- Directions issued by the NSW Treasurer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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 Ports Lessor Companies), together are referred to in these financial statements as the consolidated entity. The effects of all transactions and balances between entities in the consolidated entity are eliminated in full and like transactions and events are accounted for using the same accounting policies.

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

Use of judgements, estimates and assumptions

Judgements - in the process of applying the Group'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 – Group as lessor

The Group are lessors in a 99-year and 98-year lease of ports land and fixtures. The Group 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 above 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 Group 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.

Valuation of lease receivable – unguaranteed residual value
The Group 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 8.

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.

Notes to the financial statements
for the year ended 30 June 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of compliance

The financial statements and notes comply with applicable Australian Accounting Standards including Australian Accounting Interpretations.

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.

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

New, revised or amending standards and interpretations

The accounting policies applied in the year are consistent with those of the previous financial year.

Significant impacts on the accounting policies from the adoption of the new accounting standards and Interpretations, if any, are disclosed in the relevant accounting policy.

New standards and interpretations not yet effective

As mandated by Treasury Circular TC 18-01 *Mandates of Options and Major Policy Decisions under Australian Accounting Standards*, 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 interpretations that whilst not yet effective, may be applicable to the Corporation:

AASB 9 *Financial Instruments (2014)* (operative date 1 July 2018)
AASB 15 *Revenue from Contracts with Customers* (operative date 1 July 2019)
AASB 16 *Leases* (operative date 1 July 2019)
AASB 1058 *Income of Not-for-profit Entities* (operative date 1 July 2019)
AASB 1059 *Service Concession Arrangements: Grantors* (operative date 1 July 2019)
AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* (operative date 1 July 2018)
AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)* (operative date 1 July 2018)
AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15* (operative date 1 July 2018)
AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* (operative date 1 July 2019)
AASB 2017-5 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections* (operative date 1 July 2018)
AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation* (operative date 1 July 2019)

The Corporation did not elect to early adopt any of those listed. It is considered impracticable to presently determine the impact of adopting the listed accounting standards and interpretations.

Notes to the financial statements
for the year ended 30 June 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE

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. The PAMHC uses the following criteria to recognise and measure income:

(i) Investment revenue

Interest revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Corporation, it is recognised using the effective interest method as set out in AASB139 *Financial Instruments: Recognition and Measurement*.

(ii) 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.

(iii) Other revenue

Land tax, council rates and water costs incurred are recoupable from lessees under the lease contracts and are recognised on an accrual basis.

Finance income is recognised reflecting a constant periodic rate of return on the PAMHC's investment in the finance lease in accordance with AASB 117 *Leases*.

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 officers of the NSW Treasury provide administrative services, including the preparation of financial statements of the PAMHC. Due to the irregular and varied nature of those services, their value cannot be calculated with any certainty and no charge is made to the entity for them.

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 $192,243.28 incl. GST (2017: $170,731.10 incl. GST). The 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 the individual lessor companies.

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)

Receivables (excluding lease receivable)

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets 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, less an allowance for any impairment of receivables. Any changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process.

An allowance for impairment of receivables is established when there is objective evidence that the PAMHC will not be able to collect all amounts due. Financial difficulties of the debtors and default of payments are considered objective evidence of impairment. Bad debts are written off as incurred against the provision for impairment.

Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Leases

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

Company 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, 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 Ports Lessor Companies. Investments in subsidiaries are accounted for at cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LIABILITIES

Payables

Payables represent liabilities for goods and services provided but not paid for at each reporting date. This occurs when the entity 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.

Accounting for the Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except that:

- the amount of GST incurred by the entity as a purchaser that is not recoverable from the Australian Taxation Office 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 flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

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).

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.

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 15.

Notes to the financial statements
for the year ended 30 June 2018

3. OPERATING EXPENSES

	Consolidated 2018 $'000	Consolidated 2017 $'000	Parent 2018 $'000	Parent 2017 $'000
Operating Expenses				
Land tax	25,437	24,440	-	-
Audit fees	87	85	26	25
Property mangement fees	175	155	175	155
Council rates	8,086	8,707	-	-
Consultants	-	3	-	-
Water costs	1,182	1,325	-	-
Other	-	-	9	-
	34,967	**34,715**	**210**	**180**

4. INVESTMENT REVENUE

Interest income	48	46	24	22
	48	**46**	**24**	**22**

5. GRANTS AND CONTRIBUTIONS

Grants received from the Crown	600	300	600	300
	600	**300**	**600**	**300**

6. OTHER REVENUE

Land tax recoverable from tenants (i)	25,437	24,440	-	-
Council rates recoverable from tenants (i)	8,086	8,707	-	-
Finance income (ii)	14,278	13,339	-	-
Water recoupment (iii)	1,175	1,321	-	-
	48,976	**47,807**	**-**	**-**

(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 Ports Lessor Companies under the finance leases.

(ii) 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.

(iii) Water recoupment

The revenue recognised represents water cost recovered from the lessees under the 99-year finance lease.

Notes to the financial statements for the year ended 30 June 2018

7. CASH AND CASH EQUIVALENTS

	Consolidated 2018 $'000	Consolidated 2017 $'000	Parent 2018 $'000	Parent 2017 $'000
Cash at bank	2,138	1,696	1,020	517
	2,138	**1,696**	**1,020**	**517**

For the Statement of Cash Flows, cash and cash equivalents represents cash at bank and on hand.

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)	**2,138**	**1,696**	**1,020**	**517**
Closing cash and cash equivalents (per Statement of Cash Flows)	**2,138**	**1,696**	**1,020**	**517**

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

8. RECEIVABLES

Current				
Interest receivable	19	25	-	11
Recoupment receivable	-	11	-	-
GST receivable	57	44	10	40
	76	**80**	**10**	**51**
Non-Current				
Finance lease receivable (i)	217,272	202,994	-	-
	217,272	**202,994**	**-**	**-**
Total receivables	**217,348**	**203,074**	**10**	**51**

Details regarding credit risk, liquidity risk and market risk are disclosed in Note 12.

(i) Finance lease receivable

The Ports 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.

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.

Notes to the financial statements
for the year ended 30 June 2018

8. RECEIVABLES (continued)

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 $128.9 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 $14.278 million (2017: $13.339 million) was recognised in the period (refer to Note 6).

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 Ports Lessor Companies immediately, and are already included in the anticipated value of the assets that will revert to the Ports 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 Ports 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.

9. INVESTMENTS

Investment in subsidiaries	**Consolidated 2018 $'000**	**Consolidated 2017 $'000**	**Parent 2018 $'000**	**Parent 2017 $'000**
Opening balance as at 1 July	-	-	156,983	156,983
Closing balance as at 30 June	**-**	**-**	**156,983**	**156,983**

10. PAYABLES

Current				
Payables and accruals	136	76	72	24
GST Payables	-	1	-	-
	136	**77**	**72**	**24**

Payables are non-interest bearing and are generally on 30 day terms. Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables are disclosed in Note 12.

11. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

Net cash flows from operating activities	**442**	**(5)**	**503**	**7**
Add back: non cash items and non-operating activities				
Finance income	14,278	13,339	-	-
(Decrease)/increase in receivables	(4)	(21)	(41)	16
Decrease/(increase) in payables	(59)	125	(48)	119
Net Result	**14,657**	**13,438**	**414**	**142**

Notes to the financial statements
for the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS

The PAMHC's principal financial instruments are cash deposits held with the NSW Treasury Banking System at Westpac Banking Corporation and 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.

(a) Financial instrument categories

Financial instruments [(i)]	Note	Categories	Consolidated 2018 $'000	Consolidated 2017 $'000	Parent 2018 $'000	Parent 2017 $'000
Financial Assets						
Cash and cash equivalents	7	N/A	2,138	1,696	1,020	517
Receivables	8	Loans and receivables at amortised cost	19	36	-	11
Financial Liabilities						
Payables	10	Financial liabilities measured at amortised cost	136	76	72	24

(i) Excludes prepayments and statutory receivables/payables which are not within the scope of AASB7 'Financial Instruments', 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.

Cash

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

Receivables

All trade debtors are recognised as amounts receivable at balance date. The collection of receivables is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off.

An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. No interest is earned on trade debtors. The average credit period on receivables, unless otherwise agreed, is 30 days.

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

Notes to the financial statements
for the year ended 30 June 2018

12. 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 2017. The PAMHC consolidated entity's exposure to interest rate risk follows.

	Carrying amount	-1%		+1%	
		Net result	Equity	Net result	Equity
2018	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	2,138	(21)	(21)	21	21
2017					
Cash and cash equivalents	1,696	(17)	(17)	17	17

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 Ports Lessor Companies stating that the State will provide financial support to enable the Ports 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.

Notes to the financial statements
for the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

The table below summarises the maturity profile of the PAMHC consolidated financial liabilities. The payables are non-interest bearing and the entity has no exposure to foreign currency risk.

	Weighted average effective interest rate	Nominal amount	Interest rate exposure			Maturity dates		
			Fixed interest rate	Variable interest rate	Non-interest bearing	< 1 Year	1 - 5 Years	> 5 Years
	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2018								
Payables	-	136	-	-	136	136	-	-
Total financial liabilities	**-**	**136**	**-**	**-**	**136**	**136**	**-**	**-**
2017								
Payables	-	76	-	-	76	76	-	-
Total financial liabilities	**-**	**76**	**-**	**-**	**76**	**76**	**-**	**-**

13. ADMINISTERED ITEMS

	Consolidated 2018 $'000	Consolidated 2017 $'000	Parent 2018 $'000	Parent 2017 $'000
Administered revenue				
Ports Logistics Contribution (i)	7,446	6,650	7,446	6,650
Newcastle Community Contribution (ii)	1,000	1,000	1,000	1,000
Total administered revenue	**8,446**	**7,650**	**8,446**	**7,650**

(i) Port Logistics Contribution (PLC)

The PLC is levied by the Port Botany Lessor Pty Limited (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. 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.

(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 2018 $'000	Consolidated 2017 $'000	Parent 2018 $'000	Parent 2017 $'000
Administered assets				
Receivables	2,178	2,031	2,178	2,031
Total administered assets	**2,178**	**2,031**	**2,178**	**2,031**

14. 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.

- There is currently one site under investigation by the Environmental Protection Authority - Marine Services Area: Penrhyn Road, Port Botany.
- The Port of Newcastle have notified Port Lessor of an asbestos claim at 46 Fitzroy St, Carrington. It is not possible to estimate the amount of contingent liability exposure at this time. Company officers are not aware of any other claims under the indemnity.
- Under the transaction documents, the Ports 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 Ports 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.
- Parcels of the Newcastle land (including two parcels of un-remediated land at Mayfield and Koorangang Island) included in the Newcastle 98 years finance lease were contaminated while owned by Newcastle Port 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 Ports Lessor Companies for the above ‘transaction documents’ contingent liability.
- If any Port Lease terminates, then the Ports 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.

- The Ports 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 Ports Lessor Companies have not issued any written notices for breach of the leases.

14. CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

The Treasurer has confirmed that the State will provide financial support to the Ports Lessor Companies as may be required from time to time to enable the Ports Lessor Companies to meet their debts as and when they become due and payable.

15. BUDGET REVIEW

The budget review is for the consolidated entity.

For the year ended 30 June 2018, PAMHC's net result is $14.657 million which is in-line with the budgeted result of $14.267 million.

Operating expenses totals $34.967 million which is $6.535 million lower than the budget. The lower costs are mainly due to a revision of the downward revaluation of land at the Port Botany and Port Kembla sites resulting in a land tax saving of $1.325 million. In addition, a $3.522m reduction is due to the government's withdrawal from the Fire and Emergency Levy through the council rate. This resulted in a savings in council rates of $1.015 m.

Total revenue is $6.145 million lower than budget mainly due to lower land tax and council rate recoupments resulting from the downward revaluation of land and hence the reduction in associated recoupment revenue. Finance lease income of $14.28 million has been reclassified to "Other Revenue" in the actual result, previously reported as "Investment Revenue" in the budget.

16. 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 Company 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.

16. RELATED PARTY DISCLOSURES (continued)

(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 $192,234 incl. GST during the year for the property lease management services provided by PNSW on behalf of the Port Lessor Companies (2017: $170,731). No charge out was made to the individual lessor company as it is impractical to calculate and ascertain the costs at the individual level of the lessor companies.

(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. Adam Howarth is Director of the subsidiary lessor companies and Mr Brett Newman is Chief Executive Officer of the PNSW. Mr Brett Newman ceased as the Director on 12 June 2018. 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 $192,234 incl. GST (2017: $170,731 incl. GST).

Mr. Peter Wade is Director of the subsidiary lessor companies and 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 (2017: $300,000) grants to the PAMHC to cover the recurrent costs in 2018.

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.

17. 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 2018

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 Corporation 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 the Electricity Assets Ministerial Holding Corporation (the Corporation), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, 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 2018, 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' (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

Other information comprises the information included in the Corporation's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Secretary 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.

The Secretary's Responsibilities for the Financial Statements

The Secretary 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 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 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 except where the Corporation's operations will cease as a result of an administrative restructure.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does not provide assurance:

- that 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.

Aaron Green
Director, Financial Audit Services

30 October 2018
SYDNEY

Electricity Assets Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2018

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 Electricity Assets Ministerial Holding Corporation's financial position as at 30 June 2018 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

29 October 2018

Electricity Assets Ministerial Holding Corporation

Statement of Comprehensive Income
for the year ended 30 June 2018

	Notes	Actual 2018 $'000	Budget 2018 $'000	Restated* 2017 $'000
Expenses excluding losses				
Operating expenses	3	6,645	238	4,620
Grants and subsidies	4	10,000	6,935	2,400
Finance costs	10	2,070	1,788	2,043
Total expenses excluding losses		**18,715**	**8,961**	**9,063**
Revenue				
Investment revenue	5	2,501	2,550	2,083
Other revenue	6	3,345	341	357
Total revenue		**5,846**	**2,891**	**2,440**
Net result		**(12,869)**	**(6,070)**	**(6,623)**
Other comprehensive income		**-**	**-**	**-**
Total comprehensive income		**(12,869)**	**(6,070)**	**(6,623)**

*Refer Note 13 Restatement/Corrections to prior years, for details of correction to prior periods

The accompanying notes form part of these financial statements.

Statement of Financial Position
as at 30 June 2018

	Notes	Actual 2018 $'000	Budget 2018 $'000	Restated* 2017 $'000	Restated* 1 July 2016 $'000
ASSETS					
Current assets					
Cash and cash equivalents	7	164,090	166,121	174,008	78,599
Receivables	8	831	1,425	1,978	849
Total current assets		**164,921**	**167,546**	**175,986**	**79,448**
Non-current assets					
Receivables	8	2,908	134	337	381
Total non-current assets		**2,908**	**134**	**337**	**381**
Total assets		**167,829**	**167,680**	**176,323**	**79,829**
LIABILITIES					
Current liabilities					
Payables	9	73	42	68	57
Provision for outstanding claims	10	5,249	3,785	5,216	4,747
Total current liabilities		**5,322**	**3,827**	**5,284**	**4,804**
Non-current liabilities					
Provision for outstanding claims	10	51,104	37,305	46,767	44,904
Total non-current liabilities		**51,104**	**37,305**	**46,767**	**44,904**
Total liabilities		**56,426**	**41,132**	**52,051**	**49,708**
Net assets		**111,403**	**126,548**	**124,272**	**30,121**
Equity					
Accumulated funds		111,403	126,548	124,272	30,121
Total equity		**111,403**	**126,548**	**124,272**	**30,121**

*Refer Note 13 Restatement/Corrections to prior years, for details of correction to prior periods

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 2018

	Notes	Accumulated funds $'000	Total equity $'000
Balance at 1 July 2017		**127,798**	**127,798**
Correction of errors	13	(3,526)	(3,526)
Restated balance as at 1 July 2017	13	**124,272**	**124,272**
Net result for the year		(12,869)	(12,869)
Total comprehensive income for the year		**(12,869)**	**(12,869)**
Transactions with owners in their capacity as owners		**-**	**-**
Balance at 30 June 2018		**111,403**	**111,403**
Balance at 1 July 2016		**34,117**	**34,117**
Correction of errors	13	(3,996)	(3,996)
Restated balance as at 1 July 2016	13	**30,121**	**30,121**
Net result for the year		(6,623)	(6,623)
Total comprehensive income for the year		**(6,623)**	**(6,623)**
Transactions with owners in their capacity as owners			
Increase in net assets from equity transfers	11	100,774	100,774
Balance at 30 June 2017		**124,272**	**124,272**

The accompanying notes form part of these financial statements.

Statement of Cash Flows
for the year ended 30 June 2018

	Notes	Actual 2018 $'000	Budget 2018 $'000	Actual 2017 $'000
Cash flows from operating activities				
Payments				
Claim payments	10	(3,739)	(3,581)	(3,716)
Grants and subsidies	4	(10,000)	(6,935)	(2,400)
Other		(1,213)	(1,075)	(1,259)
Total payments		**(14,952)**	**(11,591)**	**(7,375)**
Receipts				
Interest received		3,812	2,550	1,515
Other		1,222	756	512
Total receipts		**5,034**	**3,306**	**2,027**
Net cash flows from operating activities	12	**(9,918)**	**(8,285)**	**(5,348)**
Net (decrease)/increase in cash		**(9,918)**	**(8,285)**	**(5,348)**
Opening cash and cash equivalents		174,008	174,406	78,599
Cash transferred in as a result of administrative restructuring	11	-	-	100,757
Closing cash and cash equivalents	7	**164,090**	**166,121**	**174,008**

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 30 June 2018

Notes to the financial statements
for the year ended 30 June 2018

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 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.

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

These general purpose financial statements have been prepared on an accrual basis and in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- the requirements of the *Public Finance and Audit Act 1983* and *Public Finance and Audit Regulation 2015* and
- the Financial Reporting Directions issued by the Treasurer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All financial statement items are prepared in accordance with the historical cost convention except where specified otherwise.

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

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

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.

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.

Statement of compliance

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

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.

Notes to the financial statements
for the year ended 30 June 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

New, revised or amending standards and interpretations effective for the first time

The accounting policies applied in the year are consistent with those of the previous financial year. The EDMHC have adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting year.

Significant impacts on the accounting policies from the adoption of new accounting standards and Interpretations, if any, are disclosed in the relevant accounting policy.

New standards and interpretations not yet effective

The following new standards and interpretations have recently been issued or amended but are not yet effective for the annual reporting period ended 30 June 2018.

AASB 9 *Financial Instruments (2014)* (operative date 1 July 2018)
AASB 15 *Revenue from Contracts with Customers* (operative date 1 July 2019)
AASB 1058 *Income of Not-for-profit Entities* (operative date 1 July 2019)
AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* (operative date 1 July 2018)
AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)* (operative date 1 July 2018)
AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* (operative date 1 July 2018)
AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15* (operative date 1 July 2018)
AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* (operative date 1 July 2019)
AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation* (operative date 1 July 2019)

It is unlikely the adoption of the above accounting standards issued but not yet effective will have material impact on the financial performance or position of the Corporation. The EAMHC has not early adopted any new accounting standards, amendments and interpretations in compliance with NSW Treasury mandates per Treasury Circular TC 18-01.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE

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. The EAMHC uses the following criteria to recognise and measure revenue:

Investment revenue

Investment revenue relates to interest revenue and is recognised using the effective interest method as set out in AASB139 *Financial Instruments: Recognition and Measurement*.

Other revenue

The following specific recognition criteria are used to measure the income:

(i) Petroleum exploration royalty

Macquarie Generation's rights, title and interests in relation to the petroleum exploration licence issued under the *Petroleum (Onshore) Act 1991* (NSW) 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. The revenue is recognised in accordance with *AASB 118 Revenue*, based on the volume of resources extracted each period.

(ii) 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.

EXPENSES

Expenses are recognised when incurred. The EAMHC uses the following criteria to recognise and measure expenses:

Operating expenses

(i) Claims expenses

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

(ii) Other expenses

Other expenses are recognised as they accrue.

Finance officers of the NSW Treasury provide administrative services, including the preparation of the EAMHC financial statements. Due to the irregular and varied nature of those services, their value cannot be calculated with any certainty and no charge is made to the entity for these services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 include at call deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Receivables

(i) Trade and other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets 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, less an allowance for any impairment of receivables. Any changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process.

The collection of trade receivables is reviewed on an ongoing basis. An allowance for impairment is recognised when there is objective evidence that not all amounts due will be collectable. Bad debts are written off as incurred. Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(ii) 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. The rates applied are consistent with those used in the valuation of provisions for outstanding claims (see Note 10).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Goods and Services Tax

Revenues, expenses and assets must be recognised net of the amount of GST, except:

- the amount of GST incurred that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an 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 recoverable or payable on cash flows from investing and financing activities are classified as operating cash flows.

Equity transfers

The transfer of net assets between agencies as a result of an administrative restructure, transfers of programs / functions and parts thereof between NSW public sector agencies and 'equity appropriations' are designated or required by Accounting Standards to be treated as contributions by owners and recognised as an adjustment to "Accumulated Funds". This treatment is consistent with AASB 1004 *Contributions* and Australian Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

Transfers arising from an administrative restructure involving not-for-profit entities and for-profit government departments are recognised at the amount at which the assets and liabilities were recognised by the transferor immediately prior to the restructure. Subject to below, in most instances this will approximate fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All other equity transfers are recognised at fair value, except for intangibles. Where an intangible has been recognised at (amortised) cost by the transferor because there is no active market, the entity recognises the asset at the transferor's carrying amount. Where the transferor is prohibited from recognising internally generated intangibles, the agency does not recognise that asset.

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.

Notes to the financial statements for the year ended 30 June 2018

3. OPERATING EXPENSES

	Notes	2018 $'000	2017 $'000
Claims expenses			
Adjustment to existing outstanding claims[1]	10	6,039	4,004
		6,039	**4,004**
Management fees			
Management fees		178	178
		178	**178**
Other operating expenses			
Actuarial expenses		143	143
Audit fees - audit of financial statements		59	58
Data Warehouse		129	129
Contractors		9	57
Consultants		2	16
Storage costs		26	18
Other		60	17
		428	**438**
Total operating expenses		**6,645**	**4,620**

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

Grants and subsidies		
Grants to GPM	10,000	2,400
	10,000	**2,400**

Generator Property Management Pty Ltd was established to carry out the demolition and remediation work of the Delta Electricity Munmorah power station. The EAMHC was empowered under the *Electricity Generator Assets (Authorised Transactions) Regulation 2016* to provide funding to GPM to fulfil their responsibility as a transaction company.

5. INVESTMENT REVENUE

	2018 $000	2017 $000
Bank interest	2,501	2,083
	2,501	**2,083**

6. OTHER REVENUE

Petroleum exploration royalty	322	298
Recovery revenue	3,023	56
Other	-	3
	3,345	**357**

7. CASH AND CASH EQUIVALENTS

Cash at bank	164,090	174,008
	164,090	**174,008**

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)	**164,090**	**174,008**
Closing cash and cash equivalents (per Statement of Cash Flows)	**164,090**	**174,008**

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

8. RECEIVABLES

	2018 $'000	2017 $'000
Expected future recoveries (discounted)	3,169	379
Interest receivables	-	1,312
Petroleum exploration royalty receivables	32	24
GST receivables	538	541
Other	-	59
	3,739	**2,315**
Current	831	1,978
Non-current	2,908	337
	3,739	**2,315**

Details regarding credit risk of trade debtors that are neither past due or impaired, are disclosed in Note 14.

9. PAYABLES

Claims payable	15	12
Other	58	56
	73	**68**

Details regarding liquidity risk, including a maturity analysis are disclosed in Note 14.

Notes to the financial statements
for the year ended 30 June 2018

10. PROVISIONS FOR OUTSTANDING CLAIMS

	Notes	Dust Disease	Non Dust Disease	2018 Total	2017 Total
		$'000	$'000	$'000	$'000
Opening balance		48,317	3,666	51,983	49,651
Payments		(2,871)	(868)	(3,739)	(3,716)
Actuarial (gain)/loss		1,597	4,442	6,039	4,005
Unwinding of discounts		1,974	96	2,070	2,043
Closing balance		**49,017**	**7,336**	**56,353**	**51,983**
Current		4,314	935	5,249	5,216
Non-current		44,703	6,401	51,104	46,767
		49,017	**7,336**	**56,353**	**51,983**

(a) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be between 6.58 to 10.3 years (2017: 6.33 - 10.8 years) for dust disease liabilities and 7.08 years (2017: 4.65 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	
	2018 %	2017 %	2018 %	2017 %
Not later than one year				
Inflation rate	2.2- 2.70	2.15- 2.78	2.39	2.72
Discount rate	1.95	1.93	1.95	1.93
Superimposed inflation	2.0 - 2.25	2.0 - 2.25	-	-
Later than one year				
Inflation rate	2.62-3.50	3.11-4.00	2.61-3.00	2.92-3.50
Discount rate	2.07 - 4.50	1.95 - 4.50	2.07 - 4.50	1.95 - 4.50
Superimposed inflation	2.0 - 2.25	2.0 - 2.25	-	-

10. PROVISION FOR OUTSTANDING CLAIMS (continued)

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:

(a) Dust Disease as at 30 June 2018

Variable	Movement in variable	Net Central Estimate $'000	Impact of Change $'000	% Impact
Net Central Estimate[1]		45,924		
Discount rate	+1%	42,546	-3,378	-7.4%
	-1%	49,844	3,920	8.5%
Inflation rate	+1%	48,293	2,369	5.2%
	-1%	43,677	-2,247	-4.9%
Superimposed inflation rate	+1%	50,182	4,258	9.3%
	-1%	42,222	-3,702	-8.1%
Seed Reports[2]	+1 claim	51,970	6,046	13.2%
	-1 claim	39,878	-6,046	-13.2%
Incidence Curves[3]	+15% IBNR claims	52,595	6,671	14.5%
	-15% IBNR claims	40,172	-5,752	-12.5%
Average Claim Size	+10%	49,979	4,055	8.8%
	-10%	41,869	-4,055	-8.8%

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 or decrease in the number of future IBNR claims.

Notes to the financial statements for the year ended 30 June 2018

10. PROVISION FOR OUTSTANDING CLAIMS (continued)

(b) Dust Disease as at 30 June 2017

Variable	Movement in variable	Net Central Estimate $'000	Impact of Change $'000	% Impact
Net Central Estimate[1]		45,924		
Discount rate	+1%	42,546	-3,378	-7.4%
	-1%	49,844	3,920	8.5%
Inflation rate	+1%	48,293	2,369	5.2%
	-1%	43,677	-2,247	-4.9%
Superimposed inflation rate	+1%	50,182	4,258	9.3%
	-1%	42,222	-3,702	-8.1%
Seed Reports[2]	+1 claim	51,970	6,046	13.2%
	-1 claim	39,878	-6,046	-13.2%
Incidence Curves[3]	+15% IBNR claims	52,595	6,671	14.5%
	-15% IBNR claims	40,172	-5,752	-12.5%
Average Claim Size	+10%	49,979	4,055	8.8%
	-10%	41,869	-4,055	-8.8%

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.

Notes to the financial statements for the year ended 30 June 2018

10. PROVISION FOR OUTSTANDING CLAIMS (continued)

(c) Non Dust Disease as at 30 June 2018

Variable	Movement in variable	Net Central Estimate $'000	Impact of Change $'000	% Impact
Net Central Estimate[1]		7,261		
Discount rate	+1%	6,915	-345	-4.8%
	-1%	7,632	371	5.1%
Inflation rate	+1%	7,548	287	4.0%
(not explicitly modelled)	-1%	6,988	-272	-3.8%
Superimposed inflation rate	+1%	7,591	330	4.5%
(not explicitly modelled)	-1%	6,930	-330	-4.5%
Reactivation[2]	+25%	8,955	1,694	23.3%
	-25%	5,458	-1,803	-24.8%
Life expectancy[3]	+5	9,144	1,883	25.9%
	-5	6,319	-942	-13.0%

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.

Notes to the financial statements
for the year ended 30 June 2018

10. PROVISION FOR OUTSTANDING CLAIMS (continued)

(d) Non Dust Disease as at 30 June 2017

Variable	Movement in variable	Net Central Estimate $'000	Impact of Change $'000	% Impact
Net Central Estimate[1]		3,199		
Risk free rate		3,194	-5	-0.1%
Discount rate	+1%	3,024	-174	-5.5%
	-1%	3,388	189	5.9%
Inflation rate	+1%	2,767	-67	-2.1%
(not explicitly modelled)	-1%	2,540	72	2.3%
Superimposed inflation rate	+1%	2,767	-67	-2.1%
(not explicitly modelled)	-1%	2,540	72	2.3%
Reactivation[2]	+25%	3,532	334	10.4%
	-25%	2,865	-334	-10.4%
Life expectancy[3]	+5	3,922	724	22.6%
	-5	2,514	-685	-21.4%

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.

Notes to the financial statements
for the year ended 30 June 2018

11. EQUITY TRANFERS

As part of the sale of the State's electricity generator asset, the Treasurer authorised the transfer of specific assets, rights and liabilities from Delta Electricity to the EAMHC in the 2017 financial year. The following were the assets and liabilities transferred through equity:

	2018 $'000	2017 $'000
Assets transferred in		
Cash and cash equivalents	-	100,757
Receivables	-	38
Other assets	-	15
Total assets	**-**	**100,810**
Liabilities transferred in		
Payables	-	36
Total liabilities	**-**	**36**
Net assets from equity transfers	**-**	**100,774**

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

Net cash flows from operating activities	**(9,918)**	**(5,348)**
Adjustments for:		
(Increase)/decrease in provisions	(4,370)	(2,332)
(Increase)/decrease in payables	(5)	25
Increase/(decrease) in receivables	1,424	1,032
Net result	**(12,869)**	**(6,623)**

13. RESTATEMENT/CORRECTIONS TO PRIOR YEARS

The EAMHC's dust disease and non-dust disease liabilities are measured in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets. AASB 137 requires provisions to be measured at "the best estimate of the expenditure required to settle the present obligation at the end of the reporting period" using a discount rate "that reflect(s) current market assessments of the time value of money and the risks specific to the liability".

Major professional service firms have interpreted the "market assessment of time value of money" to equate to a 'risk free rate'. It is generally accepted that the reference source of risk free rates should be Commonwealth government bond with a similar remaining term as the provision. Management has reassessed these discount rates and has determined the market yield on Commonwealth Bonds best meet the requirements of AASB 137. For consistency this has been applied to all provisions across the State.

Notes to the financial statements for the year ended 30 June 2018

13. RESTATEMENT/CORRECTIONS TO PRIOR YEARS (continued)

The impact of the change is to increase the provision for outstanding claims by $3.553 million and claim recovery receivables by $0.027 million at 30 June 2017, and an increase of $4.033 million in the provision for outstanding claims and claims recovery receivables by $0.037 million at 30 June 2016.

The interpretation of AASB 137 would have been applicable to previous financial years. Therefore, in accordance with AASB 108 Accounting Policies, Changes in Accounting estimates and Errors, the liabilities and assets at 30 June 2017 and 1 July 2016 have been corrected.

The following tables disclose the restatement of the lines items in the statement of financial position and statement of comprehensive income impacted by the period error for the year ended 30 June 2017 and 30 June 2016.

	30 June 2017		
Statement of Comprehensive Income	**Previously reported $'000**	**Adjustment $'000**	**Restated $'000**
Expenses			
Claims Expense	4,484	(480)	4,004
Total expenses	9,543	(480)	9,063
Revenue			
- Other revenue	367	(10)	357
Total revenue	2,450	(10)	2,440
Total comprehensive income	(7,093)	470	(6,623)

	30 June 2017			30 June 2016		
Statement of Financial Position	**Previously reported $'000**	**Adjustment $'000**	**Restated $'000**	**Previously reported $'000**	**Adjustment $'000**	**Restated $'000**
Current Assets						
- Receivables	1,976	2	1,978	846	3	849
Total Current Assets	175,984	2	175,986	79,445	3	79,448
Non-Current Assets						
- Receivables	312	25	337	347	34	381
Total Non-Current Assets	312	25	337	347	34	381
Total Assets	176,296	27	176,323	79,792	37	79,829
Current Liabilities						
- Provisions	5,115	101	5,216	4,344	403	4,747
Total Current Liabilities	5,183	101	5,284	4,401	403	4,804
Non-current liabilities						
- Provisions	43,315	3,452	46,767	41,274	3,630	44,904
Total Non-Current Liabilities	43,315	3,452	46,767	41,274	3,630	44,904
Total Liabilities	48,498	3,553	52,051	45,675	4,033	49,708
Net Assets/(Liabilities)	127,798	(3,526)	124,272	34,117	(3,996)	30,121
- Accumulated funds	127,798	(3,526)	124,272	34,117	(3,996)	30,121
Total Equity	127,798	(3,526)	124,272	34,117	(3,996)	30,121

Notes to the financial statements
for the year ended 30 June 2018

14. FINANCIAL INSTRUMENTS

The EAMHC's principal financial instruments are cash deposits held with NSW Treasury Banking System at Westpac Banking Corporation, 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	Category	Carrying amount	
			2018	2017
			$'000	$'000
Financial assets				
Cash and cash equivalents	7	N/A	164,090	174,008
Receivables[1]	8	Loan and receivables measured at amortised cost	32	1,395
Financial liabilities				
Payables[2]	9	Financial liabilities measured at amortised cost	73	68

1. Excludes statutory receivables of $0.538 million (2017: $0.541 million) and expected recoveries receivable of $3.17 million (2017: $0.36 million) which are not within the scope of AASB7 *'Financial Instruments'.*
2. Excludes statutory payables of Nil (2017: Nil) which are not within the scope of AASB7 *'Financial Instruments'.*

14. FINANCIAL INSTRUMENTS (continued)

(a) Market risks

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 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 2017. 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
2018					
Cash and cash equivalents	164,090	(1,641)	(1,641)	1,641	1,641
2017					
Cash and cash equivalents	174,008	(1,740)	(1,740)	1,740	1,740

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.

Receivables

Receivables include trade debtors.

All trade debtors are recognised as amounts receivable at the reporting date. The collection 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. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. No interest is earned on trade debtors. The average credit period on sales, unless otherwise agreed, is 30 days.

Notes to the financial statements for the year ended 30 June 2018

14. FINANCIAL INSTRUMENTS (continued)

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
2018								
Payables	-	73	-	-	73	73	-	-
Total financial liabilities	**-**	**73**	**-**	**-**	**73**	**73**	**-**	**-**
2017								
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.

15. 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.

Dust disease insurance recoveries

Dust disease insurance recoveries receivables are monies receivable from the NSW Government for community service obligations relating to dust diseases settlements for former employees and third party contractors who worked at decommissioned power stations of the former Electricity Commission, Delta Electricity or Macquarie Generation power stations prior to the formation of those companies. The amount of recovery can only be ascertained and estimated after claims settlement. There are no known claims at 30 June 2018.

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 or by any other Workers Compensation claimant in relation to their employment with or service provided to Green State Power 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 Green State Power and the insurance entitlement was also transferred to the EAMHC prior to the Sale.

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.

15. CONTINGENT ASSETS AND CONTINGENT LIABILITIES (continued)

Sale of Green State Power

The EAMHC is liable for any indemnities provided by Green State Power to its directors or officers that accrue or relate to the period prior to sale. There are no known claims at 30 June 2018. 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 2018.

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 2018.

Sale of Delta Electricity

At the reporting date, there were no material contingent assets and contingent liabilities where the probability of any inflow and outflow in settlement was greater than remote.

16. BUDGET REVIEW

Net result

The EAMHC's net result is a loss of $12.87 million in 2018 and $6.8 million below the budget.

Total expenses were $9.75 million higher than budget, mainly due to the following reasons:

- $10 million recurrent funding to GPM for Munmorah power station demolition works which was $3.07 million higher than budget.
- The remaining movement in expenses is mainly attributed to a movement in claims expense of $6.4 million against budget due to the following reasons:
  - A regulation change caused claim reactivation for periodic medical hearing aids replacement for people who suffer from industrial deafness. This has increased claims expenses by $3.3 million.
  - Applying the Finity inflation and discount rate assumptions caused reduction in discount rate which increased claims expense by $2.6 million.

Total revenue for 2018 was $5.85 million, $2.96 million higher than budget mainly contributed by an upward revision of actuarial assessed recovery receivable at the reporting date.

Assets and Liabilities

Total assets for the year were $167.83 million in-line with the budget.

Total liabilities were $56.43 million and were $15.3 million higher than budget due to reduction in inflation and discount rate used, increase in claim number and case estimate and a regulation change reflected in the actuarial valuation.

Cash flows

The actual net cash flows used in operating activities were $9.92 million, $1.63 million higher than budget.

Cash payments were $14.95 million and were $3.36 million higher than budget largely due to $10 million funding provided to GPM for demolition of Munmorah power station which exceeds budget by $3.07 million.

Cash receipts were $5.03 million, which is $1.73 million higher than the cash receipts budget of $3.31 million. Higher cash receipts were due to $1.3 million interest payment from Crown Finance Entity. It was accrued at last year end and is a timing variance not anticipated at budget.

Closing cash and cash equivalents were $164.09 million, in-line with budget of $166.12 million.

17. 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.

(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, Deputy Secretaries and Executive Directors are considered as KMP. The NSW Cabinet are considered to be related parties of the EAMHC because of their role in directing overall government policy and making decisions regarding state issues.

The EAMHC does not have employees. Key management personnel services were provided by NSW Treasury. No remuneration was 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.

(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. The services were provided in the same commercial terms as the general public.

The EAMHC has provided $10 million cash funding to GPM to cover operational, demolition and remediation costs in 2018. Both are government-related entities controlled by the NSW Government.

Upon dissolution of Delta Electricity, various assets and liabilities including contracts were transferred from Delta Electricity to the EAMHC, details are included in Note 11 and Note 15.

No other related party transaction occurred in this reporting period.

18. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial statements

Electricity Transmission Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2018

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 *Electricity 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 Corporation 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 the Electricity Transmission Ministerial Holding Corporation (the Corporation), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, 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 2018, 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' (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

Other information comprises the information included in the Corporation's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Secretary 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.

The Secretary's Responsibilities for the Financial Statements

The Secretary 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 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 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 except where the Corporation's operations will cease as a result of an administrative restructure.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

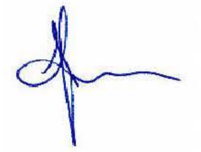
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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

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

My opinion does not provide assurance:

- that 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.



Aaron Green
Director, Financial Audit Services

30 October 2018
SYDNEY

Electricity Transmission Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2018

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 Electricity Transmission Ministerial Holding Corporation's financial position as at 30 June 2018 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

29 October 2018

Statement of Comprehensive Income
for the year ended 30 June 2018

	Notes	Actual 2018 $'000	Budget 2018 $'000	Restated 2017 $'000
Expenses excluding losses				
Employee-related expenses	6	4,218	2,907	4,764
Operating expenses	7(i)	4,043	458	1,950
Finance costs	7(ii)	190	-	1
Total expenses excluding losses		**8,451**	**3,365**	**6,715**
Revenue				
Investment revenue	4	4,156	5,036	4,005
Other revenue	5	2,069	640	799
Total revenue		**6,225**	**5,676**	**4,804**
Net result		**(2,226)**	**2,311**	**(1,911)**
Other comprehensive income				
Items that will not be reclassified to net result in subsequent period				
Superannuation actuarial gains/(losses)	13(ii)	26,546	-	83,165
Items that may be reclassified to net result in subsequent period		-	-	-
Total other comprehensive income		**26,546**	**-**	**83,165**
Total comprehensive income		**24,320**	**2,311**	**81,254**

*Refer Note 18 Restatement/Corrections to prior years, for details of correction to prior periods

The accompanying notes form part of these financial statements.

Electricity Transmission Ministerial Holding Corporation

Statement of Financial Position
as at 30 June 2018

	Notes	Actual 2018 $'000	Budget 2018 $'000	Restated* 2017 $'000	Restated* 1 July 2016 $'000
Current Assets					
Cash and cash equivalents	8	148,996	142,989	145,750	139,123
Receivables	9	1,942	2,122	1,689	6,843
Total Current Assets		**150,938**	**145,111**	**147,439**	**145,966**
Non-Current Assets					
Receivables	9	2,683	5,324	7,896	6,543
Other assets	10	31,700	31,700	29,750	27,920
Total Non-Current Assets		**34,383**	**37,024**	**37,646**	**34,463**
Total Assets		**185,321**	**182,135**	**185,085**	**180,429**
Current Liabilities					
Payables	11	600	59	41	775
Provisions	12	1,155	757	751	994
Other	14	310	54	283	54
Total Current Liabilities		**2,065**	**870**	**1,075**	**1,823**
Non-Current Liabilities					
Provisions	12	147,763	246,784	172,837	248,687
Total Non-Current Liabilities		**147,763**	**246,784**	**172,837**	**248,687**
Total Liabilities		**149,828**	**247,654**	**173,912**	**250,510**
Net Assets /(Liabilities)		**35,493**	**(65,519)**	**11,173**	**(70,081)**
Equity					
Accumulated funds		35,493	(65,519)	11,173	(70,081)
Total Equity		**35,493**	**(65,519)**	**11,173**	**(70,081)**

*Refer Note 18 Restatement/Corrections to prior years, for details of correction to prior periods

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 2018

	Notes	Accumulated funds $'000	Total equity $'000
Balance at 1 July 2017	**18**	**11,496**	**11,496**
Correction of errors	**18**	(323)	(323)
Restated balance as at 1 July 2017	**18**	11,173	11,173
Net result for the year		(2,226)	(2,226)
Other comprehensive income		26,546	26,546
Total comprehensive income for the year		**24,320**	**24,320**
Transactions with owners in their capacity as owners		-	-
Balance at 30 June 2018		**35,493**	**35,493**
Balance at 1 July 2016	**18**	**(69,930)**	**(69,930)**
Correction of errors	**18**	(151)	(151)
Restated balance as at 1 July 2016	**18**	(70,081)	(70,081)
Restated net result for the year		(1,911)	(1,911)
Other comprehensive income		83,165	83,165
Restated total comprehensive income for the year		**81,254**	**81,254**
Transactions with owners in their capacity as owners		-	-
Balance at 30 June 2017		**11,173**	**11,173**

The accompanying notes form part of these financial statements.

Notes to the financial statements
for the year ended 30 June 2018

	Notes	Actual 2018 $'000	Budget 2018 $'000	Actual 2017 $'000
Cash flows from operating activities				
Cash receipts from customers		871	1,072	9,453
Cash paid to suppliers and employees		(911)	(4,032)	(5,864)
Finance costs paid		-	-	(1)
Interest received		3,286	3,063	3,039
Net cash flows from operating activities	17	3,246	103	6,627
Net cash flows from investing activities		-	-	-
Net cash flows from financing activities		-	-	-
Net increase in cash and cash equivalents		3,246	103	6,627
Opening cash and cash equivalents		145,750	142,886	139,123
Closing cash and cash equivalents	8	**148,996**	**142,989**	**145,750**

The accompanying notes form part of these financial statements.

Notes to the financial statements
for the year ended 30 June 2018

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Notes to the financial statements
for the year ended 30 June 2018

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. ETMHC is the same legal entity as the TransGrid SOC. The functions of 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.

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.

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 New South Wales. 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 State Owned Corporation was converted to ETMHC, a General Government Entity, for nil consideration.

A Ministerial Order on the same date was signed transferring existing employees of TransGrid to NSWENO.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- *Public Finance and Audit Act 1983*
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions

The financial statements are presented consistent with the not-for-profit classification of the General Government entity.

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

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

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

New, revised or amending standards and interpretations effective for the first time

The accounting policies applied in the year are consistent with those of the previous financial year. The ETMHC have adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting year.

Significant impacts on the accounting policies from the adoption of new accounting standards and Interpretations, if any, are disclosed in the relevant accounting policy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and interpretations not yet effective

As mandated by Treasury Circular TC18-01, the ETMHC has not early adopted any new accounting standards, amendments and interpretations that have been issued or amended but are not yet effective for the current reporting period.

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

AASB 9 *Financial Instruments (2014)* (operative date 1 July 2018)
AASB 15 *Revenue from Contracts with Customers* (operative date 1 July 2019)
AASB 16 *Leases* (operative date 1 July 2019)
AASB 1058 *Income of Not-for-profit Entities* (operative date 1 July 2019)
AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* (operative date 1 July 2018)
AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)* (operative date 1 July 2018)
AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* (operative date 1 July 2018)
AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15* (operative date 1 July 2018)
AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* (operative date 1 July 2019)
AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation* (operative date 1 July 2019)
Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (operative date 1 July 2018)

It is considered impracticable to presently determine the impact of adopting these new standards and interpretations.

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.

Significant Accounting Judgements, Estimates and Assumptions made by management

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 has entered into a 99-year lease of its electricity network. At the end of the lease, land will revert back to ETMHC. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As the above 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.

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 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 10.

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)
- 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

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 ETMHC and the amount is reliably measurable.

Investment revenue

Investment revenue relates to interest revenue and is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

Finance Income

Finance income is recognised reflecting a constant periodic rate of return on ETMHC's net investment in the finance lease in accordance with AASB 117 *Leases.*

Recoup of administrative costs

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

Expenses

Expenses are recognised when incurred.

The ETMHC has no employees. Finance officers of the NSW Treasury provide administrative services, including the preparation of ETMHC financial statements. The cost of these services is shown as an administrative charge in Note 7.

Self-insured workers compensation

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

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position and for the purposes of the Statement of Cash Flows comprise cash at bank and deposits with financial institutions.

Trade and other receivables

Receivables from trade and other debtors are recognised at amounts due less an allowance for any uncollectible amounts. Collectability of these receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for impairment loss on trade and other receivables is raised when there is objective evidence that ETMHC will not be able to collect the debt.

Allowance for impairment loss on trade and other receivables

Where receivables are outstanding beyond the normal trading terms, the likelihood of recovery of these receivables is assessed by management. This assessment is based on enquiries as to the intention of late paying customers to pay, supportable past collection history, and historical write-offs of bad debts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Finance Leases – 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.

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, 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.

Payables

Trade and other payables, including accruals not yet billed, represent liabilities for goods and services provided to 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.

Superannuation

The significant estimates and judgements used in determining the unfunded superannuation liability are included in Note 13 to the financial statements.

Insurance

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).

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SUMMARY 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
- 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) ETMHC has transferred substantially all the risks and rewards of the asset, or (b) ETMHC has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When 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, ETMHC continues to recognise the transferred asset to the extent of its continuing involvement. In that case, 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 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 ETMHC could be required to repay.

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 21.

Notes to the financial statements
for the year ended 30 June 2018

4. INVESTMENT REVENUE

	2018 $'000	2017 $'000
Interest income	2,206	2,175
Finance income[(i)]	1,950	1,830
	4,156	**4,005**

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

5. OTHER REVENUE

Insurance and other recoveries	1,276	399
Other income	793	400
	2,069	**799**

6. EMPLOYEE RELATED EXPENSES

Superannuation - defined benefit expense	4,218	4,764
	4,218	**4,764**

7. EXPENSES

(i) Operating Expenses

Audit fees - audit of financial statements	51	50
Self-insured workers compensation	3,258	1,847
Admininistrative charge	500	-
Other	234	53
	4,043	**1,950**

(ii) Finance Costs

Unwinding of discount rate	**190**	**1**

Notes to the financial statements
for the year ended 30 June 2018

8. CASH AND CASH EQUIVALENTS

	2018 $'000	2017 $'000
Cash at bank	148,996	145,750
	148,996	**145,750**

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.

9. RECEIVABLES

Current		
Debtors	1,276	92
Interest receivable	-	1,079
GST receivable	59	7
Claim recovery receivables	607	511
	1,942	**1,689**
Non-Current		
Claim recovery receivables	2,683	7,896
	2,683	**7,896**

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.

10. OTHER NON-CURRENT ASSETS

Finance lease receivable[(i)]	31,700	29,750
	31,700	**29,750**

(i) Finance lease receivable

On completion of the long-term lease transaction, 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 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 $14.55 billion, using an annual indexation of 4 percent. The present value at inception of the lease was $26.98 million, discounted at nominal pre-tax discount rate of 6.57 percent. Finance income of $1.95 million (2017: $1.83 million) was recognised in the period (refer to Note 4).

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

10. OTHER NON-CURRENT ASSETS (continued)

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. 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.*

11. PAYABLES

	2018 $'000	2017 $'000
Current		
Creditors and accruals	600	41
	600	**41**

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

12. PROVISIONS

Current		
Outstanding claims	1,155	751
	1,155	751
Non-Current		
Outstanding claims	9,093	11,839
Superannuation liability (note 13(ii))	138,670	160,998
	147,763	172,837
Total	**148,918**	**173,588**

Workers' Compensation outstanding claims provision movements

Opening balance	12,590	10,283
Payments	(637)	(561)
Actuarial (gain)/loss/Unwinding of discounts	(1,705)	2,868
Closing balance	**10,248**	**12,590**

13. UNFUNDED SUPERANNUATION

The following narrative and tables summarise the components of movement in ETMHC'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 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 2015. The latest actuarial investigations as at 30 June 2018 is currently underway, expected to be completed in December 2018.

Description of other entities' responsibilities for the governance of the fund

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.

13. UNFUNDED SUPERANNUATION (continued)

Description of risks

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

- **Investment risk** - The risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall.
- **Longevity risk** – The risk that pensioners live longer than assumed, 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-18	**As at** 30-Jun-17
Member Numbers		
Contributors	-	-
Deferred benefits	16	15
Pensioners	378	377

13. UNFUNDED SUPERANNUATION (continued)

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 ETMHC relate to the retired employees. There were no fund amendments, curtailments or settlements during the year.

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

	2018 $'000	2017 $'000
Current service cost	-	-
Net interest	(4,218)	(4,764)
Total net expense	**(4,218)**	**(4,764)**

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

Actuarial gains/(losses) on liabilities	7,978	63,232
Actuarial gains/(losses) on assets	18,568	19,933
Total actuarial gains/(losses)	**26,546**	**83,165**

Notes to the financial statements
for the year ended 30 June 2018

13. UNFUNDED SUPERANNUATION (continued)

Reconciliation of the Superannuation Net (Asset)/ Liability

	2018 $'000	2017 $'000
Net Asset/(Liability) at the beginning of the year	(160,998)	(239,399)
Current service cost	-	-
Net Interest on the net defined benefit asset/(liability)	(4,218)	(4,764)
Actuarial gains/(losses) on assets	18,568	19,933
Actuarial gains/(losses) arising from changes in demographic assumptions	-	-
Actuarial gains/(losses) arising from changes in financial assumptions	13,600	50,134
Actuarial gains/(losses) arising from liability experience	(5,622)	13,099
Employer contributions	-	-
Employees transferred	-	-
Net Asset/(Liability) at the end of the year	**(138,670)**	**(160,998)**

Reconciliation of the present value of the defined benefit obligation

Present value of defined benefit obligations at the beginning of the year	(488,605)	(563,591)
Current service cost	-	-
Interest cost	(12,508)	(10,989)
Contributions by fund participants	-	-
Actuarial gains/(losses) arising from changes in demographic assumptions	-	-
Actuarial gains/(losses) arising from changes in financial assumptions	13,600	50,134
Actuarial gains/(losses) arising from liability experience	(5,622)	13,099
Benefits paid	21,436	21,802
Taxes, premiums & expenses paid	950	940
Employees transferred	-	-
Present value of defined benefit obligations at the end of the year	**(470,749)**	**(488,605)**

13. UNFUNDED SUPERANNUATION (continued)

Reconciliation of the fair value of fund assets

	2018 $'000	30 Jun 2017 $'000
Fair value of Fund assets at the beginning of the year	327,607	324,192
Interest income	8,290	6,225
Actuarial gains/(losses) on assets	18,568	19,933
Employer contributions	-	-
Contributions by fund participants	-	-
Benefits paid	(21,436)	(21,802)
Taxes, premiums & expenses paid	(950)	(940)
Employees transferred	-	-
Fair value of Fund assets at the end of the year	**332,079**	**327,607**

Maturity profile of defined benefit obligations

The weighted average duration of the defined benefit obligation is 11.4 years (30 June 2017 – 14.3 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.

Level 1 - Quoted prices in active markets for identical assets	-	-
Level 2 - Significant observable inputs	1,976,259	1,977,573
Level 3 - Unobservable inputs	-	-
Total	**1,976,259**	**1,977,573**

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.

13. UNFUNDED SUPERANNUATION (continued)

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 2018**	**30 June 2017**
Alternatives	5%	10%
International equities	28%	26%
Australian equities	18%	16%
Infrastructure	7%	11%
Property	8%	4%
Private equity	1%	1%
Cash	5%	5%
Fixed income	28%	27%
Total	**100%**	**100%**

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

Notes to the financial statements for the year ended 30 June 2018

13. UNFUNDED SUPERANNUATION (continued)

Significant actuarial assumptions at the end of the reporting period

	2018	2017
Discount rate	2.65% pa	2.62% pa
Salary increase rate (excluding promotional increases)	N/A	N/A
Rate of CPI Increase	2.3% pa	2.00% 2017/2018; 2.25% 2018/2019; 2.50% 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 2015 (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 2015 (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.
Assumed Rate of Retrenchment	N/A	N/A

Sensitivity analysis

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

As at 30 June 2018

	Base case	Scenario A - 1.0% discount	Scenario B +1.0% discount rate
Discount rate	2.65% pa	1.65% pa	3.65% pa
Rate of CPI increase	2.3% pa	2.3% pa	2.3% pa
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($000)	470,749	532,977	418,552

Notes to the financial statements
for the year ended 30 June 2018

13. UNFUNDED SUPERANNUATION (continued)

	Base case	Scenario C +0.5% rate of CPI	Scenario D -0.5% rate of CPI
Discount rate	2.65% pa	2.65% pa	2.65% pa
Rate of CPI increase	2.3% pa	2.8% pa	1.8% pa
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($000)	470,749	501,412	442,440

	Base case	Scenario E +0.5% Salary	Scenario F -0.5% Salary
Discount rate	2.65% pa	2.65% pa	2.65% pa
Rate of CPI increase	2.3% pa	2.3% pa	2.3% pa
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($000)	470,749	470,749	470,749

	Base case	Scenario G Lower pensioner mortality rates *	Scenario H Higher pensioner mortality rates **
Defined benefit obligation ($000)	470,749	479,032	464,057

* Assumes the short term pensioner mortality improvement factors for years 2017-2022 also apply for years after 2022.

** Assumes the long term pensioner mortality improvement factors for years post 2022 also apply for years 2017 to 2022.

13. 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 30 June 2015. Contribution rates are set after discussions between the employer and the trustee. The actuary will shortly be commencing work on the 30 June 2018 valuation and the results of the valuation are expected to be available by November/December 2018.

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 2018 financial position of the Fund calculated in accordance with AASB 1056 *Superannuation Entities*:

	2018 **$'000**	**2017** **$'000**
Net market value of Fund assets	332,079	327,607
Accrued benefits	(330,403)	(316,401)
Net Surplus/(Deficit)	**1,676**	**11,206**

Please note that the above AASB 1056 results are based on the financial assumptions to be used for the 30 June 2018 actuarial valuation, with the exception of the retrenchment assumptions, which are based on the AASB 119 basis.

Contribution Recommendations

Recommended contribution rates for the entity are:

At 30 June 2018

Division B	**Division C**	**Division D**	**Additional Contributions**
Multiple of member contributions	% of member salary	Multiple of member contributions	'$000
N/A	N/A	N/A	-

13. UNFUNDED SUPERANNUATION (continued)

At 30 June 2017

Division B	Division C	Division D	Additional Contributions
Multiple of member contributions	% of member salary	Multiple of member contributions	'$000
N/A	N/A	N/A	-

Economic Assumptions

The economic assumptions adopted for 30 June 2018 AASB1056 calculations above are:

Weighted Average Assumptions	2018	2017
Expected rate of return on Fund Assets	5.5% pa	5.9% pa
Expected salary increase rate	N/A	N/A
Expected rate of CPI Increase	2.3% pa	2.2% pa

Expected contributions

	$'000
Expected employer contributions to be paid in the period 1 July 2018 to 30 June 2019	-

The defined benefit superannuation liability has been fully funded under AASB1056. No further contributions from ETMHC are required.

14. OTHER CURRENT LIABILITIES

	2018 $'000	2017 $'000
Unearned revenue	256	229
Security deposits	54	54
Total	**310**	**283**

15. CONTINGENT ASSETS AND CONTINGNET LIABILITIES

ETMHC does not have any contingent assets and contingent liabilities to report as at 30 June 2018 (year ended 30 June 2017: nil).

16. FAIR COMPENSATION TRUST ACCOUNT

In accordance with the *Land Acquisition (Just Terms Compensation) Act 1999*, ETMHC maintains a Trust Account. ETMHC performs only a custodial role in respect of these monies, and as the monies cannot be used for the achievement of ETMHC's own objectives, these funds are not recognised in the financial statements. The account balance as at 30 June 2018 is $474 thousand (30 June 2017 $531 thousand).

17. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of net result to net cash provided by operating activities

	2018 $'000	2017 $'000
Net cash from operating activities	3,246	6,627
Add/(less) non-cash items		
Superannuation actuarial gain/(loss)	(26,546)	(83,165)
Finance lease income	1,950	1,830
Net changes in assets and liabilities during the financial year		
Decrease in receivables	(4,960)	(3,802)
(Increase)/decrease in payables	(559)	734
(Increase)/decrease in provisions	24,671	76,093
Increase in other current liabilities	(28)	(228)
Net result	**(2,226)**	**(1,911)**

18. RESTATEMENT/CORRECTIONS TO PRIOR YEARS

The ETMHC's worker's compensation liabilities are measured in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. AASB 137 requires provisions to be measured at "the best estimate of the expenditure required to settle the present obligation at the end of the reporting period" using a discount rate "that reflect(s) current market assessments of the time value of money and the risks specific to the liability".

Major professional service firms have interpreted the "market assessment of time value of money" to equate to a 'risk free rate'. It is generally accepted that the reference source of risk-free rates should be Commonwealth government bond with a similar remaining term as the provision. Management has reassessed these discount rates and has determined the market yield on Commonwealth Bonds best meet the requirements of AASB 137. For consistency this has been applied to all provisions across the State.

The impact of the change is to increase the provision for outstanding claims by $1.14 million and claim recovery receivables by $0.817 million at 30 June 2017, and an increase of $0.619 million in the provision for outstanding claims and claims recovery receivables by $0.048 million at 30 June 2016. The interpretation of AASB 137 would have been applicable to previous financial years. Therefore, in accordance with *AASB 108 Accounting Policies, Changes in Accounting estimates and Errors*, the liabilities and assets at 30 June 2017 and 1 July 2016 have been corrected. The following tables disclose the restatement of the lines items in the statement of financial position and statement of comprehensive income impacted by the period error for the year ended 30 June 2017 and 30 June 2016.

18. RESTATEMENT/CORRECTIONS TO PRIOR YEARS (continued)

	30 June 2017		
Statement of Comprehensive Income	**Previously reported $'000**	**Adjustment $'000**	**Restated $'000**
Expenses			
- Operating expenses	1,778	172	1,950
Total expenses	6,543	172	6,715
Net result	(1,739)	(172)	(1,911)
Total comprehensive income	81,426	(172)	81,254

Statement of Financial Position	**Previously reported $'000**	**Adjustment $'000**	**Restated $'000**	**Previously reported $'000**	**Adjustment $'000**	**Restated $'000**
Current Assets						
- Receivables	1,681	8	1,689	6,575	268	6,843
Total Current Assets	147,431	8	147,439	145,698	268	145,966
Non-Current Assets						
- Receivables	7,087	809	7,896	6,343	200	6,543
Total Non-Current Assets	36,837	809	37,646	34,263	200	34,463
Total Assets	184,268	817	185,085	179,961	468	180,429
Current Liabilities						
- Provisions	740	11	751	793	201	994
Total Current Liabilities	1,064	11	1,075	1,622	201	1,823
Non-current liabilities						
- Provisions	171,708	1,129	172,837	248,269	418	248,687
Total Non-Current Liabilities	171,708	1,129	172,837	248,269	418	248,687
Total Liabilities	172,772	1,140	173,912	249,891	619	250,510
Net Assets/(Liabilities)	11,496	(323)	11,173	(69,930)	(151)	(70,081)
- Accumulated funds	11,496	(323)	11,173	(69,930)	(151)	(70,081)
Total Equity	11,496	(323)	11,173	(69,930)	(151)	(70,081)

19. FINANCIAL INSTRUMENTS

ETMHC's principal financial instruments are outlined below. The financial instruments arise directly from ETMHC's operations or are required to finance 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

		2018 $'000	2017 $'000
Carrying Amount	**Note**		
Financial Assets			
Cash and cash equivalents	8	148,996	145,750
Receivables	9	1,276	1,171
Financial Liabilities			
Payables	11	600	41

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

Financial risk management overview

As at 30 June 2018 ETMHC has exposure to the following risks:

- Credit risk;
- Liquidity risk; and
- Interest rate risk.

Credit risk

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

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

Cash

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

Receivables

All trade debtors are recognised as amounts receivable at balance date. The collection of receivables is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off.

An allowance for impairment is raised when there is objective evidence that ETMHC will not be able to collect all amounts due. No interest is earned on trade debtors. The average credit period on receivables, unless otherwise agreed, is 30 days.

19. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk

Liquidity risk is the risk that ETMHC will be unable to meet its payment obligations when they fall due. ETMHC continuously manages risk through monitoring future cash flows and commitment maturities. There were no defaults on payables in the current year, and no assets have been pledged as collateral.

Due to the 99 year finance lease transaction (Note 2) TransGrid's main business operations were discontinued therefore ETMHC's exposure is limited to the value of trade payables.

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

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 movements in interest rates.

The effect on 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.

ETMHC's exposure to interest rate risk is limited to cash at bank.

30 June 2018

Variable Rate Instruments	Impact	
	$'000	**$'000**
	-1%	**1%**
Cash and cash equivalents	(1,490)	1,490
Cash flow sensitivity (net)	**(1,490)**	**1,490**

30 June 2017

Variable Rate Instruments	Impact	
	$'000	**$'000**
	-1%	**1%**
Cash and cash equivalents	(1,458)	1,458
Cash flow sensitivity (net)	**(1,458)**	**1,458**

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

(b) Key management personnel remuneration

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 entity, 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.

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

The 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 period.

(ii) Transactions with other related entities

ETMHC interacts with other government agencies in delivering services to the general public. Services provided by other government agencies are provided to 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 ETMHC.

Notes to the financial statements
for the year ended 30 June 2018

21. BUDGET REVIEW

Net result

For the year ended 30 June 2018, ETMHC had a loss of $2.23 million which is $4.54 million below the budget.

Total expenses were $8.45million which is $5.09 million higher than budget. This is primarily due to increases in workers compensation claim cost ($2.89 million) and employee related expenses ($1.31 million). Higher workers compensation claim costs of $2.89 million was mainly attributed to a reduction in inflation and discount rate used and a regulation change which was reflected in the actuarial valuation.

Total revenue for 2018 was $6.23 million, $0.55 million higher than budget mainly contributed by reinsurance settlement for a workers' compensation claim through recovery process.

Other comprehensive income is $26.55 million higher than budget contributed by the actuarial gain on superannuation liabilities assessed by actuary.

Assets and Liabilities

Net assets for the year were $35.49 million, $101.01 million higher than the budget.

Total assets were $185.32 million and $3.19 million higher than budget, mainly contributed by higher cash and cash equivalents ($6.01 million) offset by reduction in claim recovery receivable due to revision of reinsurance recovery receivable upon updated claims estimate.

Total liabilities were $149.83 million and were $97.83 million lower than budget due to reduction in defined benefit superannuation liabilities of $100.73 million as $83.17 million actuarial gain as at 30 June 2017 and $26.55 million actuarial gain assessed for 2018 were not budgeted for. That was partly offset by higher outstanding claims liabilities of $2.11 million due to reduction in inflation and discount rate, increase in case estimate and claim handling expenses and a regulation change reflected in the actuarial valuation.

Cash flows

The actual net cash flows from operating activities were $3.25 million, $3.14 million higher than budget. This is mainly due to reinsurance recovery of $1.28 million received from Liberty International Underwriters and higher interest received in 2018 of $0.22 million.

Closing cash and cash equivalents were $148.99 million, $6.01 million higher budget of $142.89 million.

22. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial statements

Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2018

Ministerial Holding Corporation

Charter

The Ministerial Holding Corporation (MHC) is a NSW State Owned Corporation established under section 37B of the *State Owned Corporations Act 1989* (the Act).

Objectives

The purpose of MHC is set out in Section 37B of the Act which includes:

- To hold on behalf of the Crown, retain, transfer and dispose of assets, rights and liabilities transferred to it by or under this or any other Act
- To acquire, exchange, lease, dispose of and otherwise deal with property
- To develop and manage land transferred to it under this Act or otherwise acquired by it
- To carry out any activities or business that relate to any of the above or are incidental or ancillary to any of the above, including demanding, collecting and receiving charges, levies, rates and fees.

Staffing

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

AUDITOR-GENERAL NEW SOUTH WALES

INDEPENDENT AUDITOR'S REPORT

Ministerial Holding Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Ministerial Holding Corporation (the Corporation), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows, for the year then ended, notes comprising a Summary of Significant Accounting Policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2018, 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' (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

Other information comprises the information included in the Corporation's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Secretary 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.

The Secretary's Responsibilities for the Financial Statements

The Secretary 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 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 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 except where the Corporation's operations will cease as a result of an administrative restructure.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

Aaron Green
Director, Financial Audit Services

18 October 2018
SYDNEY

Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2018

STATEMENT BY DEPARTMENT HEAD

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

(a) The accompanying financial statements exhibit a true and fair view of the financial position of the Ministerial Holding Corporation as at 30 June 2018 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,* 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

16 October 2018

Ministerial Holding Corporation

Statement of Financial Position
as at 30 June 2018

	Notes	2018 $	2017 $
Revenue			
Share of profit of an associate	3	528,190	562,443
Total expenses		**-**	**-**
Net result		**528,190**	**562,443**
Other comprehensive income			
Items that will not be reclassified to net result			
Share of an associate's other comprehensive income	3	**-**	(75,000)
Total other comprehensive income		**-**	**(75,000)**
Total comprehensive income		**528,190**	**487,443**

The accompanying notes form part of these financial statements.

Ministerial Holding Corporation

Statement of Financial Position
as at 30 June 2018

	Notes	2018 $	2017 $
Assets			
Current assets		-	-
Non-current assets			
Investment in an associate	3	6,641,160	6,112,970
Total non-current assets		**6,641,160**	**6,112,970**
Total assets		**6,641,160**	**6,112,970**
Liabilities			
Current liabilities		-	-
Non-current liabilities		-	-
Total liabilities		-	-
Net assets		**6,641,160**	**6,112,970**
Equity			
Accumulated funds		4,778,284	4,250,094
Reserves	4	75,000	75,000
Other contributed equity	4	1,787,876	1,787,876
Total equity		**6,641,160**	**6,112,970**

The accompanying notes form part of these financial statements.

Ministerial Holding Corporation

Statement of Changes in Equity
for the year ended 30 June 2018

	Notes	Accumulated funds $	Reserves $	Other contributed equity $	Total $
Balance at 1 July 2017		**4,250,094**	**75,000**	**1,787,876**	**6,112,970**
Net result for the year	3	528,190	-	-	528,190
Other comprehensive income	3	-	-	-	-
Total comprehensive result for the year		528,190	-	-	528,190
Balance at 30 June 2018		**4,778,284**	**75,000**	**1,787,876**	**6,641,160**
Balance at 1 July 2016		**3,687,651**	**150,000**	**1,787,876**	**5,625,527**
Net result for the year	3	562,443	-	-	562,443
Other comprehensive income	3	-	(75,000)	-	(75,000)
Total comprehensive result for the year		562,443	(75,000)	-	487,443
Balance at 30 June 2017		**4,250,094**	**75,000**	**1,787,876**	**6,112,970**

The accompanying notes form part of these financial statements.

Ministerial Holding Corporation

Statement of Cash Flows
for the year ended 30 June 2018

	Notes	2018 $	2017 $
Cash flows from operating activities		-	-
Cash flows from investing activities		-	-
Cash flows from financing activities		**-**	**-**
Net increase/(decrease) in cash		**-**	**-**
Opening cash and cash equivalents		-	-
Closing cash and cash equivalents		**-**	**-**

The accompanying notes form part of these financial statements.

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

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Ministerial Holding Corporation

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

1. INFORMATION ON THE MINISTERIAL HOLDING CORPORATION

Ministerial Holding Corporation (MHC) is a NSW State Owned Corporation established under section 37B of the *State Owned Corporations Act 1989* (the Act). It is a not-for-profit entity (as profit is not its principal objective) with no cash generating units, and is consolidated as part of the NSW Total State Sector Accounts.

The affairs of the MHC, up to 12th April 2016, were managed by the NSW Minister for Finance, Services and Property in accordance with paragraphs (2) and (3) of section 37B of the Act. Effective from 13th April 2016, the management of MHC was transferred to the Treasury by way of the Administrative Arrangement (Administration of Acts – Amendment No 1) Order 2016*.*

MHC's principal activities as set out in section 37B of the Act are:

a) to hold on behalf of the Crown, retain, transfer and dispose of assets, rights and liabilities transferred to it by or under this or any other Act, and

b) to acquire, exchange, lease, dispose of and otherwise deal with property, and

c) to develop and manage land transferred to it under this Act or otherwise acquired by it, and

d) to carry out any activities or business that relate to any of the above or are incidental or ancillary to any of the above, including demanding, collecting and receiving charges, levies, rates and fees.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The MHC is controlled by the NSW Treasurer under section 37B of the Act and has been treated as a department for the purposes of financial reporting under the *Public Finance and Audit Act 1983*.

The MHC's 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
- *Public Finance and Audit Act 1983*
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions

The financial statements are presented in Australian dollars and all amounts are rounded to the nearest dollar.

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. 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 Australian Accounting Standards including Australian Accounting Interpretations.

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New, revised or amending standards and interpretations

The accounting policies applied in the year are consistent with those of the previous financial year.

There was no impact on the financial performance or position of the MHC from the adoption of new, revised or amending standards and interpretations.

New standards and interpretations not yet effective

As mandated by Treasury Circular TC18-01, the MHC 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 MHC:

AASB 1058 Income of Not-for-profit Entities (operative date 1 July 2019)

AASB 2017-3 Amendments to Australian Accounting Standards – Clarifications to AASB 4 (operative date 1 July 2018)

It is considered that the implementation of the above standards will not materially impact on the financial performance or position of the MHC.

REVENUE

Revenue is recognised when it is probable that economic benefits will flow to the MHC and it can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

EXPENSES

Expenses are recognised when it is probable that consumption or loss of future economic benefits have occurred and the amount can be reliably measured.

Finance officers of the NSW Treasury provide administrative services, including the preparation of financial statements of the MHC. Due to the irregular and varied nature of those services, their value cannot be calculated with any certainty and no charge is made to the MHC for them.

The Crown Entity pays for the MHC's audit fees for the year of $30,250 incl. GST (2017: $29,480 incl. GST).

ASSETS

Assets are future economic benefits controlled by the MHC and are only recognised in the Statement of Financial Position if it is probable that the future economic benefits embodied in the asset will eventuate and the asset possesses a cost or other value that can be measured reliably.

Investments in Associates

Associates are those entities in which the entity has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the MHC holds more than 20 percent of the voting power of another entity. The MHC has a 50 per cent interest in Hunter Valley Training Company Pty Limited (HVTC). Refer to Note 3 for the accounting policy and disclosure of MHC's interest in HVTC.

LIABILITIES

Liabilities are the future sacrifices of economic benefits that the MHC is presently obliged to make as a result of past transactions or other past events. A liability is recognised in the Statement of Financial Position when it is probable that the future sacrifice of economic benefits will be required and the amount of the liability can be measured reliably.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goods and Services Tax (GST)

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

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

Comparative Information

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

3. INVESTMENT IN ASSOCIATE

The MHC's investment in an associate is a 50 per cent share in the HVTC (30 June 2017: 50 per cent). HVTC provides nationally accredited training programs in trade and vocational fields. The MHC's investment in HVTC was established by the NSW government to address skills shortages across NSW regional areas. Investments in HVTC are carried at cost. There is no published quotation price for the fair value of this investment.

The MHC has applied the equity method to account for its investment in HVTC. The financial statements include the MHC's share of the profit or loss and other comprehensive income from the date that significant influence commences.

When the MHC's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the MHC has an obligation or has made payments on behalf of the investee.

Under AASB 128 *Investments in Associates and Joint Ventures* the investment is measured consistently with the policies applied in the MHC financial statements. The MHC recognises its investment based upon 50 per cent of HVTC net assets reported in HVTC's financial statements except for property, plant and equipment (PP&E), specifically land and buildings, which have been 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 116 *Property, Plant and Equipment* and AASB 13 *Fair Value Measurement*.

The MHC performs revaluations of HVTC's land and buildings for financial reporting purposes, once every three years. The last revaluation of HVTC's land and buildings was completed on 30 June 2016 by independent assessment which was based on best available market evidence including current market selling prices for the same or similar assets. The key inputs considered under this approach are from the sales of comparable land and buildings in the area.

3. INVESTMENT IN AN ASSOCIATE (continued)

At the end of each reporting period, an assessment of the valuation of land and buildings is conducted to ensure that their carrying amount does not differ materially from their fair value.

	2018 $	2017 $
Non-current investment in an associate	**6,641,160**	**6,112,970**
MHC's share of HVTC's assets and liabilities		
Current assets	4,885,384	4,145,953
Non-current assets	3,825,586	3,939,034
	8,710,970	8,084,987
Current liabilities	2,011,257	1,921,128
Non-current liabilities	58,553	50,889
	2,069,810	1,972,017
Net assets	6,641,160	**6,112,970**
MHC's share of HVTC's total comprehensive income		
Income	18,276,723	19,147,153
Expenses	(17,748,533)	(18,584,710)
Profit/(Loss)	**528,190**	**562,443**
Other comprehensive income	-	(75,000)
Total comprehensive result for the year	**528,190**	**487,443**

4. EQUITY

Reserves

Reserves comprise the MHC’s share of post-acquisition movements in the asset revaluation surplus of HVTC.

At 30 June 2018, the asset revaluation reserve for the Hunter Valley Training Corporation was $150,000 (30 June 2017: $150,000); MHC's share was $75,000 (30 June 2017: $75,000).

Other Contributed Equity

The other contributed equity balance is a result of the acquisition of 50 per cent of HVTC, which has been classified as an equity contribution. The balance of $1,787,876 represents the MHC's share of HVTC's net assets at the date of acquisition.

5. CONTINGENCIES

On 31 May 2012, the MHC entered into a sale and leaseback arrangement with Sydney Desalination Plant Pty Limited (SDP), SDP Assets Trust and SDP Pipeline Trust (together, the "Lessees"). SDP Assets Trust and SDP Pipeline Trust were unit trusts wholly-owned by SDP at the inception of the sale and leaseback arrangement.

Under the sale and leaseback arrangement, the MHC purchased the Desalination Plant, associated Land, Easements and Pipeline Licence ("Assets") from the Lessees and leased the Assets back to the Lessees by means of 50-year finance leases which the Lessees have prepaid. This means the MHC has no assets or liabilities relating to these transactions on its Statement of Financial Position.

Title to the Assets will transfer to the Lessees at the end of the lease term, provided certain stewardship requirements, intended to safeguard water security, are satisfied.

Sydney Water Corporation (SWC), the parent entity of Sydney Desalination Plant Pty Limited at the time of the sale and leaseback transaction, has previously given Roads and Maritime Services an indemnity in respect of any loss or liability which Roads and Maritime Services incurs in relation to the M5 because of the construction, operation or maintenance of the Pipeline. MHC has given SWC a counter-indemnity in respect of this existing indemnity.

The MHC is of the opinion that provisions are not required in respect of this matter, as the existence of a possible obligation will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within its control.

An insurance claim has been lodged with respect to HVTC's plant and equipment destroyed in a fire in April 2018 to the value of $284,051 of which MHC has a 50% share. In accordance with AASB 137, MHC has a contingent asset at 30 June 2018 with respect to insurance proceeds that are expected to be received in the 30 June 2019 financial year.

There were no other material contingent assets or liabilities relating to the MHC's investment in HVTC as at 30 June 2018 (30 June 2017: Nil).

6. RELATED PARTY DISCLOSURE

(a) Ultimate parent

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

(b) Key management personnel remuneration

Key management personnel (KMP) are those considered to have the authority and responsibility for planning, directing and controlling the activities of the entity. KMP of the MHC includes the Treasurer, the NSW Treasury Secretary, and certain Treasury Deputy Secretaries and Executive Directors. The NSW Cabinet are considered related parties of the MHC because of its role to direct overall government policy and make decisions about State issues.

The MHC does not have employees, with key management personnel services provided by NSW Treasury. There was no remuneration paid, nor loans made, to any of the KMP by the MHC during the period.

6. RELATED PARTY DISCLOSURE (continued)

(c) Transactions with related parties

(i) Transactions with KMP

The MHC follows the NSW Treasury's framework and processes in the identification, recording and determination of disclosure for KMP and related party transactions. All identified KMP are required to complete annual declaration in relation to the related party transactions. During the reporting period, no KMP has declared that he/she or their close family members have made any transactions with the MHC.

(ii) Transactions with other related entities

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

7. EVENTS AFTER THE REPORTING DATE

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

End of audited financial statements

Alpha Distribution Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2018

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, authorised 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.

AUDITOR-GENERAL
NEW SOUTH WALES

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 the Alpha Distribution Ministerial Holding Corporation (the Corporation), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, 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 2018, 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' (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

Other information comprises the information included in the Corporation's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Secretary 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.

The Secretary's Responsibilities for the Financial Statements

The Secretary 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 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 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 except where the Corporation's operations will cease as a result of an administrative restructure.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does not provide assurance:

- that 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.

Aaron Green
Director, Financial Audit Services

19 October 2018
SYDNEY

Alpha Distribution Ministerial Holding Corporation

Financial Statements
for the year ended 30 June 2018

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 2018 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

16 October 2018

Alpha Distribution Ministerial Holding Corporation

Statement of Comprehensive Income
for the year ended 30 June 2018

	Notes	Actual 2018 $M	Budget 2018 $M	Actual 2017 $M
Continuing operations				
Investment revenue	4	0.4	0.9	0.3
Other income	4	17.7	25.4	33.4
Expenses	5	(10.1)	(0.2)	(5.4)
Profit/(loss) for the period from continuing operations		**8.0**	**26.1**	**28.4**
Discontinued operations				
Profit/(loss) after tax for the period from discontinued operations	6(a)	-	-	5,028.2
Profit/(loss) for the period		**8.0**	**26.1**	**5,056.6**
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss:				
Net increase/(decrease) in revaluation reserve		-	-	18.0
Superannuation actuarial gains/(losses)	13(ii)	5.3	-	46.2
Income tax relating to items that will not be reclassified	7(ii)	-	-	(17.2)
Total items that will not be reclassified subsequently to profit or loss		**5.3**	**-**	**47.0**
Items that may be reclassified subsequently to profit or loss:				
Net gains on cash flow hedges		-	-	2.3
Income tax expense relating to items that will be reclassified	7(ii)	-	-	(0.7)
Total items that may be reclassified subsequently to profit or loss		**-**	**-**	**1.6**
Total other comprehensive income, net of tax		**5.3**	**-**	**48.6**
Total comprehensive income, net of tax		**13.3**	**26.1**	**5,105.2**

The accompanying notes form part of these financial statements.

Alpha Distribution Ministerial Holding Corporation

Statement of Financial Position
as at 30 June 2018

	Notes	Actual 2018 $M	Budget 2018 $M	Actual 2017 $M
Current assets				
Cash and cash equivalents	8	26.7	41.0	24.2
Trade and other receivables	9	0.3	0.5	3.7
Total current assets		**27.0**	**41.5**	**27.9**
Non-current assets				
Other non-current assets	10	138.9	39.2	130.6
Total non-current assets		**138.9**	**39.2**	**130.6**
Total assets		**165.9**	**80.7**	**158.5**
Current liabilities				
Trade and other payables	11	0.8	0.1	2.2
Other current liabilities	14	0.2	-	-
Total current liabilities		**1.0**	**0.1**	**2.2**
Non-current liabilities				
Provisions	12	17.0	-	21.7
Total non-current liabilities		**17.0**	**0.0**	**21.7**
Total liabilities		**18.0**	**0.1**	**23.9**
Net assets /(liability)		**147.9**	**80.6**	**134.6**
Equity				
Retained earnings		147.9	80.6	134.6
Total equity		**147.9**	**80.6**	**134.6**

The accompanying notes form part of these financial statements

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Alpha Distribution Ministerial Holding Corporation

Statement of Changes in Equity
for the year ended 30 June 2018

		Contributed equity $M	Asset revaluation reserve $M	Hedge revaluation reserve $M	Retained earnings $M	Total $M
Balance at 1 July 2017		**-**	**-**	**-**	**134.6**	**134.6**
Profit/(loss) for the year		-	-	-	8.0	8.0
Other comprehensive income						
Superannuation actuarial gains/(losses)		-	-	-	5.3	5.3
Total other comprehensive income		-	-	-	5.3	5.3
Total comprehensive income for the year		**-**	**-**	**-**	**13.3**	**13.3**
Balance at 30 June 2018		**-**	**-**	**-**	**147.9**	**147.9**
Balance at 1 July 2016		**402.1**	**2,899.6**	**(1.6)**	**827.0**	**4,127.1**
Profit/(loss) for the year		-	-	-	5,056.6	5,056.6
Other comprehensive income						
Net increase/(decrease) in revaluation reserve, net of tax		-	12.6	-	-	12.6
Superannuation actuarial gains/(losses), net of tax		-	-	-	34.4	34.4
Effective portion of changes in fair value of cash flow hedge, net of tax		-	-	1.6	-	1.6
Total other comprehensive income		-	12.6	1.6	34.4	48.6
Total comprehensive income for the year		**-**	**12.6**	**1.6**	**5,091.0**	**5,105.2**
Transactions recorded directly in equity						
Transfer of reserves to retained earnings attributable to discontinued operations, net of tax		-	(2,912.2)	-	2,912.2	-
Transfer of contributed equity to retained earnings		(402.1)	-	-	402.1	-
Distribution to NSW Government	6(e)	-	-	-	(9,097.7)	(9,097.7)
Total transactions recorded directly in equity		**(402.1)**	**(2,912.2)**	**-**	**(5,783.4)**	**(9,097.7)**
Balance at 30 June 2017		**-**	**-**	**-**	**134.6**	**134.6**

The accompanying notes form part of these financial statements.

Alpha Distribution Ministerial Holding Corporation

Statement of Cash Flows
for the year ended 30 June 2018

	Notes	Actual 2018 $M	Budget 2018 $M	Actual 2017 $M
Cash flows from operating activities				
Cash receipts from customers		3.9	-	1,188.8
Cash paid to suppliers and employees		(2.1)	(0.7)	(649.3)
Interest received		0.7	0.9	0.2
Interest paid		-	-	(139.1)
Income tax received/(paid)		-	-	(60.0)
Net cash inflows from operating activities	19	**2.5**	**0.2**	**340.6**
Cash flows from investing activities				
Purchase of property, plant and equipment and intangibles assets		-	-	(213.6)
Proceeds from the sale of property, plant and equipment		-	-	6.8
Net cash outflows from investing activities		**-**	**-**	**(206.8)**
Cash flows from financing activities				
Repayments of borrowings		-	-	(110.0)
Net cash outflows from financing activities		**-**	**-**	**(110.0)**
Net increase / (decrease) in cash and cash equivalents		**2.5**	**0.2**	**23.8**
Cash and cash equivalents at beginning of the period		24.2	40.8	0.4
Cash and cash equivalents at the end of the period	8	**26.7**	**41.0**	**24.2**

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 2018

NOTES INDEX **PAGE**

Notes to the financial statements for the year ended 30 June 2018

1. INFORMATION ON THE ALPHA DISTRIBUTION MINISTERIAL HOLDING CORPORATION

The Alpha Distribution Ministerial Holding Corporation (ADMHC) is a 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. ADMHC is the same legal entity as Ausgrid. The functions of 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;
- such other functions of an authorised transaction as may be prescribed by the regulations.

ADMHC is a NSW government entity and is a not-for-profit entity from 2 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.

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 New South Wales. 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 - Augrid.

Ausgrid as a State Owned Corporation was converted to 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.

Cash consideration of $16.19 billion (comprising an upfront lease premium for the assets held by Ausgrid of $12.80 billion, the purchase provides for a number of sold assets of $3.39 billion, including stamp duty of $0.49 billion). The proceeds were directly to a number of State bank accounts and the Ausgrid's bank accounts in accordance with the Payment Direction issued by NSW Treasury. The stamp duty component has been excluded from the purchase price and the calculation of the gain on disposal. For further details refer to Note 6(e). Majority of the cash consideration paid to NSW Government is accounted for as a distribution to Restart NSW and a direct adjustment to equity. The Statement of Comprehensive Income includes a gain on disposal of the net assets of Ausgrid and a gain on entering into the 99-year finance lease. For further details refer to Note 6(c).

Notes to the financial statements
for the year ended 30 June 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The results of the long-term lease of the Ausgrid network are classified as discontinued operations and presented separately from the continuing operations of ADMHC. The continuing operations of ADMHC mainly relate to defined benefit superannuation balances of retired employees and the finance lease receivable recognised as a result of the transaction.

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*
- *Public Finance and Audit Regulation 2015*
- the Financial Reporting Directions issued by the Treasurer

From 2 December 2016 onwards, ADMHC is classified as a not-for-profit General Government entity. Prior to this date, ADMHC operated as Ausgrid, a for-profit SOC. The current year Statement of Comprehensive Income has been prepared on a for-profit basis for transactions during the period 1 July 2016 to 1 December 2016, and on a not-for-profit basis for transactions during the period 2 December 2016 to 30 June 2018. The Statement of Financial Position as at the reporting date is prepared on a not-for-profit basis.

All comparative information in these financial statements is presented consistent with the for-profit classification of the Ausgrid SOC.

All amounts are rounded to one decimal place in millions and are expressed in Australian dollars (AUD) unless otherwise stated.

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

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

New, revised or amending standards and interpretations effective for the first time

The accounting policies applied in the year are consistent with those of the previous financial year. The ADMHC have adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting year.

Significant impacts on the accounting policies from the adoption of new accounting standards and Interpretations, if any, are disclosed in the relevant accounting policy.

Notes to the financial statements for the year ended 30 June 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and interpretations not yet effective

As mandated by Treasury Circular TC 18-01 *Mandates of Options and Major Policy Decisions under Australian Accounting Standards*, the ADMHC has not early adopt 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 ADMHC:

AASB 9 *Financial Instruments (2014)* (operative date 1 July 2018)
AASB 15 *Revenue from Contracts with Customers* (operative date 1 July 2019)
AASB 1058 *Income of Not-for-profit Entities* (operative date 1 July 2019)
AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* (operative date 1 July 2018)
AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)* (operative date 1 July 2018)
AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* (operative date 1 July 2018)
AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15* (operative date 1 July 2018)
AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* (operative date 1 July 2019)

It is considered impracticable to presently determine the impact of adopting those new standards and interpretation.

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.

Significant Accounting Judgements, Estimates and Assumptions made by management

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 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 has entered into a 99-year lease of the electricity network. At the end of the lease the land will revert back to 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.

As the above 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 10.

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.

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 13.

Revenue from continuing operations

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 ADMHC and the amount is reliably measurable.

Investment revenue

Investment revenue relates to interest revenue and is recognised using the effective interest method as set out in AASB139 *Financial Instruments: Recognition and Measurement*.

Finance Income

Finance income is recognised reflecting a constant periodic rate of return on ADMHC's net investment in the finance lease in accordance with AASB 117 *Leases.*

Notes to the financial statements for the year ended 30 June 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recoup of administrative costs

ADMHC recoups administrative costs from the lessee and recognises this as other income.

Expenses from continuing operations

Expenses are recognised when incurred.

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

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position and for the purposes of the Statement of Cash Flows comprise cash at bank and deposits with financial institutions.

Trade and other receivables

Receivables from trade and other debtors are recognised at amounts due less an allowance for any uncollectible amounts. Collectability of these receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for impairment loss on trade and other receivables is raised when there is objective evidence that ADMHC will not be able to collect the debt.

Allowance for impairment loss on trade and other receivables

Where receivables are outstanding beyond the normal trading terms, the likelihood of recovery of these receivables is assessed by management. This assessment is based on enquiries as to the intention of late paying customers to pay, supportable past collection history, and historical write-offs of bad debts.

Leases

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 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, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Payables

Trade and other payables, including accruals not yet billed, represent liabilities for goods and services provided to 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.

After 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.

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 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
- 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) ADMHC has transferred substantially all the risks and rewards of the asset, or (b) ADMHC has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When 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, ADMHC continues to recognise the transferred asset to the extent of its continuing involvement. In that case, 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 ADMHC could be required to repay.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Discontinued operations

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the Statement of Comprehensive Income.

In order to maintain consistency when segregating the performance of continuing and discontinued operations, comparative figures in the Statement of Comprehensive Income and related notes have been restated accordingly. This allows the presentation of an aggregate amount (profit from discontinued operations) to be presented on the face of the Statement of Comprehensive Income.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SIGNIFICANT POLICIES OF THE DISCONTINUED OPERATIONS

The following policies were relevant and applicable for the comparative period from 1 July 2016 to 2 December 2016 when the discontinued operations were operating as Ausgrid.

Revenue from the Discontinued Operations

Revenue is recognised when, the amount of revenue can be reliably measured, and to the extent that it is probable that the future economic benefits will flow to the entity. Revenue for the sale of goods is recognised when significant risks and rewards of ownership of the goods has passed to the buyer. Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

Network use of systems (NUOS) revenue

Revenue involving the rendering of electricity supply services is recognised in profit and loss on an accrual basis based on the consumption of electricity. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or if the costs incurred or to be incurred cannot be measured reliably.

Unread meters

Unread meters accrual is an estimate of the network use of system charges associated with energy consumed and not invoiced as at balance date. The accrual for unread meters includes both meters that have been read but not yet billed and meters that have not been read as at balance date. The methodology used by the discontinued operations reflects a bottom up approach where an accrual is estimated for all active sites within the discontinued operations distribution area. The accrual is calculated for each component of the Network Price including Energy components such as Peak, Shoulder & off Peak, Capacity and Network Access Charge.

Transmission revenue

Transmission revenue represents the financial transfer from TransGrid to discontinued operations relating to the utilisation by TransGrid of the discontinued operation's transmission assets.

Excess/shortfall in regulatory revenue

Network use of system revenue comprises of the following three components:

- Distribution use of system revenue – with effect from 1 July 2014, the Australian Energy Regulator (AER) started determining the discontinued operation's allowed revenues under a revenue cap pricing framework. Where revenue from distribution services exceeds or is below the Maximum Allowed Revenue (MAR) as determined by the AER and adjustments will be made to future prices to reflect this excess or shortfall, no liability or asset is recognised, as such an adjustment relates to the provision of future services.
- Transmission revenue – where revenue related to transmission costs, which operates as a pass-through cost to customers exceeds or is below the actual transmission costs paid to transmission network service providers and embedded generators and adjustments will be made to future prices to reflect this excess or shortfall, no liability or asset is recognised, as such an adjustment relates to the provision of future services.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Climate Change Fund revenue – where revenue related to receipt of contributions to the Climate Change Fund, which operates as a pass-through to customers, exceeds or is below actual contributions paid to the Office of Environment & Heritage, and adjustments will be made to future prices to reflect this excess or shortfall, no liability or asset is recognised, as such an adjustment relates to the provision of future services.

Solar Bonus Rebate Scheme Recovery

The discontinued operations recognised solar revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the entity's activities.

Government grants

Government grants are recognised in the Statement of Financial Position initially as deferred income when they are received and the discontinued operations complied with the conditions attaching to them, in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

Grants that compensate the discontinued operations for the cost of an asset are recognised in profit and loss as revenue on a systematic basis over the useful life of the asset.

Grants that compensate the discontinued operations for expenses incurred are recognised as revenue in profit and loss in the same period in which the expenses are incurred.

Other revenue

Other revenue consists of revenue from monopoly fees, miscellaneous network charges and other miscellaneous 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.

Other 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.

Notes to the financial statements for the year ended 30 June 2018

4. INCOME FROM CONTINUING OPERATIONS

	2018 $M	2017 $M
(a) Investment revenue		
Interest income	0.4	0.3
	0.4	**0.3**
(b) Other income		
Finance income (i)	8.3	4.8
Superannuation settlement gains (defined benefit plan) recognised in profit for the period	-	5.4
Grant from Crown Finance Entity	-	16.8
Statutory income	-	2.1
Lease outgoing recoupment (ii)	9.0	4.4
Other income	0.4	-
	17.7	**33.4**
Total revenue	**18.1**	**33.8**

(i) At the date of execution of the 99-year finance lease, ADMHC recognised a finance lease receivable representing ADMHC's net investment in the lease. As the lease payments were received upfront, no further payments will be received by 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.

5. EXPENSES FROM CONTINUING OPERATIONS

	2018 $M	2017 $M
Expenses		
Defined benefit expense	0.6	0.5
Lease outgoing expenditures	9.0	4.4
Administrative charge	0.5	0.5
Total	**10.1**	**5.4**

6. DISCONTINUED OPERATIONS

The discontinued operations relate to the long-term lease of the core network infrastructure assets and selected other assets of Ausgrid. The remaining assets and liabilities required to run the transmission business were also sold. The Discontinued Operations in effect cover the entire operations, except for transactions relating to defined benefit superannuation balances of retired employees.

6. DISCONTINUED OPERATIONS (continued)

(a) Financial performance of operations disposed

The results for the Ausgrid network assets up to the date of disposal are presented below in accordance with AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations*. The consolidated results from discontinued operations include the performance of the Ausgrid network Assets from the beginning of the period until the date of disposal on 1 December 2016.

	2017 $M
Revenue	1,158.0
Expenses excluding finance costs	(640.6)
Finance costs	(200.8)
(Loss)/gain on disposal of property, plant and equipment	(10.5)
Results from operating activities	**306.1**
Loss on early settlement of debt portfolio	(667.7)
Gain on disposal of discontinued operations	4,375.0
Total loss on early settlement and gain on disposal of discontinued operations	**3,707.3**
Profit from discontinued operations before tax	**4,013.4**
Income tax equivalent benefit / (expense)	1,014.8
Profit after tax for the period from discontinued operations	**5,028.2**

(b) Cash flows from discontinued operations

The net cash flows incurred by discontinued operations are as follows:

Operating	379.4
Investing	(206.8)
Financing	(110.0)
Net cash (outflow) / inflow	**62.6**

(c) Net assets disposed of in discontinued operations

Derecognised under 99 year finance lease:	
-Property, plant and equipment	15,038.5
-Easements	110.5
Total dercongised under 99 year finance lease:	**15,149.0**

Notes to the financial statements
for the year ended 30 June 2018

6. DISCONTINUED OPERATIONS (continued)

Disposed through sale:

	2017 $M
Cash and cash equivalents	1.6
Trade and other receivables	421.5
Inventories	36.4
Other current assets	0.6
Assets classified as held for sale	27.8
Property, plant and equipment	385.3
Intangible assets	50.7
Trade and other payables	(122.4)
Provisions	(588.8)
Finance lease liabilities	(17.6)
Deferred government grants	(46.2)
Other liabilities	(11.5)
Total disposed through sale:	**137.4**
Net assets disposed of in discontinued operations	**15,286.4**

The fair value hierarchy of financial statement assets and liabilities disposed were all Level 2 immediately prior to disposal.

(d) Gain on disposal of discontinued operations

At the date of execution of the 99-year finance lease, the upfront lease premium paid to the various funds administered by Crown and Ausgrid exceeded the carrying value of the relevant property, plant and equipment and intangibles held by ADMHC. This was recorded as a gain on disposal of discontinued operations.

Consideration paid to former Ausgrid SOC - promissory note	3,852.1
Consideration paid to directly to the Crown	15,700.3
Valuation gain on lease residual	125.8
Purchase price adjustment paid to Ausgrid NOP	(16.8)
Net assets attributable to discontinued operations	(15,286.4)
Gain on disposal of discontinued operations	**4,375.0**

6. DISCONTINUED OPERATIONS (continued)

(e) Net distribution relating to the discontinued operations reflected in Statement of Changes in Equity

The total cash consideration for the transaction was $15.7 billion of which $489 million stamp duty was remitted directly to the Revenue NSW. Cash consideration of $61.4 million was received by ADMHC, of which $37.4 million was used to pay outstanding liabilities relating to Ausgrid post 1 December 2016. In substance the transaction was treated as a disposal by Ausgrid and in lieu of cash proceeds, is accounted for as a distribution to Restart NSW, net of a purchase price adjustment and an authorised distribution to settle Ausgrid's outstanding loan portfolio and outstanding dividend payment.

	2017 $M
Cash proceeds remitted directly to the Crown Entity	15,700.3
Repayment of NSW TCorp borrowings	(10,168.1)
Payment of FY16 dividend	(63.5)
Payment of Government Guarantee Fee (GGF)	(223.1)
Net distribution - cash	5,245.6
Net distribution - promissory note received from NSW Government	3,852.1
Net distribution reflected in statement of changes in equity	**9,097.7**

7. INCOME TAX

99-year finance lease transaction

Ausgrid was subject to the National Tax Equivalent Regime (NTER) administered by the ATO until its exit from the regime on 1 December 2016 following the long-term lease of the Ausgrid network (refer Note 2). The NTER is based on application of federal income tax laws under which Ausgrid paid income tax equivalents to NSW Treasury.

A private binding ruling from the ATO stated the long-term lease transaction is tax neutral under the NTER. The gain on the long-term lease of the Ausgrid network (refer to Note 6(d)) and the market value loss on the early settlement of debt portfolio and other transaction-related costs are non-assessable and non-deductible respectively for income tax equivalent purposes.

Notes to the financial statements
for the year ended 30 June 2018

7. INCOME TAX (continued)

Income tax expense

As an entity wholly owned by the NSW Government, the ADMHC is a tax-exempt entity. Major components of income tax expense for the years ended 30 June 2017 for Ausgrid were:

(i) Profit or Loss

Discontinued Operations

Current tax expense	
Current year	75.2
Adjustments in respect of current income tax of previous years	(0.1)
Total current income tax	**75.1**
Deferred tax expense	
Relating to origination and reversal of temporary differences	17.0
Over provision of tax in prior years	-
Total deferred income tax	**17.0**
Reversal of temporary differences	
Origination and reversal of temporary differences recongised in relation to prior years	(1,106.9)
Income tax (benefit)/ expense relating to Discontinued Operations	**(1,014.8)**

(ii) Other Comprehensive Income

Discontinued Operations

Items not to be reclassified subsequently to profit or loss:	
Superannuation defined benefits remeasurements	11.8
Revaluation of property, plant and equipment	5.4
Total	**17.2**
Items to be reclassified subsequently to profit or loss:	
Revaluation of hedge derivatives	0.7
Income tax charged directly to other comprehensive income	**17.9**

Notes to the financial statements
for the year ended 30 June 2018

7. INCOME TAX (continued)

(iii) Reconciliation of income tax expense on pre-tax accounting profit to income tax expense reported in profit or loss

Discontinued operations

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in profit or loss for discontinued operations as follows:

Profit/(loss) before tax	4,013.4
Income tax using the domestic corporation tax rate of 30%	1,204.0
Non-assessable gain on lease and sale transaction and related expenditure	(1,312.5)
Non-deductible realised losses on retirement of long term debt	200.3
Other non-duductible expenses	0.5
Non-assessable income on the sale of property	1.5
Over provision of tax in prior years	(0.1)
Reclassification of superannuation to continuing operations	(1.6)
Origination and reversal of temporary differences recognised in relation to prior years	(1,106.9)
Income tax expense/(benefit) recognised in profit or loss of discontinued operations	**(1,014.8)**

8. CASH AND CASH EQUIVALENTS

	2018 $M	2017 $M
Cash at Bank	26.7	24.2
Total	**26.7**	**24.2**

For the purpose of the statement of cash flows, cash and cash equivalents include cash at bank. Refer to note 20 regarding credit risk, liquidity and market risk arising from financial instruments.

9. TRADE AND OTHER RECEIVABLES

Current		
Trade receivables	0.2	-
Less: impairment of trade receivables	-	-
Interest receivables	-	0.3
GST Receivable	0.1	3.4
Total	**0.3**	**3.7**

The movement in the impairment of trade receivables is detailed below:

Opening balance at beginning of the period/year	-	(3.2)
- additional provisions	-	(0.1)
- amounts reversed	-	3.3
Closing balance at end of the year	**-**	**-**

Details regarding credit risk, liquidity risk and market risk, including the financial assets that are either past due or impaired, are disclosed in note 20.

10. OTHER ASSETS

Non-current		
Finance lease receivable [(i)]	138.9	130.6
Total	**138.9**	**130.6**

(i) Finance lease receivable

On completion of the long-term lease transaction, ADMHC acts as a lessor and Ausgrid Asset Partnership act as a lessee in a 99-year lease arrangement. Ausgrid 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 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.

10. OTHER ASSETS (continued)

The residual value in 99 years is estimated at $62.6 billion, 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 $8.3 million (2017: $4.8 million) was recognised in the period (refer to Note 4).

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 port 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. 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.

11. TRADE AND OTHER PAYABLES

	2018 $M	2017 $M
Current		
Trade payables	-	1.7
Accruals	0.6	0.5
GST Payable	0.2	-
Total	**0.8**	**2.2**

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables are disclosed in note 20**.**

12. PROVISIONS

Non-Current		
Superannuation Liability (Note 13(ii))	17.0	21.7
Total	**17.0**	**21.7**

On completion of the Transaction on 1 December 2016, all provisions, except the defined benefit superannuation balance of retired employees were disposed and transferred to the Ausgrid Partnerships.

13. UNFUNDED SUPERANNUATION

The following narrative and tables summarise the components of movement in 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 ADMHC's Energy Industries Superannuation Scheme Defined Benefit Funds are provided by the Fund's Actuary, Mercer Consulting (Australia) Pty Ltd.

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 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 2015. The latest actuarial investigations on the valuation as at 30 June 2018 is currently underway, expected to be completed in December 2018.

13. UNFUNDED SUPERANNUATION (continued)

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.

Risks

There are several 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 2018	As at 2017
Member Numbers		
Contributors	0	0
Deferred benefits	1	2
Pensioners	122	121

Notes to the financial statements
for the year ended 30 June 2018

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

	2018 $M	2017 $M
Continuing operations		
Current service cost	-	0.1
Net Interest expense/(income)	0.6	0.5
Settlement	-	(5.5)
Total net income - continuing operations	**0.6**	**(4.9)**
Discountined operations		
Current service cost	-	4.9
Net Interest expense	-	1.4
Total net expense - discontinued operations	**-**	**6.3**
Total net expense/(income)	**0.6**	**1.4**

Notes to the financial statements
for the year ended 30 June 2018

13. UNFUNDED SUPERANNUATION (continued)

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

Continuing operations	**2018 $M**	**2017 $M**
Actuarial (gains)/losses on liabilities	(1.0)	(12.1)
Actuarial (gains)/losses on assets	(4.3)	(4.6)
Total actuarial (gains)/losses - continuing operations	**(5.3)**	**(16.7)**
Discontinued operations		
Actuarial (gains)/losses on liabilities	-	(32.4)
Actuarial (gains)/losses on assets	-	2.9
Total actuarial (gains)/losses - discontinued operations	**-**	**(29.5)**
Total actuarial (gains)/losses	**(5.3)**	**(46.2)**

Reconciliation of the Superannuation Net (Asset)/ Liability

Net (Asset)/Liability at the beginning of the year	21.7	179.4
Current service cost- continuing operations	-	0.1
Current service cost- discontinued operations	-	4.9
Interest expense/(income) - continuing operations	0.6	0.5
Interest expense/(income) - discontinued operations	-	1.4
Settlement - continuing operations	-	(5.5)
Actuarial losses/(gains) on assets - continuing operations	(4.3)	(4.6)
Actuarial losses/(gains) on assets- discontinued operations	-	2.9
Actuarial losses/(gains) arising from changes in financial assumptions- continuing operations	(3.0)	(11.5)
Actuarial losses/(gains) arising from changes in financial assumptions- discontinued operations	-	(42.9)
Actuarial losses/(gains) arising from liability experience - continuing operations	2.0	(0.6)
Actuarial losses/(gains) arising from liability experience - discontinued operations	-	10.5
Employer contributions - discontinued operations	-	(4.4)
Employees transferred - discontinued operations	-	(108.5)
Net (Asset)/Liability at the end of the year	**17.0**	**21.7**

13. UNFUNDED SUPERANNUATION (continued)

Reconciliation of the present value of the defined benefit obligation

	2018 $M	2017 $M
Present value of defined benefit obligations at the beginning of the year	97.0	645.3
Current service cost- continuing operations	-	0.1
Current service cost- discontinued operations	-	4.9
Interest expense/(income) - continuing operations	2.5	2.6
Interest expense/(income) - discontinued operations	-	4.1
Settlement - continuing operations	0.0	(20.6)
Actuarial losses/(gains) arising from changes in financial assumptions- continuing operations	(3.0)	(11.5)
Actuarial losses/(gains) arising from changes in financial assumptions- discontinued operations	0.0	(42.9)
Actuarial losses/(gains) arising from liability experience- continuing operations	2.0	(0.6)
Actuarial losses/(gains) arising from liability experience- discontinued operations	-	10.5
Employer contributions - discontinued operations	-	1.7
Employees transferred - discontinued operations	-	(470.3)
Benefits paid	(4.3)	(25.8)
Taxes, premiums and expenses paid	(0.2)	(1.1)
Transfer in from pooled funds	-	0.6
Present value of defined benefit obligations at the end of the year	**94.0**	**97.0**

Reconciliation of the fair value of fund assets

	2018 $M	2017 $M
Fair value of Fund assets at the beginning of the year	(75.3)	(465.9)
Interest expense/(income) - continuing operations	(1.9)	(2.3)
Interest expense/(income) - discontinued operations	-	(2.7)
Settlement - continuing operations	-	15.1
Actuarial losses/(gains) on assets - continuing operations	(4.3)	(4.6)
Actuarial losses/(gains) on assets- discontinued operations	-	2.9
Employer contributions - discontinued operations	-	(6.1)
Employees transferred - discontinued operations	-	361.8
Benefits paid	4.3	25.8
Taxes, premiums and expenses paid	0.2	1.3
Transfer in from pooled funds	-	(0.6)
Fair value of Fund assets at the end of the year	**(77.0)**	**(75.3)**

Notes to the financial statements for the year ended 30 June 2018

13. UNFUNDED SUPERANNUATION (continued)

Maturity profile of defined benefit obligations

The weighted average duration of the defined benefit obligation is 11.4 year (2017: 13.4 years).

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	2018 $M	2017 $M
Level 1 - Quoted prices in active markets for identical	-	-
Level 2 - Significant observable inputs	1,976.3	1,977.6
Level 3 - Unobservable inputs	-	-
Total	**1,976.3**	**1,977.6**

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 2018	30 June 2017
Alternatives	5%	10%
International equities	28%	26%
Australian equities	18%	16%
Infrastructure	7%	11%
Property	8%	4%
Private equity	1%	1%
Cash	5%	5%
Fixed income	28%	27%
Total	**100%**	**100%**

Notes to the financial statements for the year ended 30 June 2018

13. 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 ADMHC's financial instruments; and

• any property occupied by, or other assets used by, ADMHC.

Significant actuarial assumptions at the end of the reporting period

	2018	2017
Discount rate	2.65% pa	2.62% pa
Salary increase rate (excluding promotional increases)	N/A	N/A
Rate of CPI Increase	2.3% pa	2.00% 2017/2018; 2.25% 2018/2019; 2.50% pa thereafter
Pensioner mortality	The pensioner mortality rates used are as per the triennial valuation of the Scheme as at 30 June 2015 (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 2015 (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.

13. UNFUNDED SUPERANNUATION (continued)

Sensitivity analysis

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

As at 30 June 2018

	Base case	**Scenario A - 1.0% discount**	**Scenario B +1.0% discount rate**
Discount rate	2.65% pa	1.65% pa	3.65% pa
Rate of CPI increase	2.3% pa	2.3% pa	2.3% pa
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($M)	94.0	107.6	82.7

	Base case	**Scenario C +0.5% rate of CPI**	**Scenario D -0.5% rate of CPI**
Discount rate	2.65% pa	2.65% pa	2.65% pa
Rate of CPI increase	2.3% pa	2.8% pa	1.8% pa
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($M)	94.0	100.7	87.9

	Base case	**Scenario E +0.5% Salary**	**Scenario F -0.5% Salary**
Discount rate	2.65% pa	2.65% pa	2.65% pa
Rate of CPI increase	2.3% pa	2.3% pa	2.3% pa
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($M)	94.0	94.0	94.0

	Base case	**Scenario G Lower pensioner mortality rates***	**Scenario H Higher pensioner mortality rates****
Defined benefit obligation ($M)	94.0	96.1	92.7

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

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

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

13. UNFUNDED SUPERANNUATION (continued)

Asset/Liability matching strategies

ADMHC is not aware of any asset and liability matching strategies currently adopted by the Fund. 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 2018 financial position of the Fund calculated in accordance with AASB 1056 *Superannuation Entities*:

	2018 **$M**	**2017** **$M**
Net market value of Fund assets	(77.0)	(75.3)
Accrued benefits	65.9	62.1
Net (Surplus)/Deficit	**(11.1)**	**(13.2)**

Please note that the AASB1056 results are based on the financial assumptions to be used for the 30 June 2018 actuarial valuation, with the exception of the retrenchment, which are based on the AASB 119 basis.

Contribution Recommendations

Recommended contribution rates for the entity are:

At 30 June 2018

Division B	**Division C**	**Division D**	**Additional Contributions**
Multiple of member contributions	% of member salary	Multiple of member contributions	$M
N/A	N/A	N/A	-

13. UNFUNDED SUPERANNUATION (continued)

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	**2018**	**2017**
Expected rate of return on Fund assets backing current pension liabilities	5.5% pa	5.9% pa
Expected rate of return on Fund assets backing other liabilities	5.5% pa	5.9% pa
Expected salary increase rate	N/A	N/A
Expected rate of CPI Increase	2.3% pa	2.2% pa

Expected contributions

	$M
Expected employer contributions to be paid in the period 1 July 2018 to 30 June 2019	-

The defined benefit superannuation liability has been fully funded under AASB1056. No further contributions from ADMHC are required.

14. OTHER LIABILITIES

	2018 $M	**2017 $M**
Current		
Unearned revenue	0.2	-
Total	**0.2**	**-**

Notes to the financial statements
for the year ended 30 June 2018

15. COMMITMENTS

ADMHC does not have capital expenditure commitments or operating lease commitments as at reporting date (2017: nil).

16. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

ADMHC does not have any contingent assets and contingent liabilities to report as at 30 June 2018.

17. COMPENSATION OF KEY MANAGEMENT PERSONNEL

ADMHC does not have employees. Key management personnel services were provided by NSW Treasury. No remuneration was paid to any of the KMP by ADMHC in relation to the reporting year.

The following are comparatives for the discontinued operations. Key management personnel comprised members of the Board of Directors, the Ausgrid Corporation executive leadership team from 1 July 2016 to 1 December 2016.

Directors

Mr Roger Massy-Greene (Chairman)
Dr Peter Dodd
Ms Laura Reed
Mr Phil Garling
Dr Patrick Strange
Ms Diana Eilert
Mr Trevor Armstrong

Key management personnel remuneration

In addition to their salaries, Ausgrid also provided post-employment benefits to key management personnel. For Directors, post-employment benefit relates solely to compulsory superannuation contributions which Ausgrid was obliged to pay in accordance with the Superannuation Guarantee (Administration) Act 1992.

The key management personnel compensation was as follows:

	2018 $M	2017 $M
Short-term employee benefits	-	2.0
Long-term benefits	-	0.1
Post-employment benefits	-	0.1
Termination benefits	-	0.4
Total	**-**	**2.6**

Notes to the financial statements
for the year ended 30 June 2018

18. BUDGET REVIEW

Net result

For the year ended 30 June 2018, ADMHC had a profit of $8 million which is $18.1 million below the budget.

Operating expense total $10.1 million which is $9.9 million higher than budget. This is due to $9 million lease outgoing expenditures incurred and administrative fee of $0.5 million incurred but not budgeted for.
Total revenue for 2018 is $18.1 million, $8.2 million lower than budget mainly due to the timing variance between budget and actual receipt of $16.8m purchase price adjustment. It is partially offset by higher lease outgoings fully recouped from the lessee of $9 million. Investment revenue is $0.4 million, $0.5 million below the budget.

Assets and Liabilities

Net assets for the year were $147.9 million, $67.3 million higher than the budget.

Total assets were $165.9 million, $85.2 million higher than budget, mainly due to Ausgrid final land valuation being higher than original book value. That caused $99.7 million upward revaluation to the emerging asset valuation which was not anticipated at budget.

Total liabilities were $18 million and were $17.9 million higher than budget due to $17m defined benefit superannuation liabilities transferred from Ausgrid not anticipated at budget.

Cash flows

The actual net cash flows from operating activities were $2.5 million, $2.3 million higher than budget. This is mainly due to the $1.67 million net GST refund received from ATO for the final purchase price adjustment. $0.61 million annual administration fee received from Ausgrid also contributed to the favourable variances.

Cash and cash equivalents held at reporting date is $26.7 million, $14.3 million lower.

Notes to the financial statements
for the year ended 30 June 2018

19. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of cash

Cash as at the end of the financial year as shown in the Statement of Cash flows is reconciled to the related items in the Statement of Financial Position as follows:

	2018 $M	2017 $M
Cash and Cash Equivalents	26.7	24.2

Reconciliation of profit after Income Tax Equivalent expense to net cash provided by operating activities

	2018 $M	2017 $M
Profit/(loss) for the year	8.0	5,056.6
Add/(less) non-cash items		
Depreciation and amortisation	-	165.5
Amortisation of unrealised capital (debt)	-	(1.1)
Capital contributions	-	(65.6)
Finance cost capitalised	-	(5.8)
Capital indexed bonds indexation	-	0.6
Impairment of trade recievables	-	(1.2)
Loss/(gain) on disposal of property, plant and equipment	-	10.5
Gain on disposal of non-current assets	-	(0.7)
Loss on early settlement of debt portfolio/Mark to market losses	-	667.7
Accrued interest converted into debt	-	71.3
Gain on disposal of discontinued operations	-	(4,249.2)
Superannuation actuarial gain/(loss)	5.3	-
Finance lease income	(8.3)	(130.6)
Net cash provided by operating activities before change in assets and liabilities	**5.0**	**1,518.0**
Net changes in assets and liabilities during the financial year		
(Increase)/decrease in trade debtors & other receivables	3.4	6.7
(Increase)/decrease in operating related inventories	-	(4.5)
(Increase)/decrease in prepaid operating expenditure	-	(5.8)
Increase/(decrease) in accrued operating expenditure	(1.4)	(5.6)
Increase/(decrease) in net deferred tax liabilities	-	(1,072.0)
Increase/(decrease) in other provisions	(4.7)	(97.0)
Increase/(decrease) in other liabilities	0.2	0.0
Increase/(decrease) in deferred revenue	-	1.0
Increase/(decrease) in customer security deposits	-	(0.2)
Net cash provided by operating activities	**2.5**	**340.6**

Notes to the financial statements
for the year ended 30 June 2018

20. FINANCIAL INSTRUMENTS

ADMHC's principal financial instruments are outlined below. The financial instruments arise directly from ADMHC's operations or are required to finance 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

		2018 $M	2017 $M
Carrying Amount	**Notes**		
Financial Assets			
Cash and cash equivalents	8	26.7	24.2
Trade and other receivables	9	0	0.3
Financial Liabilities			
Trade and other payables	11	0.6	2.2

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

Financial Risk Management Overview

Financial instruments comprise of cash, trade debtors, trade creditors, short term deposits and loans. The main purpose of these financial instruments was to raise finance or invest surplus cash for the entity'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 2018, ADMHC has exposure to the following risks:

- Credit risk;
- Interest rate risk; and
- Liquidity risk

Throughout the period to 1 December 2016, operating as Ausgrid, ADMHC was also exposed to the following risks:

- Currency risk; and
- Capital risk management

Credit Risk

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

20. FINANCIAL INSTRUMENTS (continued)

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

Cash

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

Receivables

All trade debtors are recognised as amounts receivable at balance date. The collection of receivables is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off.

An allowance for impairment is raised when there is objective evidence that ADMHC will not be able to collect all amounts due. No interest is earned on trade debtors. The average credit period on receivables, unless otherwise agreed, is 30 days. There are no receivables that are past due or considered impaired as at reporting date.

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 movements in interest rates.

The effect on 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.

Due to the 99-year finance lease transaction (Note 2) Ausgrid's borrowings were all extinguished therefore exposure to interest rate risk is limited to cash at bank at 30 June 2018.

	Carrying amount	-1%		+1%	
		Net result	Equity	Net result	Equity
	$M	$M	$M	$M	$M
2018					
Cash and cash equivalents	26.7	(0.3)	(0.3)	0.3	0.3
2017					
Cash and cash equivalents	24.2	(0.2)	(0.2)	0.2	0.2

Liquidity risk

Liquidity risk is the risk that ADMHC will be unable to meet its payment obligations when they fall due. ADMHC continuously manages risk through monitoring future cash flows and commitment maturities. There were no defaults on payables in the current year, and no assets have been pledged as collateral.

Due to the 99-year finance lease transaction (Note 2) Ausgrid's main business operations have been discontinued therefore ADMHC's exposure is limited to the value of trade payables.

Notes to the financial statements
for the year ended 30 June 2018

20. FINANCIAL INSTRUMENTS (continued)

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

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

			Interest rate exposure			Maturity dates		
	Weighted average effective interest rate %	Nominal amount $M	Fixed interest rate $M	Variable interest rate $M	Non-interest bearing $M	< 1 Year $M	1 - 5 Years $M	> 5 Years $M
2018								
Payables	-	0.6	-	-	0.6	0.6	-	-
Total financial liabilities	**-**	**0.6**	**-**	**-**	**0.6**	**0.6**	**-**	**-**
2017								
Payables	-	2.2	-	-	2.2	2.2	-	-
Total financial liabilities	**-**	**2.2**	**-**	**-**	**2.2**	**2.2**	**-**	**-**

Capital risk management

Consistent with NSW Treasury Policy *Capital Structure Policy for Government Businesses (TPP02-7),* which is the component of the NSW Government's Commercial Policy Framework, Ausgrid's objectives were to determine an appropriate capital structure to enable an appropriate return on equity and efficient investment decisions to be made on a commercial basis.

Under the policy, both an appropriate capital structure and a minimum-to-maximum capital structure range were determined.

Due to the Transaction (refer note 2) Ausgrid's borrowings were all distinguished.

Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Ausgrid was exposed foreign currency risk in respect of purchase of capital equipment that were denominated in a currency other than the AUD.

Ausgrid used forward exchange contracts to hedge its foreign currency risk for all foreign exchange exposures that exceeded $AUD 500,000 in value.

Due to the Transaction (refer to note 2) Ausgrid's main business operations have been discontinued therefore ADMHC is not subject to any foreign exchange risk going forward.

Notes to the financial statements
for the year ended 30 June 2018

21. RELATED PARTIES

a) Ultimate parent

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

(b) Key management personnel remuneration

ADMHC 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 entity, 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 ADMHC because of its role to direct overall government policy and make decisions about State issues.

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 agency 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 entity during the reporting period.

(ii) Transactions with other related entities

The company interacts with other government agencies in delivering services to the general public. Services provided by other government agencies are provided to 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 is shown as an administrative charge in ADMHC.

22. 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 period ended 30 June 2018

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.

AUDITOR-GENERAL
NEW SOUTH WALES

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 the Epsilon Distribution Ministerial Holding Corporation (the Corporation), which comprise the Statement of Comprehensive Income for the period ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows, for the period 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 2018, and of its financial performance and its cash flows for the period 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' (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

Other information comprises the information included in the Corporation's annual report for the period ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Secretary 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 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 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 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 except where the Corporation's operations will cease as a result of an administrative restructure.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

Aaron Green
Director, Financial Audit Services

30 October 2018
SYDNEY

Epsilon Distribution Ministerial Holding Corporation

Financial Statements
for the period ended 30 June 2018

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 2018 and the financial performance for the period between 14 June 2017 to 30 June 2018; 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

29 **October 2018**

Epsilon Distribution Ministerial Holding Corporation

Statement of Comprehensive Income
for the period ended 30 June 2018

	Notes	14 June 2017 - 30 June 2018 $m	1 July 2016 - 13 June 2017 $m
Continuing operations			
Investment revenue	5(a)	0.5	-
Other revenue	5(b)	9	-
Expenses from continuing operations	6	(3.0)	(1.0)
Profit/(loss) before income tax from continuing operations		**6.5**	**(1.0)**
Income tax expenses relating to continuing operations	8(c)	-	(2.5)
Profit/(loss) for the period from continuing operations		**6.5**	**(3.5)**
Discontinued operations			
Profit/(loss) after tax for the period from discontinued operations	7(a)	-	2,857.4
Profit/(loss) for the period		**6.5**	**2,853.9**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Superannuation defined benefits remeasurements	21	(0.6)	43.8
Income tax (expense)/credit relating to items that wil not be reclassified	8(d)	-	(13.1)
		(0.6)	**30.7**
Items that may be reclassified subsequently to profit or loss			
Effective portion of changes in the fair value of cash flow hedges		-	3.5
Income tax (expense)/credit relating to items that will be reclassified	8(d)	-	(1.1)
		-	**2.4**
Total other comprehensive income/(loss) for the period, net of tax		**(0.6)**	**33.1**
Total comprehensive income for the period, net of tax		**5.9**	**2,887.0**

The accompanying notes form part of these financial statements

Epsilon Distribution Ministerial Holding Corporation

Statement of Financial Position as at 30 June 2018

	Notes	30 June 2018 $m	13 June 2017 $m
Current assets			
Cash and cash equivalents	10	9.2	43.8
Receivables	11	0.2	12.0
Total current assets		**9.4**	**55.8**
Non-current assets			
Other non-current assets	12	25.8	24.1
Total non-current assets		**25.8**	**24.1**
Total assets		**35.2**	**79.9**
Current liabilities			
Payables	15	0.8	17.5
Current tax liabilities		-	34.8
Other current liabilities	16	0.5	-
Total current liabilities		**1.3**	**52.3**
Non-current liabilities			
Provisions	17	9.9	9.5
Other non-current liabilities		-	-
Total non-current liabilities		**9.9**	**9.5**
Total liabilities		**11.2**	**61.8**
Net assets		**24.0**	**18.1**
Equity			
Contributed equity		-	335
Retained earnings		24.0	(316.9)
Total equity		**24.0**	**18.1**

The accompanying notes form part of these financial statements

Epsilon Distribution Ministerial Holding Corporation

Statement of Changes in Equity
for the period ended 30 June 2018

	Notes	Contributed equity $m	Asset revaluation reserve $m	Hedge revaluation reserve $m	Retained earnings $m	Total $m
Balance at 14 June 2017		**335.0**	**0.0**	**0.0**	**(316.9)**	**18.1**
Profit for the period					6.5	6.5
Other comprehensive income						
Superannuation defined benefits remeasurements, net of tax	21	-	-	-	(0.6)	(0.6)
Total other comprehensive income		**-**	**-**	**-**	**(0.6)**	**(0.6)**
Total comprehensive income for the period		**-**	**-**	**-**	**5.9**	**5.9**
Transactions recorded directly in equity						
Dividends provided for or paid						
Transfer of contributed equity to retained earnings		(335)	-	-	335	-
Distribution to NSW Government						
Total transactions recorded directly in equity		**(335)**	**-**	**-**	**335**	**-**
Balance at 30 June 2018		**-**	**-**	**-**	**24.0**	**24.0**
Balance at 1 July 2016		**335.0**	**929.8**	**(2.4)**	**566.1**	**1,828.5**
Profit for the period		-	-	-	2,853.9	2,853.9
Other comprehensive income						
Superannuation defined benefits remeasurements, net of tax	21	-	-	-	30.7	30.7
Transfer of contributed equity to retained earnings		-	-	-	-	-
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	2.4	-	2.4
Total other comprehensive income		**0.0**	**-**	**2.4**	**30.7**	**33.1**
Total comprehensive income for the period		**0.0**	**-**	**2.4**	**2,884.6**	**2,887.0**
Transactions recorded directly in equity						
Dividends provided for or paid		-	-	-	(40.1)	(40.1)
Transfer of reserves to retained earnings attributable to discontinued operations, net of tax		-	(929.8)	-	929.8	-
Distribution to NSW Government	7(e)	-	-	-	(4,657.3)	(4,657.3)
Total transactions recorded directly in equity		**-**	**(929.8)**	**-**	**(3,767.6)**	**(4,697.4)**
Balance at 13 June 2017	18	**335.0**	**-**	**-**	**(316.9)**	**18.1**

The accompanying notes form part of these financial statements

Epsilon Distribution Ministerial Holding Corporation

Statement of Cash Flows
for the period ended 30 June 2018

	Notes	14 June 2017 - 30 June 2018 $m	1 July 2016 - 13 June 2017 $m
Cash flows from operating activities			
Receipts from customers		3.9	1,359.1
Grants received		-	-
Payments to suppliers and employees		(5.7)	(844.2)
Interest received		0.5	0.1
Interest paid		-	(312.4)
Income tax received/(paid)		(33.4)	(34.8)
Net cash inflows from operating activities	20	**(34.7)**	**167.8**
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		-	11.4
Payments of property, plant and equipment and intangibles		-	(203.4)
Net cash outflows from investing activities		**-**	**(192.0)**
Cash flows from financing activities			
Proceeds from borrowings		-	795.3
Repayments of borrowings		-	(620.9)
Dividends paid		-	(116.5)
Net cash inflows/(outflows) from financing activities		**-**	**57.9**
Net increase/(decrease) in cash and cash equivalents		**(34.7)**	**33.7**
Cash and cash equivalents at the beginning of the period		43.8	10.1
Cash and cash equivalents at the end of the period	10	**9.1**	**43.8**

The accompanying notes form part of these financial statements

Epsilon Distribution Ministerial Holding Corporation

Notes to the financial statements
for the period ended 30 June 2018

NOTES INDEX

1. EPSILON DISTRIBUTION MINISTERIAL HOLDING CORPORATION (EDMHC) INFORMATION

The Epsilon Distribution Ministerial Holding Corporation (referred to as “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 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 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 *Electricity Network Assets (Authorised Transactions) Act 2015* and the *Electricity Retained Interest Corporations Act 2015* (the ERIC Act) were enacted to allow the New South Wales 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 results of the long-term partial lease of Endeavour Energy was classified as discontinued operations and presented separately from the continuing operations of the EDMHC. The remaining assets and liabilities required to run the distribution business were also sold. The discontinued operations in effect cover the entire operations of Endeavour Energy with the exception of transactions relating to defined benefit superannuation balances of retired employees. Comparative figures in the income statement and related notes have been restated accordingly.

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

Cash of $7.6 billion was paid in consideration of 50.4 per cent of Endeavour Energy (comprising an upfront lease premium for the assets held by Endeavour Energy of $5.7 billion, the purchase price for a number of sold assets of $1.9 billion. Proceeds of $7.4 billion were directly deposited into a number of State bank accounts in accordance with the payment direction issued by NSW Treasury, and $0.2 billion for stamp duty was remitted directly to Revenue NSW. The stamp duty component has been excluded from the purchase price and calculation of the gain on disposal. For further details refer to Note 7(e). The cash consideration paid to the NSW Government is accounted for as a distribution and a direct adjustment to equity. The Statement of Comprehensive Income includes revenue resulting from the 99-year lease and a gain on disposal of the net assets. For further details refer to Note 7(d).

3. SIGNIFICANT ACCOUNTING POLICIES OF THE EDMHC

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*
- *Public Finance and Audit Regulation 2015*
- the Financial Reporting Directions issued by the Treasurer

From 14 June 2017 onwards, the EDMHC is classified as a not-for-profit General Government entity. The current year Statement of Comprehensive Income in these financial statements covers the period from this date to 30 June 2018. The Statement of Financial Position as at 30 June 2018 is prepared on a not-for-profit basis.

All comparative information in these financial statements is presented consistent with the for-profit classification of Endeavour Energy SOC, and covers period between 1 July 2016 to 13 June 2017.

The principal accounting policies adopted in the preparation of the financial statements are set out below and in the relevant notes. Many of the policies are only relevant to information prior to the long-term lease transaction, and are not relevant to EDMHC balances reported at 30 June 2018. Significant accounting policies relevant to the whole reporting period are listed in the first part of the summary below. Policies no longer relevant to the continuing operations of EDMHC have been grouped in Note 4 Significant policies of Endeavour Energy.

The financial statements have been prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, provisions and property, plant and equipment.

All amounts are rounded to one decimal place in millions and are expressed in Australian dollars (AUD) unless otherwise stated.

Statement of compliance

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

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 of Endeavour Energy as at 13 June 2017.

3. SIGNIFICANT ACCOUNTING POLICIES OF THE EDMHC (continued)

New, revised or amending standards and interpretations

The accounting policies applied in the year are consistent with those of the previous financial year. The EDMHC have adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting year.

Significant impacts on the accounting policies from the adoption of new accounting standards and Interpretations, if any, are disclosed in the relevant accounting policy.

New standards and interpretations not yet effective

As mandated by Treasury Circular TC18-01, 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 interpretations.

AASB 9 *Financial Instruments (2014)* (operative date 1 July 2018)

AASB 15 *Revenue from Contracts with Customers* (operative date 1 July 2019)

AASB 16 *Leases* (operative date 1 July 2019)

AASB 1058 *Income of Not-for-profit Entities* (operative date 1 July 2019)

AASB 1059 *Service Concession Arrangements: Grantors* (operative date 1 July 2019)

AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* (operative date 1 July 2018)

AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)* (operative date 1 July 2018)

AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* (operative date 1 July 2018)

AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15* (operative date 1 July 2018)

AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions* (operative date 1 July 2018)

AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 with AASB 4 Insurance Contracts* (operative date 1 July 2018)

AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* (operative date 1 July 2019)

AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments* (operative date 1 July 2019)

AASB 2017-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 4* (operative date 1 July 2018)

AASB 2017-5 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections* (operative date 1 July 2018)

AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation* (operative date 1 July 2019)

It is unlikely the adoption of the above accounting standards issued but not yet effective will have material impact on the financial performance or position of the Corporation. The EDMHC has not early adopted any new accounting standards, amendments and interpretations in compliance with NSW Treasury mandates per Treasury Circular TC 18-01.

3. SIGNIFICANT ACCOUNTING POLICIES OF THE EDMHC (continued)

Significant Accounting Judgements, Estimates and Assumptions made by management

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 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

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 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.

As the above 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 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. Details regarding indexation and discount rate used are disclosed in Note 12.

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.

REVENUE

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 is reliably measurable.

Investment revenue

Investment revenue relates to interest revenue and is recognised using the effective interest method as set out in AASB139 *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 117 Leases.

3. SIGNIFICANT ACCOUNTING POLICIES OF THE EDMHC (continued)

EXPENSES

Expenses are recognised when it is probable that consumption or loss of the future economic benefits have occurred and that can be reliably measured.

Employee arrangements

The EDMHC has no employees. Finance officers of the NSW Treasury provide administrative services, including the preparation of EDMHC financial statements. The cost of these services is shown as an administrative charge in Note 6.

ASSETS

Assets are future economic benefits controlled by the EDMHC and are only recognised in the Statement of Financial Position if it is probable that the future economic benefits embodied in the asset will eventuate and the asset possesses a cost or other value that can be measured reliably.

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position and for the purposes of the Statement of Cash Flows comprise cash at bank and deposits with financial institutions.

Trade and other receivables

Trade and other receivables are financial assets recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

An allowance for impairment loss on trade and other receivables is raised when there is objective evidence that the EDMHC will not be able to collect the debt.

Leases

Finance leases – 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 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.

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3. SIGNIFICANT ACCOUNTING POLICIES OF THE EDMHC (continued)

LIABILITIES

Liabilities are the future sacrifices of economic benefits that the EDMHC is presently obliged to make as a result of past transactions or other past events. A liability is recognised in the Statement of Financial Position when it is probable that the future sacrifice of economic benefits will be required and the amount of the liability can be measured reliably.

Payables

Payables represent liabilities for goods and services provided but not paid for at each reporting date. 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 the original invoice amount where the effect of discounting is immaterial.

Superannuation

The significant estimates and judgements used in determining the unfunded superannuation liability are included in Note 21 to the financial statements.

Goods and Services Tax

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

- where the GST as either part of the cost of acquiring an asset or part of an item of expense is not recoverable from the Australian Taxation Office
- for receivables and payables which are recognised as including GST

The net GST recoverable or payable is included as part of receivables or payables.

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

4. SIGNIFICANT POLICIES OF THE DISCONTINUED OPERATIONS

References to the Corporation in this section relate to the Endeavour Energy SOC.

Income tax

Endeavour Energy was exempt from federal income tax under the Income Tax Assessment Acts. However, up until 13 June 2017 Endeavour Energy was subject to the National Tax Equivalent Regime (NTER) which is based on the Income Tax Assessment Acts. Tax equivalents are payable to Revenue NSW.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill and initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax balances as at 13 June 2017 have been derecognised due to the Transaction and exit from the NTER which occurred on 14 June 2017.

4. SIGNIFICANT POLICIES OF THE DISCONTINUED OPERATIONS (continued)

Revenue from the Endeavour Energy SOC operations

Revenue is recognised when the amount of revenue can be reliably measured, and to the extent that it is probable that the future economic benefits will flow to the entity. Revenue for the sale of goods is recognised when significant risks and rewards of ownership of the goods has passed to the buyer. Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the following major business activities:

Network use of system (NUOS) revenue

Revenue involving the rendering of electricity supply services is recognised in profit and loss on an accrual basis based on consumption. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or if the costs incurred or to be incurred cannot be measured reliably.

Unread meters

At reporting date, the Corporation accrued an estimate of the network use of system charges associated with electricity consumed where the meter has not been read. The methodology used for estimating the unread revenue accrual calculates unread revenue volume, where energy imports relating to basic meters are phased over the current month and future months in order to estimate the likely billing pattern relating to consumption. This calculation is accounted for as revenue from unread meters in profit or loss.

Excess/shortfall in regulatory revenue

Network-use-of-system revenue comprises the following three components:

- Distribution-use-of-system revenue - with effect from 1 July 2014, the Australian Energy Regulator (AER) determined Endeavour Energy started operating under a revenue cap pricing framework. Where revenue from distribution services exceeds or is below the Maximum Allowed Revenue (MAR) as determined by the AER, and adjustments will be made to future prices to reflect this excess or shortfall, no liability or asset is recognised, as such an adjustment relates to the provision of future services.
- Transmission revenue - where revenue related to transmission costs, which operates as a pass-through cost to customers, exceeds or is below actual transmission costs paid to transmission network service providers and embedded generators, and adjustments will be made to future prices to reflect this excess or shortfall, no liability or asset is recognised, as such an adjustment relates to the provision of future services.

Excess/shortfall in regulatory revenue (continued)

- Climate Change Fund revenue - where revenue related to receipt of contributions to the Climate Change Fund, which operates as a pass-through to customers, exceeds or is below actual contributions paid to the Office of Environment & Heritage, and adjustments will be made to future prices to reflect this excess or shortfall, no liability or asset is recognised, as such an adjustment relates to the provision of future services.

The Corporation’s 2015-2019 distribution determination was set aside by the Australian Competition Tribunal and, following appeal by the AER, the decision was upheld by the Federal Court. In the absence of an applicable distribution determination the calculation of any under or over recovery for the period ended 13 June 2017 cannot be undertaken, and instead will be considered by the AER as part of the remade determination.

Rental income

Rental income from properties leased under property leases is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as part of the total rental income.

4. SIGNIFICANT POLICIES OF DISCONTINUED OPERATIONS (continued)

Contributions for capital works

This represents cash and non-cash capital contributed by customers and developers, mainly towards the capital cost of electricity connections. Cash and non-cash capital contributions have been reported in order to comply with Australian Accounting Interpretation 18 Transfers of Assets from Customers.

Contributions of non-current assets are recognised as revenue and an asset when the Corporation gains control of the asset. The fair value of contributed assets is recognised at the date at which control is gained and the assets are ready for use.

Solar Bonus Rebate Scheme Recovery and other revenue

The Corporation recognises solar and other revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of its activities.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the average purchase price of each item. In the case of manufactured stock for internal use, costs include direct labour, materials and a portion of variable overhead which comprises the cost of bringing the inventories to their appropriate location and condition.

Assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell, if their carrying amount will be recovered principally through a sale transaction as opposed to continued use. Once classified as held for sale, depreciation and amortisation ceases. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

Non-current assets held for sale for the Corporation relate to non-system land & buildings surplus to requirements.

Property, plant and equipment

As at 30 June 2018 the EDMHC has no property, plant and equipment. The accounting policies outlined below relate to the property, plant and equipment held by the Endeavour Energy SOC which were derecognised as part of the 13 June 2017 lease transaction.

Recognition and measurement

Items of property, plant and equipment are initially recognised at cost. Non-system assets purchased below $1,000 are expensed as acquired. All costs of assets constructed by Endeavour Energy (system assets) are capitalised. Cost includes expenditure that is directly attributable to the acquisition and or construction of the asset including costs of materials, services, direct labour, the initial estimate (where relevant) of the costs of dismantling and removing the items and restoring the site on which they were located, and an allocated proportion of supporting overhead costs. Capitalised costs also include borrowing costs in accordance with AASB 116 *Property, Plant and Equipment* and AASB 123 *Borrowing Costs*.

Management judgement is required in the assessment of the types of costs that are directly attributable to the construction of property, plant and equipment. Satisfying the directly attributable criteria requires an assessment of those unavoidable costs that, if not incurred, would result in the property, plant and equipment not being constructed. Directly attributable overheads are allocated to the cost of construction of an asset using direct labour dollars.

4. SIGNIFICANT POLICIES OF THE DISCONTINUED OPERATIONS (continued)

Recognition and measurement (continued)

Property, plant and equipment transferred from customers is initially measured at fair value at the date on which control is obtained in accordance with Interpretation 18 *Transfer of Assets from Customers*, AASB 13 *Fair Value Measurement* and AASB 116 *Property, Plant and Equipment*.

After initial recognition as an asset, items of property, plant and equipment are measured at fair value. Fair value is determined in accordance with NSW Treasury Accounting Policy TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value*, AASB 13 *Fair Value Measurement* and AASB 116 *Property, Plant and Equipment*, and reviewed annually for impairment in accordance with AASB136 *Impairment of Assets.*

System assets

System assets are stated at fair value less accumulated depreciation and impairment losses. The fair value of system assets is determined using the income approach in accordance with AASB 13 *Fair Value Measurement.* The valuation methodology reflects a discounted cash flow methodology to value assets, and a calculation to subtract the value of other business assets and liabilities to arrive at a value for system assets.

The income approach is based on a discounted cash flow model using the following methods and assumptions:

- Use of an estimate of future cash flows to be derived based on financial forecasts;
- Expectations about possible variations in the amount/timing of future cash flows to reflect the most likely outcome;
- The time value of money, represented by the current market risk-free rate and the price for bearing the uncertainty inherent in the asset, as encapsulated in the discount rate;
- Other factors such as liquidity that should be reflected in pricing future cash flows; and
- A multiple of the forecast regulated asset base (RAB) at the end of the forecast period used as a proxy for the terminal value. The terminal RAB multiple is determined with reference to market observable multiples.

System assets are revalued at least every five years in accordance with TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value* and AASB 13 *Fair Value Measurement*. However, an assessment is made at each reporting date to ensure the net carrying value of system assets does not differ materially from its fair value, which is calculated on a ‘cash generating unit’ (CGU) basis using the discounted cash flow.

The Corporation's view is that the distribution network as a whole should be considered to be a "single asset" for the purposes of revaluation. This is because all components within the network must work together in order to reliably supply electricity. Further, due to the specialised nature of its network, system assets cannot be readily sold to third parties for different uses.

Non-system land and buildings

Non-system land and buildings are stated at fair value.

Following initial recognition at cost, non-system land and building assets are carried at fair value less accumulated depreciation and impairment losses. Non-system land and buildings are revalued at least every three years in accordance with TPP 14-01 Valuation of Physical Non-Current Assets at Fair Value. However, an assessment is made at each reporting date to ensure the net carrying value of non-system land and building assets does not differ materially from fair value. Land valuations are based on market-based evidence, while building valuations are based on a depreciated replacement cost approach, in accordance with AASB 13 Fair Value Measurement. A revaluation of non-system land and buildings was undertaken by an independent valuer and recognised as at 30 June 2015.

4. SIGNIFICANT POLICIES OF THE DISCONTINUED OPERATIONS (continued)

Recognition and measurement (continued)

Plant and equipment

Plant and equipment assets comprise non-specialised assets with short useful lives. These assets are stated at their depreciated historical costs (which is considered an acceptable surrogate for fair value in accordance with NSW Treasury Accounting Policy TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value* (TPP14-01), as any difference is unlikely to be material).

Revaluations

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that asset previously recognised as an expense in net profit or loss, the increment is recognised immediately as revenue in net profit or loss. Revaluation decrements are recognised immediately as expenses in net profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same asset, they are debited directly to the asset revaluation reserve. System asset reflect the gross method of presentation as a revaluation adjustment has not been recognised since the introduction of TPP14-01. If an asset was revalued using the income approach, gross and accumulated depreciation amounts would be restated in accordance with the revalued amount of the asset. For non-system buildings, the Corporation discloses revaluation adjustments on a net basis in accordance with TPP14-01.

Gains and losses on disposal of revalued assets are included in profit and loss for the year. Any related revaluation increments in the asset revaluation reserve upon disposal are transferred to Retained Earnings.

Subsequent costs

The Corporation recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the entity and the cost of the item can be measured reliably. All other costs are recognised in profit and loss as an expense as incurred.

Depreciation

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment.

Depreciation is charged to profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

- Buildings 40 years
- System assets 7 – 60 years
- Plant and equipment 4 – 15 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

4. SIGNIFICANT POLICIES OF THE DISCONTINUED OPERATIONS (continued)

Intangible assets

Intangible assets that are acquired externally or internally generated by the entity are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Easements, which are interests in land allowing access to network assets, are not amortised as they are granted for an unlimited time.

Intangible assets are amortised from the date they are available for use. Amortisation is charged to profit and loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are assessed for impairment at each reporting date.

The estimated useful lives in the current and comparative periods are as follows:

- Computer software 4 years
- Easements Indefinite

Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying amount reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Significant receivables are individually assessed for impairment. Non-significant receivables are collectively assessed by placing them in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of economic and credit conditions existing at each balance date.

Non-financial assets

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

4. SIGNIFICANT POLICIES OF THE DISCONTINUED OPERATIONS (continued)

Non-financial assets (continued)

For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually irrespective of any indication of impairment. The recoverable amount of an asset or cash generating unit (CGU) is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit and loss, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of a CGU are allocated first to reduce the carrying amount of goodwill (if any) allocated to the CGU, and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed its recoverable amount or the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss has been recognised for the asset in prior years.

Loans and borrowings

Loans and borrowings are initially recognised at fair value, net of transaction costs incurred. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. This includes capital indexed bonds whose carrying amount is restated at each reporting date by way of an indexation adjustment based on the Consumer Price Index (CPI) in Australia.

Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. The difference between the face value and the capital value of these debt securities is amortised over the life of the specific instrument. Interest associated with these instruments is brought to account on an accrual basis. Indexation adjustments on CPI indexed bonds are also recognised as part of finance costs in profit and loss.

Gains and losses are recognised in profit and loss when the liabilities are derecognised as well as through the amortisation process.

Loan debt shown as a current liability is nominally due for repayment within twelve months. However due to the availability of roll-over facilities and the liquidity of the underlying debt instruments, the Corporation may not necessarily need to repay these loans within twelve months.

4. SIGNIFICANT POLICIES OF THE DISCONTINUED OPERATIONS (continued)

Financial instruments

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Corporation uses derivative financial instruments, such as forward currency contracts and interest rate futures, to hedge foreign currency risks and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date at which a derivative contract is entered into, and subsequently re-measured to their fair value at the end of each reporting period. Derivatives are carried as financial assets when the fair value is positive, and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in Other Comprehensive Income and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment.
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which the Corporation wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Corporation will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in offsetting the exposure to changes in the hedged items' fair value or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the criteria for hedge accounting are accounted for as described below.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued when the Corporation revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

4. SIGNIFICANT POLICIES OF THE DISCONTINUED OPERATIONS (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income and accumulated under the heading Hedge Revaluation Reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the "other gains or loss" line item.

Amounts previously recognised in Other Comprehensive Income and accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or non-financial liability, the gains or losses previously recognised in Other Comprehensive Income and accumulated equity are transferred from equity and included in the initial measurement of the cost of the non-financial assets or non-financial liability.

Hedge accounting is discontinued when the Corporation revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. At that time, any gain or loss recognised in Other Comprehensive Income and accumulated in equity remains in equity, and is transferred to profit and loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Derecognition of financial instruments

The Corporation derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognise the financial asset and the associated liability. The Corporation derecognises a financial liability when, and only when, its obligation specified in the contract is discharged, cancelled or expired.

Employee benefits

All liabilities for employee benefits that are expected to be paid for services provided by employees to reporting date represent present obligations and are fully provided for in the financial statements.

Salaries and wages expected to be settled wholly within 12 months of the reporting date represent present obligations resulting from employees' services provided to the Corporation at reporting date, and are calculated at undiscounted amounts.

Annual leave is not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Based on actuarial advice obtained by the Corporation the nominal annual leave balance plus the annual leave entitlements accrued while taking leave were used to approximate the present value of the annual leave liability. The effect of discounting was deemed to be immaterial to annual leave.

Liabilities for long service leave, maturing allowance and pre-1993 sick leave have been based on an actuarial assessment undertaken as at March 2017. An associated formulae has been provided for intervening periods between assessments, noting that actuarial assessments are performed, as a minimum, every three years. Liabilities for long service leave, maturing allowance and pre-1993 sick leave are discounted using market yields on national government bonds. These liabilities, in addition to annual leave, include related on-costs such as workers compensation and payroll tax.

The actuary based their assessment on the following assumptions:

(a) Market yields on national government bonds as at 13 June 2017 used as the gross discount rate; and

(b) Expected rate of general salary increases.

All other provisions have been calculated at nominal amounts based on expected settlement rates.

4. SIGNIFICANT POLICIES OF THE DISCONTINUED OPERATIONS (continued)

Superannuation

Defined contribution plan

A defined contribution plan is a post-employment benefit under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net obligation in respect of the defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the market yield on national government bonds as at 13 June 2017 that have maturity dates approximating the terms of the Corporation's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All re-measurements arising from defined benefit plans are recognised in other comprehensive income in the year in which they occur.

Where the calculation results in a benefit to the Corporation, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced). Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Past service costs and net interest expense or income are recognised in profit and loss.

The Corporation has classified the defined benefits schemes wholly as a non-current liability to reflect the appropriate timing of the discharge of the obligation.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognises termination benefits at the earlier of the following dates: a) when the Corporation can no longer withdraw the offer of those benefits, or b) when the Corporation recognises costs for a restructuring that is within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Provisions

A provision is recognised in the Statement of Financial Position when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the obligation can be reliably measured. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

4. SIGNIFICANT POLICIES OF THE DISCONTINUED OPERATIONS (continued)

Other liabilities

Deferred revenue

Deferred revenue is recognised for customer prepayments for external, recoverable and contestable works carried out by the Corporation at reporting date. The revenue is deferred pending completion of the works and services.

Deposits

Deposits represent liabilities for contractors' deposits which can be refunded at any time after the end of the financial year. The amount which can be refunded in the succeeding financial year and at any time is shown as current and the remainder of the liability as non-current.

Reserves

Asset revaluation reserve

The revaluation reserve relates to fair value movements in property, plant and equipment.

Hedging reserve

The hedging reserve is used to record unrealised gains or losses of effective cash flow hedges. The unrealised gains or losses of all other derivatives are recognised in profit and loss.

Finance costs

Finance costs are recognised as expenses in profit and loss in the period in which they are incurred and include:

- interest expenses calculated using the effective interest method as described in AASB 139 *Financial Instruments: Recognition and Measurement* e.g. interest on overdrafts and short-term and long-term borrowings, including amounts paid or received on interest rate swaps, amortisation of discounts or premiums relating to borrowings, and indexation adjustments on CPI indexed bonds;
- a discount expense applied to provisions and amortised assets;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- a government loan guarantee fee assessed by NSW Treasury.

The amount excludes finance costs relating to qualifying assets, in which case they are capitalised as part of the cost of those assets in accordance with AASB 123 *Borrowing Costs*. Qualifying assets are assets that take a substantial period of time to get ready for their intended use. The Corporation considers this to be 12 months or more.

4. SIGNIFICANT POLICIES OF THE DISCONTINUED OPERATIONS (continued)

Finance costs (continued)

Capitalisation of borrowing costs is undertaken where a direct relationship can be established between the borrowings and the relevant projects giving rise to qualifying assets. Typically, these are projects whose expected total project expenditure is approximately $10 million or greater.

Discontinued operations

A discontinued operation is a component of the Corporation's business, the operations and cash flows of which can be clearly distinguished from the rest of the Corporation and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative Statement of Comprehensive Income is re-presented as if the operation had been discontinued from the start of the comparative year. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the Statement of Comprehensive Income.

Greenhouse legislation

The Corporation was required to surrender certificates in 2016/17 to acquit obligations placed on it by the various Commonwealth government greenhouse schemes, as noted below. The obligations arise from one power purchase agreement that was not transferred as part of the electricity sales transaction on 1 March 2011, for which the Corporation manages the compliance requirements. These certificates are, in turn, provided by Origin Energy under an On-Sale Agreement entered into as part of the same electricity sales transaction. For the period commencing 1 July 2015, the following schemes applied:

Commonwealth

The RET scheme, from 1 January 2011, is split into Small-scale Renewable Energy Scheme (SRES) and Large-scale Renewable Energy Target (LRET) requiring the surrender respectively of Small-scale Technology Certificates (STCs) and Large-scale Generation Certificates (LGCs). The Act also imposes an annual liability statement to the Clean Energy Regulator in discharge of Endeavour Energy's renewable energy obligations under the RET Scheme.

Foreign currency

Foreign currency transactions are converted to Australian currency at the exchange rates at the date of the transaction, with resulting exchange differences recognised as income or expense in profit and loss.

5. INCOME FROM CONTINUING OPERATIONS

	14 June 2017 - 30 June 2018 $m	1 July 2016 - 13 June 2017 $m
(a) Investment revenue		
Interest income	0.5	-
	0.5	**-**
(b) Other income		
Finance income[1]	1.7	-
Superannuation settlement gains (defined benefit plan)	-	-
Endeavour Energy sales income	4.7	-
Council rate recoupment[2]	2.2	-
Other income	0.4	-
	9.0	**-**
Total revenue	**9.5**	-

[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.

[2] This relates to council rates recouped from the lessees under the 99-year finance lease.

6. EXPENSE FROM CONTINUING OPERATIONS

Superannuation - defined benefits plan	0.2	1.0
Council rates	2.2	-
Administrative charge	0.5	-
Other operating expense	0.1	-
Total expense	**3.0**	**1.0**

7. DISCONTINUED OPERATIONS

The discontinued operations, relevant only in the comparative period, relate to the long-term partial lease of the Endeavour Energy's network assets. The remaining assets and liabilities required to run the distribution business were also sold. The discontinued operations in effect cover the entire operations of Endeavour Energy except for transactions relating to defined superannuation balances of retired employees.

(a) Results of discontinued operations

The results from discontinued operations include the performance of Endeavour Energy from 1 July 2016 until the date of disposal on 13 June 2017. These results are presented below in accordance with *AASB 5 Non-Current Assets Held for Sale and Discontinued Operations.*

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Notes to the financial statements
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7. DISCONTINUED OPERATIONS (continued)

	Notes	1 July 2016 - 13 June 2017 $m
Revenue		1,430.9
Expenses excluding finance costs		(899.4)
Finance costs		(220.3)
Results from operating activities		**311.2**
Loss on early settlement of debt portfolio		(311.6)
Gain on disposal of discontinued operations	7(d)	2,231.3
Net gain on disposal of discontinued operations after early settlement of remaining loans		**1,919.7**
Profit from discontinued operations before tax		**2,230.9**
Income tax benefit/(expense)	8(b)	626.5
Profit for the period from discontinued operations		**2,857.4**

(b) Cash flows from/(used in) discontinued operations

Net cash inflow/(outflow) from operating activities	167.8
Net cash inflow/(outflow) from investing activities	(192.0)
Net cash inflow/(outflow) from financing activities	57.9
Net cash inflow/(outflow)	**33.7**

(c) Net assets disposed of in discontinued operations

	13 June 2017 $m
Derecognised under 99 year lease	
Property, plant and equipment	7,042.3
Easements	16.8
	7,059.1
Disposed through sale	
Cash and cash equivalents	11.9
Trade and other receivables	289.5
Inventories	22.7
Property, plant and equipment	106.6
Intangible assets	46.0
Trade and other payables	(83.3)
Provisions	(286.6)
Other liabilities	(19.5)
	87.3
Net assets disposed of and derecognised under 99 year finance lease	**7,146.4**

7. DISCONTINUED OPERATIONS (continued)

(d) Gain on disposal of discontinued operations

At the execution of the 99-year finance lease, consideration paid to the Restart NSW Fund and Endeavour Energy, including the promissory note from the State, net of a purchase price adjustment, exceeded the carrying value of the net assets disposed under finance lease and sale. This has been recorded as a gain on disposal of discontinued operations.

	Notes	1 July 2016 - 13 June 2017 $m
Consideration paid to NSW Treasury		7,395.4
Consideration paid to Endeavour Energy - promissory note		1,946.5
Purchase price adjustment payable to NSW Treasury		11.7
Valuation gain on lease residual		24.1
Net assets attributable to discontinued operations	7(c)	(7,146.4)
Gain on disposal of discontinued operations		**2,231.3**

(e) Net distribution

Cash consideration for the transaction totalled $7.6 billion, including $7.4 billion which was deposited into a number of State bank accounts in accordance with a payment direction issued by NSW Treasury, and $0.2 billion for stamp duty which was remitted directly to Revenue NSW. In substance, the transaction is treated as a disposal by Endeavour Energy and, in lieu of cash proceeds, is accounted for as a distribution to the NSW Government, net of an authorised distribution to settle Endeavour Energy's outstanding loan portfolio, outstanding dividend payment and outstanding government guarantee fee payment. Promissory note consideration of $1.9 billion was received by Endeavour Energy from the NSW Government, and is included in the distribution to the NSW Government. An additional stamp duty amount of $0.2 billion was paid to Revenue NSW through a promissory note.

Cash proceeds remitted directly to NSW Treasury	7,395.4
Payment of NSW TCorp borrowings	(4,580.3)
Payment of FY17 dividend	(40.1)
Payment of government guarantee fee	(64.2)
Net distribution - cash	2,710.8
Net distribution - promissiory note received from NSW Government	1,946.5
Net distribution reflected in Statement of Changes in Equity	**4,657.3**

8. INCOME TAX EXPENSE

(a) 99-year finance lease transaction

Endeavour Energy was subject to the National Tax Equivalent Regime (NTER) administered by the ATO until its exit from the regime on 14 June 2017 following the long-term lease and sale of its network assets (refer Note 2). The NTER is based on application of federal income tax laws under which participants are obliged to pay income tax equivalents to state treasuries.

A private binding-ruling from the ATO stated the long-term lease transaction will be treated in a tax neutral manner pursuant to paragraphs 103 and 103A of the *NTER Manual*. Accordingly, the gain on the long-term lease and sale of the network assets (refer Note 8(d)), losses on the early settlement of Endeavour Energy's debt portfolio and other transaction-related costs are non-assessable and non-deductible respectively for income tax equivalent purposes.

(b) Income tax expense recognised in profit and loss

	1 July 2016 - 13 June 2017 $m
Continuing operations	
Deferred tax expense	
Derecognition of temporary differences on exit from NTER	2.8
Origination and reversal of other temporary differences	(0.3)
Total income tax expense relating to continuing operations	**2.5**
Discontinued operations	
Current tax expense	
Current period	72.2
Adjustments for prior years	0.5
	72.7
Deferred tax expense	
Derecognition of temporary differences on discontinuance of operations	(721.6)
Origination and reversal of other temporary differences	22.8
Under/(over) provided in prior years	(0.4)
	(699.2)
Total income tax expense/(benefit) relating to discontinued operations	**(626.5)**

Epsilon Distribution Ministerial Holding Corporation

Notes to the financial statements
for the period ended 30 June 2018

8. INCOME TAX EXPENSE (continued)

(c) Numerical reconciliation between tax expense and pre-tax net profit

Continuing operations	
Profit/(loss) before tax	(1.0)
Income tax using the domestic corporation tax rate of 30% (2017:30%)	(0.3)
Derecognition of temporary differences on exit from the NTER	2.8
Income tax expense on pre-tax net profit relating to continuing operations	**2.5**
Discontinued operations	
Profit/(loss) before tax	2,230.9
Income tax using the domestic corporation tax rate of 30% (2017:30%)	669.3
Non-deductible expenses	0.3
Non-assessable gain on discontinued operations	(574.6)
Derecognition of temporary differences on discontinuance of operations	(721.6)
Under/(over) provided in prior years	0.1
Income tax expense/(benefit) on pre-tax net profit relating to discontinued operations	**(626.5)**

(d) Income tax recognised in Other Comprehensive Income

	1 July 2016 - 13 June 2017 $m
Items not to be reclassified subsequently to profit or loss	
Superannuation defined benefits remeasurements	13.1
Revaluation of land and buildings	-
	13.1
Items to be reclassified subsequently to profit or loss	
Revaluation of hedge derivatives	1.1
	1.1
Income tax charged directly to Other Comprehensive Income	**14.2**

9. DEFERRED TAX ASSETS/LIABILITIES

Recognised deferred tax assets and liabilities

	13 June 2017
	$m
Land and assets subject to depreciated/amortisation/capital allowances	-
Employee benefits	-
Provisions and accruals	-
Other	-
Deferred tax (assets)/liabilities	-

Endeavour Energy's exit from the NTER and the tax-neutral treatment afforded to the gain on disposal of discontinued operations and related transactions, deferred income tax balances are not recoverable or payable and were derecognised on 13 June 2017.

	1-Jul-16	Recognised in profit or loss	Recognised in Other Comprehensive Income	Reversal of temporary differences previously recognised	13-Jun-17
Movement in temporary differences during 2017					
Land and assets subject to depreciated/amortisation/capital allowances	778.4	26.3	-	(804.7)	-
Employee benefits	(94.8)	1.2	13.1	80.5	-
Provisions and accruals	(2.1)	(1.7)	-	3.8	-
Other	1.0	(3.7)	1.1	1.6	-
Total deferred tax (assets)/liabilities	**682.5**	**22.1**	**14.2**	**(718.8)**	-

10. CASH AND CASH EQUIVALENTS

	30 June 2018	13 June 2017
	$m	$m
Cash and bank	9.2	43.8
	9.2	**43.8**

11. RECEIVABLES

Current		
Debtors	0.2	11.7
Prepayments	-	0.3
	0.2	**12.0**

12. OTHER ASSETS

	30 June 2018 $m	13 June 2017 $m
Non-current		
Finance lease receivable [(i)]	25.8	24.1
	25.8	**24.1**
Total other assets	**25.8**	**24.1**

(i) Finance lease receivable

On completion of the long-term lease transaction, EDMHC acts as a lessor and Endeavour Energy Asset Partnership act as a lessee in a 99-year lease arrangement. Endeavour Energy 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.

Finance lease accounting requires 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 $1.7 million (2017: Nil) was recognised in the period (refer to Note 5(b)).

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 port use are 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.

13. PROPERTY, PLANT AND EQUIPMENT

	System assets $m	Land and buildings $m	Plant and equipment $m	Total $m
At 1 July 2016 - fair value				
Gross carrying amount	16,570.9	339.1	212.3	17,122.3
Accumulated depreciation and impairment	(9,935.6)	(91.7)	(100.0)	(10,127.3)
Net carrying amount	**6,635.3**	**247.4**	**112.3**	**6,995.0**
At 13 June 2017 - fair value				
Gross carrying amount	-	-	-	-
Accumulated depreciation and impairment	-	-	-	-
Net carrying amount	-	-	-	-
Period ended 13 June 2017				
Net carrying amount at start of period	6,635.3	247.4	112.3	6,995.0
Additions	349.4	4.7	10.0	364.1
Disposals	(16.6)	(3.9)	(2.8)	(23.3)
Depreciation expense	(169.8)	(4.6)	(12.5)	(186.9)
Other movements	1.9	-	(1.9)	-
Transfer to 99 year lease/sold	(6,800.2)	(243.6)	(105.1)	(7,148.9)
Net carrying amount at end of period	-	-	-	-

Assets under construction

During the period ended 13 June 2017, the Corporation continued with its Network capital program. As at 13 June 2017, all construction in progress was transferred to the Endeavour Energy partnerships on completion of the Transaction.

14. INTANGIBLE ASSETS

	Computer software $m	Easements $m	Total $m
At 1 July 2016			
At cost	114.2	16.7	130.9
Accumulated amortisation and impairment	(66.0)	-	(66.0)
Net carrying amount	**48.2**	**16.7**	**64.9**
At 13 June 2017			
At cost	-	-	-
Accumulated amortisation and impairment	-	-	-
Net carrying amount	-	-	-
Period ended 13 June 2017			
Net carrying amount at start of period	48.2	16.7	64.9
Acquisitions	10.5	0.1	10.6
Amortisation	(12.7)	-	(12.7)
Transfer to 99 year lease/sold	(46.0)	(16.8)	(62.8)
Net carrying amount at end of period	-	-	-

14. INTANGIBLE ASSETS (continued)

Assets under construction

During the period ended 13 June 2017, the Corporation continued with its capital program. As at 13 June 2017, all construction in progress was transferred on completion of the Transaction.

15. PAYABLES

	30 June 2018 $m	13 June 2017 $m
Current		
Accruals	0.6	3.6
Other	0.2	13.9
Total payables	**0.8**	**17.5**

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

16. OTHER LIABILITIES

Current		
Unearned revenue	0.5	-
Total	**0.5**	**-**

17. PROVISIONS

	Employee benefits $m	30 June 2018 $m	13 June 2017 $m
Opening balance at 14 June 2017	9.5	9.5	469.7
Additional provisions	0.4	0.4	135.4
Amounts used	-	-	(259.9)
Amounts reversed	-	-	(49.1)
Amounts disposed through sale	-	-	(286.6)
Closing balance at 30 June 2018	**9.9**	**9.9**	**9.5**
Current	-	-	-
Non-current	9.9	9.9	9.5
Closing balance at 30 June 2018	**9.9**	**9.9**	**9.5**

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.

17. PROVISIONS (continued)

The balance and movements of the provisions for the comparative period were as follows:

	Insurance $m	Dividends $m	Employee benefits $m	Other $m	Total 30 June 2017 $m
Opening balance at 1 July 2016	21.1	116.5	306.6	25.5	469.7
Additional provisions	1.6	40.1	78.7	15.0	135.4
Amounts used	(1.0)	(156.6)	(80.7)	(21.6)	(259.9)
Amounts reversed	-	-	(46.6)	(2.5)	(49.1)
Amounts disposed through sale	(21.7)	-	(248.5)	(16.4)	(286.6)
Closing balance at 13 June 2017	**-**	**-**	**9.5**	**-**	**9.5**
Current	-	-	-	-	-
Non-current	-	-	9.5	-	9.5
Closing balance at 13 June 2017	**-**	**-**	**9.5**	**-**	**9.5**

Employee benefits

The provision for employee benefits relates to amounts accruing to employees up to reporting date in respect of employee benefits including defined benefit superannuation obligations, annual leave, maturing allowance, pre-1993 sick leave and long service leave. Amounts provided for in relation to maturing allowance and long service leave are based on an actuarial assessment and associated formulae provided for intervening periods between assessments as outlined in Note 4. All other employee benefit amounts expected to be settled within 12 months have been measured at amounts expected to be paid when the liabilities are settled.

The non-current provision for employee benefits at 13 June 2017 includes $6.1 million relating to the Defined Benefits Superannuation liability for retired employees, as detailed in Note 21.

Workers' compensation insurance

Endeavour Energy is a self-insurer through its insurance provision for workers' compensation and meets all liabilities under the workers' compensation legislation in NSW and other states. The liabilities cover claims incurred but not yet reported and the anticipated fund management fees in respect of the management of those claims. The liability is measured as the present value of future payments.

Dividends

Provision is made for the amount of any dividend and other payments determined by the Directors and approved by the Shareholding Ministers prior to 13 June 2017, but not distributed at reporting date. The dividend has regard to the annual performance agreement (Statement of Corporate Intent) with NSW Treasury.

The dividend is calculated in accordance with TPP16-04 Financial Distribution Policy for Government Businesses. The dividend payable of $40.1 million for the period ended 13 June 2017 solely reflects funding of the Government’s energy rebate program, and was approved by the Shareholding Ministers before 13 June 2017. The 13 June 2017 dividend payable of $40.1 million was settled on completion of the Transaction.

Other

The balance generally relates to matters of a legal nature.

18. EQUITY TRANFERS

As part of the sale of the Endeavour Energy network asset, the Treasurer authorised the transfer of specific assets, rights and liabilities from Endeavour Energy to EDMHC. The following are the assets and liabilities transferred through equity:

	2018 $m	2017 $m
Assets transferred in		
Cash and cash equivalents	43.8	-
Receivables	12.0	-
Other assets	24.1	-
Total assets	**79.9**	**-**
Liabilities transferred in		
Payables	17.5	-
Provision for income tax	34.8	
Provision for superannuation	9.5	-
Total liabilities	**61.8**	**-**
Net assets from equity transfers	**18.1**	**-**

19. FINANCIAL INSTRUMENTS

The EDMHC's principal financial instruments are outlined below. The financial instruments arise directly from EDMHC's operations or are required to finance 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	
	Note	**Category**	**30 June 2018 $m**	**13 June 2017 $m**
Financial assets				
Cash and cash equivalents	10	N/A	9.2	43.8
Receivables[1]	11	Loans and Receivables (at amortised cost)	0.2	11.7
Financial liabilities				
Payables	15	Financial liabilities (at amortised cost)	0.6	17.5

[1] Excludes statutory receivables and prepayments and therefore differs from the amounts shown in the Statement of Financial Position.

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
- Interest rate risk
- Liquidity risk

19. FINANCIAL INSTRUMENTS (continued)

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).

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

Cash

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

Receivables

All trade debtors are recognised as amounts receivable at balance date. The collection of receivables is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off.

An allowance for impairment is raised when there is objective evidence that the EDMHC will not be able to collect all amounts due. No interest is earned on trade debtors. The average credit period on receivables, unless otherwise agreed, is 30 days.

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

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 movements in 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.

The EDMHC's exposure to interest rate risk is limited to cash at bank.

		-1%		+1%	
	Carrying Amount $m	Net result $m	Equity $m	Net result $m	Equity $m
2018					
Financial assets					
Cash and cash equivalents	9.2	(0.1)	(0.1)	0.1	0.1
2017					
Financial assets					
Cash and cash equivalents	43.8	(0.4)	(0.4)	0.4	0.4

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.

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.

20. 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 reporting period to the Statement of Cash Flows as follows:

	30 June 2018	13 June 2017
	$m	$m
Cash at bank	9.2	43.8
Cash and cash equivalents per Statement of Cash Flows	**9.2**	43.8

Reconciliation of net result for the reporting period to net cash from operating activities

Profit for the period	6.5	2,853.9
Add/(less) non-cash items		
Depreciation non-current assets	-	186.8
Amortisation non-current assets	-	12.7
Amortisation of discounts/premiums	-	(73.7)
Non-cash additions including capital contributions	-	(168.6)
Net (profit)/loss on disposal of property, plant & equipment	-	15.6
Other equity movements	-	33.1
Loss on early settlement of debt portfolio/mark to market losses	-	311.6
Accrued interest converted into debt	-	23.9
Gain on disposal of discontinued operations	-	(2,207.2)
Actuarial gain/(loss) on Superannuaiton	(0.6)	-
Finance Income	(1.7)	-
Emerging assets	-	(24.1)
Changes in assets and liabltiies		
(Increase)/decrease in trade and other receivables	11.8	(39.4)
(Increase)/decrease in unread meters	-	7.5
(Increase)/decrease in inventories	-	(1.0)
Increase/(decrease) in trade and other payables	(16.8)	(60.1)
Increase/(decrease) in provisions	0.4	(57.1)
Increase/(decrease) in current tax liabilities	(34.8)	37.8
Increase/(decrease) in deferred tax liabilities	-	(682.5)
Increase/(decrease) in derivative financial liabilities	-	(2.3)
Increase/(decrease) in other liabilities	0.5	0.9
	-	-
Net cash from operating activities	**(34.7)**	**167.8**

21. 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 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.

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 2015. The latest actuarial investigations as at 30 June 2018 is currently underway, expected to be completed in December 2018.

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.

21. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

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

Member numbers	30 June 2018	13 June 2017
Contributions	0	0
Deferred benefits	2	2
Pensioners	93	93

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

	30 Jun 2018 $m	13 Jun 2017 $m
Continuing operations		
Current service cost	(0.4)	(0.7)
Net interest	0.2	(0.3)
Net income/(loss) - continuing operations	**(0.2)**	**(1.0)**
Discontinued Operations		
Current service cost	-	(5.1)
Net interest	-	(1.5)
Net income/(loss) - discontinued operations	**-**	**(6.6)**
Total net income/(loss)	**(0.2)**	**(7.6)**

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

Continuing operations		
Actuarial (gains)/losses on liabilities	4.0	5.7
Actuarial (gains)/losses on assets	(3.4)	13.5
Net actuarial (gains)/losses - continuing operations	**0.6**	**19.2**
Discontinued Operations		
Actuarial (gains)/losses on liabilities	-	9.4
Actuarial (gains)/losses on assets	-	15.2
Net actuarial (gains)/losses - discontinued operations	**-**	**24.6**
Total actuarial (gains)/losses	**0.6**	**43.8**

21. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

Reconciliation of the net defined benefit obligation

	30 Jun 2018	13 Jun 2017
	$m	$m
Net Asset/(Liability) at the beginning of the period	**(9.5)**	**(100.7)**
Contributions by employers	0.4	4.4
Contributions by Plan participants	-	-
Benefits paid	-	-
Other	-	-
Employees transferred	-	50.6
Current service cost - continuing operations	-	(0.7)
Current service cost - discontinued operations	-	(5.1)
Interest expense/(income) - continuing operations	(0.2)	(0.3)
Interest expense/(income) - discontinued operations	-	(1.5)
Return on plan assets, excluding amounts included in interest expense/(income) - continuing operations	3.4	5.7
Return on plan assets, excluding amounts included in interest expense/(income) - discontinued operations	-	9.4
Gain/(loss) arising from liability experience - continuing operations	(6.1)	5.9
Gain/(loss) arising from liability experience - discontinued operations	-	2.6
Gain/(loss) arising from changes in financial assumptions - continuing operations	2.1	7.6
Gain/(loss) arising from changes in financial assumptions - discontinued operations	-	12.6
Net Asset/(Liability) at the end of the period	**(9.9)**	**(9.5)**

Reconciliation of the present value of the defined benefit obligation

Net Asset/(Liability) at the beginning of the period	**(68.9)**	**(347.9)**
Contributions by employers		
Contributions by Plan participants	-	(2.0)
Benefits paid	6.4	33.3
Taxes, premiums and expenses paid	0.2	1.3
Employees transferred		229.6
Current service cost - continuing operations		(0.7)
Current service cost - discontinued operations	-	(5.1)
Interest (expense)/income - continuing operations	(1.7)	(1.8)
Interest (expense)/income - discontinued operations	-	(4.4)
Gain/(loss) arising from liability experience - continuing operations	(6.1)	5.9
Gain/(loss) arising from liability experience - discontinued operations	-	2.6
Gain/(loss) arising from changes in financial assumptions - continuing operations	2.1	7.6
Gain/(loss) arising from changes in financial assumptions - discontinued operations	-	12.7
Net Asset/(Liability) at the end of the period	**(68.0)**	**(68.9)**

Epsilon Distribution Ministerial Holding Corporation

Notes to the financial statements
for the period ended 30 June 2018

21. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

Reconciliation of the fair value of fund assets

	30 Jun 2018 $m	13 Jun 2017 $m
Net Asset/(Liability) at the beginning of the period	**59.4**	**247.2**
Contributions by employers	0.4	4.4
Contributions by Plan participants		2.0
Benefits paid	(6.5)	(33.3)
Taxes, premiums and expenses paid	(0.2)	(1.3)
Employees transferred		(179.0)
Interest (expense)/income - continuing operations	1.5	1.4
Interest (expense)/income - discontinued operations		3.0
Return on plan assets, excluding amounts included in interest expense/(income) - continuing operations	3.4	5.6
Return on plan assets, excluding amounts included in interest expense/(income) - discontinued operations	-	9.4
Net Asset/(Liability) at the end of the period	**58.0**	**59.4**

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	1,976.3	2,008.1
Level 3 - Unobservable inputs	-	-
Total	**1,976.3**	**2,008.1**

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.

21. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

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	30 Jun 2018	13 Jun 2017
	%	%
Australian Equities	18	16
International Equities	28	26
Property	8	7
Private Equity	1	1
Infrastructure	7	10
Alternatives	5	11
Fixed Income	28	26
Cash	5	3
Total	**100**	**100**

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

	30 June 2018	13 June 2017
Expected salary increase rate (excluding promotional increases)	N/A	2.5%
Rate of CPI increase	2.3%	2.2%
Discount rate	2.7%	2.4%
Pensioner mortality	Based on triennial valuation of the Fund as at 30 June 2015	Based on triennial valuation of the Fund as at 30 June 2015

Sensitivity analysis

The Corporation's total defined benefit obligation as at 30 June 2018 under several scenarios is presented below. Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, while scenarios G and H relate to sensitivity to demographic assumptions.

21. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

Sensitivity analysis (continued)

30 June 2018

	Base case	Scenario A - 1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	2.65% pa	1.65% pa	3.65% pa
Rate of CPI increase	2.3% pa	2.3% pa	2.3% pa
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($M)	68.0	77.6	60.0

	Base case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	2.65% pa	2.65% pa	2.65% pa
Rate of CPI increase	2.3% pa	2.8% pa	1.8% pa
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($M)	68.0	72.8	63.7

	Base case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	2.65% pa	2.65% pa	2.65% pa
Rate of CPI increase	2.3% pa	2.3% pa	2.3% pa
Salary inflation rate	N/A	N/A	N/A
Defined benefit obligation ($M)	68.0	68.0	68.0

	Base Case	Scenario G Lower pensioner mortality rates*	Scenario H Higher pensioner mortality rates**
Defined benefit obligation (A$)	68,037	69,511	67,081

21. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

13 June 2017

	Base case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	2.4%	1.4%	3.4%
Rate of CPI increase	2.2%	2.2%	2.2%
Salary inflation rate	2.5%	2.5%	2.5%
Defined benefit obligation	$68.5m	$79.6m	$59.3m

	Base case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	2.4%	2.4%	2.4%
Rate of CPI increase	2.2%	2.7%	1.7%
Salary inflation rate	2.5%	2.5%	2.5%
Defined benefit obligation	$68.5m	$73.8m	$63.5m

	Base case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	2.4%	2.4%	2.4%
Rate of CPI increase	2.2%	2.2%	2.2%
Salary inflation rate	2.5%	3.0%	2.0%
Defined benefit obligation	$68.5m	$68.5m	$68.5m

Net Surplus/(Deficit)

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

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

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

Epsilon Distribution Ministerial Holding Corporation

Notes to the financial statements
for the period ended 30 June 2018

21. SUPERANNUATION – DEFINED BENEFITS PLAN (continued)

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 2015. 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.

Surplus/deficit

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

Net Surplus/(Deficit)

	30 June 2018 $m	13 June 2017 $m
Accrued benefits	(48.3)	(62.3)
Net market value of Fund assets	58.0	45.4
Net surplus/(deficit)	**9.7**	**(16.9)**

Contribution recommendations

Recommended contribution rates for the EDMHC are:	30 June 2018	13 June 2017
Division B - multiple of member contributions	N/A	1.9x
Division C - % member salary	N/A	2.5%
Division D - multiple of member contributions	N/A	1.64x
Additional lump sum $p.a.	Nil	Nil
Significant economic assumptions are:		
Expected rate of return on fund assets backing current pension liabilities	5.5% p.a.	5.9% p.a.
Expected rate of return on fund assets backing other liabilities	5.5% p.a.	5.9% p.a.
Expected salary increase rate	N/A	2.5% p.a.
Expected rate of CPI Increase	2.3% p.a.	2.2% p.a.

Expected contributions

Expected employer contributions for the period to 30 June 2019 is $Nil (to 30 June 2018: Nil).

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 11.4 years (2017: 13.5 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.

22. COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel of Endeavour Energy comprised members of the Board of Directors and the Corporation's executive leadership team until 13 June 2017.

The following were key management personnel of the entity at any time during the comparative reporting period, and unless otherwise indicated were key management personnel for the entire period.

Directors

Mr Roger Massy-Greene (Chair) (term concluded effective 13 June 2017)

Ms Helen Conway (term concluded effective 13 June 2017)

Mr Trevor Danos AM (term concluded effective 13 June 2017)

Mr Scott Davies (term concluded effective 13 June 2017)

Dr Peter Dodd (term concluded effective 13 June 2017)

Dr Patrick Strange (term concluded effective 13 June 2017)

Mr Rod Howard (Acting Chief Executive Officer until 13 June 2017)

Ms Laura Reed (resigned 30 November 2016)

Mr Phil Garling (resigned 16 March 2017)

Ms Diana Eilert (resigned 16 March 2017)

Key management personnel remuneration

In addition to their salaries, the entity also provides post-employment benefits to key management personnel. For Directors, post-employment benefit relates solely to compulsory superannuation contributions which Endeavour Energy is obliged to pay under the *Superannuation Guarantee (Administration) Act 1992.*

Key management personnel compensations were as follows:

	1 July 2016 - 13 June 2017 $m
Short-term employee benefits	3.3
Long-term benefits	0.2
Post-employment benefits	0.1
Total	**3.6**

23. RELATED PARTIES

(a) Ultimate parent

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

(b) Key management personnel remuneration

EDMHC 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 entity, therefore the Treasurer, NSW Treasury secretary, Deputy Secretaries and Executive Directors are considered as KMP. The NSW Cabinet are considered related parties of EDMHC because of its role to direct overall government policy and make decisions about State issues.

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 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 entity during the reporting period.

(ii) Transactions with other related entities

The company interacts with other government agencies in delivering services to the general public. Services provided by other government agencies are provided to 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 is shown as an administrative charge in EDMHC.

24. EVENTS AFTER THE REPORTING DATE

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

End of audited Financial Statements

Electricity Retained Interest Corporation - Ausgrid

ABN 40 543 372 305

Financial Statements
for the period ended 30 June 2018

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.

INDEPENDENT AUDITOR'S REPORT

Electricity Retained Interest Corporation - Ausgrid

To Members of the New South Wales Parliament and Directors of the Electricity Retained Interest Corporation - Ausgrid

Opinion

I have audited the accompanying financial report of the Electricity Retained Interest Corporation – Ausgrid (the Corporation), which comprises the Directors Declaration, the Consolidated Statement of Comprehensive Income for the year ended 30 June 2018, the Consolidated Statement of Financial Position as at 30 June 2018, the Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity for the year then ended, and 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 report:

- is 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 2018 and of its performance for the year ended on that date
  - complying with Australian Accounting Standards and the Corporations Regulations 2001
- is in accordance with section 45E of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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' (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 Corporation on 29 September 2018, would be in the same terms if provided to the directors as at the time of this Independent Auditor's Report.

Other Information

Other information comprises the information included in the annual report of the Corporation and consolidated entity for the year ended 30 June 2018, other than the financial report and my Independent Auditor’s Report thereon. The directors are responsible for the other information. At the date of this independent Auditor’s Report, the other information I have received comprise the Directors’ Report.

My opinion on the financial report 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 report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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 Report

The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, the 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 the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, 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 unless the directors either intend to liquidate or cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Report

My objectives are to:

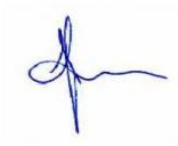
- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor’s Report including my opinion.

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 report.

A description of my responsibilities for the audit of the financial report 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.

My opinion does not provide assurance:

- that the Corporation or the consolidated entity carried out their activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.



Aaron Green
Director, Financial Audit Services

10 October 2018
SYDNEY

Directors' Declaration

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 Electricity Retained Interest Corporation – Ausgrid's financial position as at 30 June 2018 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, Corporation Act 2001* and 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.

Further this declaration has been made after receiving the declarations required to be made to the directors by the Director of Crown Finance in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

On behalf of the board

Director C Reed

Dated 30 September 2018.

Electricity Retained Interest Corporation - Ausgrid
ABN 40 543 372 305

Directors' Report
for the year ended 30 June 2018

The Directors present their report on the Electricity Retained Interest Corporation Ausgrid (the Corporation) for the financial year ended 30 June 2018.

Information on Directors

The names of each person who has been a director during the year and to the date of this report are:

Laura Reed (Chair)
Belinda Gibson
Robert Wright

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 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;
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 reporting period.

Operating results

The net result of the Corporation is $61 million at the end of the reporting period, 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 paid or recommended

Total distributions paid at the end of this reporting period was $196 million and distributions of circa $154 million are forecast to be received in 2018-19.

Review of operations

A review of the operations of the Corporation during the period and the results of those operations found that during the period, the Corporation continued to engage in its principal activity.

During the year, the Ausgrid business undertook a restructure in order to comply with Australian Energy Regulator's (AER's) ring-fencing guideline which requires that from 1 January 2018, unregulated business activities be undertaken separately from regulated business activities. A new partnership, Plus ES Partnership (AUP) was established on 1 November 2017 as the entity to undertake Ausgrid's unregulated business activities. The Corporation established eight new entities to hold the State's 49.6 per cent interest in the AUP.

AUP acquired the Active Stream business from AGL on 30 November 2017 for $176.6million (inclusive of GST). Funding for this acquisition was provided to AUP from a combination of third party debt and equity funding. Ausgrid's unregulated business assets (metering assets held by NAP and from NOP) were transferred to AUP on 30 May 2018 at market value of $37.8m, (based on an asset valuation as at 31 December 2017) provided by equity funding.

The financial results of the Corporation are disclosed in the attached financial statements. Financial and company secretariat support are provided by staff of NSW Treasury for the Corporation and its subsidiaries.

Electricity Retained Interest Corporation - Ausgrid
ABN 40 543 372 305

Directors' Report
for the year ended 30 June 2018

Significant changes in state of affairs

As noted earlier, during the year, eight new entities were created and added to the Corporation's group to hold the retained interest in the AUP. The restructure does not impact the State's retained interest, which remains at 49.6 per cent. There were no other significant changes in the state of affairs of the Corporation.

Significant events after the balance date

No matters or circumstances have arisen since the end of the reporting period 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 during or since the end of the reporting period for any person who is or has been a director of the Corporation.

By a Deed of Indemnity dated 23 November 2016, 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.

Indemnification of auditors

To the extent permitted by law, the Corporation has agreed to indemnify its auditors, Audit Office of NSW, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit.

No payment has been made to indemnify the Audit Office of NSW during or since the financial year.

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 30 September 2018

AUDITOR-GENERAL
NEW SOUTH WALES

To the Directors

ERIC Alpha Holdings Pty Limited

Auditor’s Independence Declaration

As auditor for the audit of the financial statements of ERIC Alpha Holdings Pty Limited for the year ended 30 June 2018, 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.

Aaron Green
Director, Financial Audit Services

29 September 2018
SYDNEY

Electricity Retained Interest Corporation - Ausgrid
ABN 40 543 372 305

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2018

	Notes	Actual 2018 Consolidated	Budget 2018 Consolidated	Actual 2017 Consolidated	Actual 2018 Parent	Actual 2017 Parent
Distribution income	4	195,628	162,275	98,292	-	-
Share of profit/(loss) in associate	4	60,606	-	34,480	-	-
Grants and other contribution	4	963	-	632	941	618
Contribution paid	5	(195,628)	(161,700)	(98,292)	-	-
Directors fees	6	(342)	(358)	(230)	(342)	(230)
Other expenses	7	(621)	(217)	(402)	(599)	(388)
Net result for the period		**60,606**	**-**	**34,480**	**-**	**-**
Other comprehensive income:						
Share of associate's other comprehensive income/(loss) that may be reclassified subsequently to net result		(31,198)		26,040		-
Share of associate's other comprehensive income/(loss) that will not be reclassified subsequently to net result		694		11,061		-
Total share of associate's other comprehensive income/(loss)	9	(30,504)	-	37,101	-	-
Total comprehensive income/(loss)		**30,102**	**-**	**71,581**	**-**	**-**

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 2018

	Notes	Actual 2018 Consolidated $'000	Budget 2018 Consolidated $'000	Actual 2017 Consolidated $'000	Actual 2018 Parent $'000	Actual 2017 Parent $'000
Current assets						
Receivables	8	359	8	353	350	342
Total current assets		**359**	**8**	**353**	**350**	**342**
Non-current assets						
Investment in associate	9	3,953,809	3,852,126	3,923,707	-	-
Total non-current assets		**3,953,809**	**3,852,126**	**3,923,707**	**-**	**-**
Total assets		**3,954,168**	**3,852,134**	**3,924,060**	**350**	**342**
Current liabilities						
Payables	10	359	40	353	350	342
Total current liabilities		**359**	**40**	**353**	**350**	**342**
Non-current liabilities						
Total non-current liabilities		**-**	**-**	**-**	**-**	**-**
Total liabilities		**359**	**40**	**353**	**350**	**342**
Net assets /(liability)		**3,953,809**	**3,852,094**	**3,923,707**	**-**	**-**
Equity						
Contributed capital	11	3,852,126	3,852,094	3,852,126	-	-
Accumulated surplus per SOCI	11	101,683	-	71,581	-	-
Total equity		**3,953,809**	**3,852,094**	**3,923,707**	**-**	**-**

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 period ended 30 June 2018

	Actual 2018 Consolidated $'000	Budget 2018 Consolidated $'000	Actual 2017 Consolidated $'000	Actual 2018 Parent $'000	Actual 2017 Parent $'000
Cash flows from operating activities	-	-	-	-	-
Cash flows from investing activities	-	-	-	-	-
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 2018

	Consolidated				Parent		
	Contributed Capital $'000	Accumulated surplus $'000	Asset reserve $'000	Total $'000	Contributed Capital $'000	Accumulated surplus $'000	Total $'000
Balance at 1 July 2017	**3,852,126**	**71,581**	**-**	**3,923,707**	**-**	**-**	**-**
Net result for the period	-	60,606	-	60,606	-	-	-
Other comprehensive income							
Investment in associate	-	(30,504)		(30,504)	-	-	-
Total other comprehensive income	-	(30,504)	-	(30,504)	-	-	-
Total comprehensive income	-	30,102		30,102	-	-	-
Owner related equity transactions							
Total owner related equity transactions	-	-	-	-	-	-	-
Balance at 30 June 2018	**3,852,126**	**101,683**	**-**	**3,953,809**	**-**	**-**	**-**

	Consolidated				Parent		
	Contributed Capital $'000	Accumulated surplus $'000	Asset reserve $'000	Total $'000	Contributed Capital $'000	Accumulated surplus $'000	Total $'000
Balance at 4 November 2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net result for the period	-	34,480	-	34,480	-	-	-
Other comprehensive income							
Investment in associate	-	37,101		37,101	-	-	-
Total other comprehensive income	-	37,101	-	37,101	-	-	-
Total comprehensive income	-	71,581	-	71,581	-	-	-
Owner related equity transactions							
Retained interest from sale of Ausgrid	3,852,126	-	-	3,852,126	-	-	-
Total owner related equity transactions	3,852,126	-	-	3,852,126	-	-	-
Balance at 30 June 2017	**3,852,126**	**71,581**	**-**	**3,923,707**	**-**	**-**	**-**

The accompanying notes form an integral part of these financial statements.

Notes to the Consolidated Financial Statements for the year ended 30 June 2018

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:

1. Ausgrid Network Asset Partnership (NAP) holding the regulated network assets;
2. Ausgrid Operator Partnership (NOP) which operates the regulated network assets;
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.

The Corporation is a NSW government entity and 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 for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 30 September 2018.

The Corporation is 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 (see "Entities within the Group") as at 30 June 2018. 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, 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.

To comply with AER's Ring-fencing Guideline, the Plus ES Partnership (AUP) was established by Ausgrid on 1 November 2017 to carry on unregulated business activities. Eight new entities (four NAUPTs and four NAUPT Trustees) were established to hold the State's interest in AUP. The restructure does not impact the State's retained interest, which remains at 49.6 per cent.

Under the *Electricity Retained Interest Corporations Act 2015 No 6*, a Fund has been established for the Corporation in the Special Deposit Account 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 Special Deposit Account is controlled by the State, and not the Corporation. Therefore, the Corporation (or the entities it controls) does not recognise the Special Deposit Account within its financial statements and do not themselves pay distributions.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are general-purpose financial statements, and have been prepared on an accrual basis and in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, the requirements of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015*, and the Financial Reporting Directions mandated by the Treasurer.

All information in these financial statements is presented consistent with the not-for-profit classification of the General Government entity.

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

The principal accounting policies adopted in the preparation of the financial statements are set out below and in the relevant notes. Significant accounting policies relevant to the whole reporting period are listed in the first part of the summary below.

3. 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.

The comparative information is for the period 2 November 2016 (date of inception) to 30 June 2017.

Statement of compliance

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

New, revised or amending standards and interpretations effective for the first time

The accounting policies applied in the year are consistent with those of the previous financial year.

Significant impacts on the accounting policies from the adoption of new accounting standards and interpretations, if any, are disclosed in the relevant accounting policy.

New standards and interpretations not yet effective

The following new standards and interpretations have recently been issued or amended but are not yet effective for the current reporting period but may be applicable to the Corporation are:

AASB 9 *Financial Instruments (2014)* (operative date 1 July 2018)
AASB 15 *Revenue from Contracts with Customers* (operative date 1 July 2019)
AASB 1058 *Income of Not-for-profit Entities* (operative date 1 July 2019)
AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* (operative date 1 July 2018)
AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)* (operative date 1 July 2018)
AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (operative date 1 July 2018)
AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* (operative date 1 July 2018)
AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15* (operative date 1 July 2018)
AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* (operative date 1 July 2019)
AASB 2017-5 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections* (operative date 1 July 2018)
AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation* (operative date 1 July 2019)
AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures* (operative date 1 July 2019)

As mandated by Treasury Circular TC18-01, the Corporation has not early adopted any new accounting standards, amendments and interpretations that have been issued but are not yet effective. It is considered impracticable to presently determine the impact of adopting those new standards and interpretations.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting 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.

Revenue and other income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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 account contractually defined terms of payment.

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 ERIC-A Special Deposit Account (SDA). The SDA is controlled by the State. Refer to Note 4 and 6.

Grants and other 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 grant will flow to it, and the amount of the grant can be measured reliably.

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 Corporation reimburse NSW Treasury for these services.

Cash and cash equivalents

Cash and cash equivalents are not recognised in the Statement of Financial Position as the Corporation's Special Deposit Account is controlled by the State.

Receivables

Receivables from trade and other debtors are recognised at amounts due less an allowance for any uncollectible amounts. Collectability of these receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for impairment loss on trade and other receivables is raised when there is objective evidence that the Corporation will not be able to collect the debt.

Allowance for impairment loss on trade and other receivables

Where receivables are outstanding beyond the normal trading terms, the likelihood of recover of these receivables is assessed by management. This assessment is based on enquiries as to the intention of late paying customers to pay, supportable past collection history, and historical write-offs of bad debts.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates

The State's retained interest in Ausgrid is accounted in the Corporation's investment in its associate as per AASB 128 *Investments in Associates* using the equity method.

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 which are adjusted to fair value, if required, in accordance with Treasury's Policy and Guidelines Paper TPP 14-01 *Valuation of Physical Non-current Assets at Fair Value*, AASB 116 *Property, Plant and Equipment* and AASB 13 *Fair Value Measurement*.

A fair value analysis of the valuation of property, plant and equipment (PPE) was undertaken as at the reporting date to assess the reasonableness of the book value of the PPE shown in the associate's account. The analysis applied a discounted cash flow methodology using historical cash flow data and projection out to 2024. Estimated future cash flows were discounted using an appropriate weighted average cost of capital specific to the associate. The fair value analysis concluded that the book value of the PPE adopted by the associate is a reasonable proxy for fair value.

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.

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.

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.

Going Concern

The State will provide the Corporation 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

	Actual 2018 Consolidated $'000	Actual 2017 Consolidated $'000	Actual 2018 Parent $'000	Actual 2017 Parent $'000
Distribution received from partnerships	195,628	98,292	-	-
Contribution from Crown Entity[1]	963	632	941	618
Share of profit/(loss) in associate	60,606	34,480	-	-
Total	**257,197**	**133,404**	**941**	**618**

[1.] The Corporation does not have a bank account. 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 Special Deposit Account controlled by the State (Crown Entity) and the Corporation was appointed as the administrator for the Fund.

Under this arrangement, dividend distribution from the partnership can be paid into the Fund and subsequently remitted to the Consolidated Fund. Any operational expenditures of the Corporation are to be met by the Fund effectively giving the Corporation a grant contribution towards its operational costs.

5. CONTRIBUTION PAID

Contribution paid to Crown entity	195,628	98,292	-	-
Total	**195,628**	**98,292**	**-**	**-**

6. DIRECTORS FEES

Fees	312	210	312	210
Superannuation contribution	30	20	30	20
Total	**342**	**230**	**342**	**230**

7. OTHER EXPENSES

Audit fees	90	97	71	86
Consultant fees	59	-	59	-
Other	472	305	469	302
Total	**621**	**402**	**599**	**388**

8. RECEIVABLES

Receivable from Crown Entity	359	344	350	333
Prepayments	-	9	-	9
Total	**359**	**353**	**350**	**342**

9. INVESTMENT IN ASSOCIATE

The Corporation investment in an associate represents 100 per cent interest in shares of Alpha Holdings, which has an investment in associate consisting of the NSW Government's 49.6 per cent share in Ausgrid Asset Partnership (NAP), Ausgrid Operator Partnership (NOP) and Plus ES Partnership (Ausgrid Unregulated Partnership (AUP); IFM Investors and AustralianSuper hold the other 50.4 per cent in equal shares.

	Actual 2018 Consolidated $'000	Actual 2017 Consolidated $'000	Actual 2018 Parent $'000	Actual 2017 Parent $'000
Investment in associate	3,953,809	3,923,707	-	-
	3,953,809	**3,923,707**	**-**	**-**

The Corporation's share of associate's assets and liabilties

Current assets	343,480	387,029		-
Non-current assets	10,062,793	9,841,582		-
	10,406,273	10,228,611	-	-
Current liabilities	329,443	316,547		-
Non-current liabilities	6,123,021	5,988,357		-
	6,452,464	6,304,904	-	-
Net assets	**3,953,809**	**3,923,707**	**-**	**-**

9. INVESTMENT IN ASSOCIATE (continued)

The Corporation's share of associate's profit

	Actual 2018 Consolidated $'000	Actual 2017 Consolidated $'000	Actual 2018 Parent $'000	Actual 2017 Parent $'000
Revenue	1,297,437	765,427		-
Profit before income tax	256,234	348,341		-
Stamp duty[1]	-	481,113		-
Distribution income recognised	(195,628)	(98,292)		-
Profit after income tax	**60,606**	**34,480**	**-**	**-**
Other comprehensive income	(30,504)	37,101		-
Total comprehensive income	**30,102**	**71,581**	**-**	**-**

[1.] Contributed equity excludes State's stamp duty

The Corporation's share of associate's commitments for expenditure

Capital expenditure	159,414	38,886	-	-
Operating leases as lessee	40,722	45,434	-	-
Operating leases as lessor	9,523	7,043	-	-

10. CURRENT PAYABLES

Accruals	359	344	350	333
Other	-	9	-	9
Total	**359**	**353**	**350**	**342**

Details regarding liquidity risk, including a maturity analysis are disclosed in Note 16.

11. EQUITY

Contributed capital - retained interest in partnerships	3,852,126	3,852,126	-	-
Accumulated surplus	101,683	71,581	-	-
Closing Balance	**3,953,809**	**3,923,707**	**-**	**-**

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*.

12. BUDGET REVIEW

Net result

The net result of the Corporation is $61 million at the end of the reporting period, 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.
Total expenses were $196 million, $34 million higher than budget mainly due to higher distribution received from Ausgrid Partnerships subsequently remitted to the Consolidated Fund in accordance with the Treasurer's direction.

Total revenue for 2018 was $257 million, $95 million higher than budget mainly contributed by higher distribution received from the Partnerships of $33 million and $61 million which representing the Corporation's 49.6 per cent share of Ausgrid Partnership's net profit in 2018.

Assets and Liabilities

Total assets for the year were $3,954 million, $102 million higher than the budget due to valuation gain from investment in the Ausgrid Partnership in 2018 financial year.

Total liabilities were $359 thousands, $319 thousands higher than budget due to $275 thousands administration fee and $71 thousands of audit fees accrued and payable as at 30 June 2018.

Cash flows

The Corporation does not have a bank account. Under the *Electricity Retained Interest Corporations Act 2015* (Section 32), the Electricity Retained Interest Corporation – Ausgrid Fund (the Fund) was established as a Special Deposit Account 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 was prepared for the Fund in accordance with section 35 of the Act to disclose the cashflow of the Corporation.

13. LEGAL INTEREST IN NAP, NOP AND AUP

ERIC-A, through Ausgrid Network Asset Partnership Trusts (NAPTs), Ausgrid Network Asset Operator Trusts (NOPTs) and Ausgrid Network Unregulated Partnership Trusts (AUPTs) holds a 49.6 per cent legal equity interest in the NAP, NOP and AUP.

All financial returns of NAP, NOP and AUP 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 Special Deposit Account (SDA) which is controlled by the State, in accordance with the Electricity Retained Interest Corporations Act 2015 No 6. The Corporation recognise the retained interest in NAP, NOP and AUP on Consolidated Statement of Financial Position using the equity method.

14. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Corporation's contingent assets of nil (2017: 0.05 million) and contingent liabilities of $12.95 million (2017: $17.41 million) represent its 49.6 per cent share in the associate's contingent assets and contingent liabilities.

15. COMPENSATION OF KEY MANAGEMENT PERSONNEL

	2018 Consolidated $'000	2017 Consolidated $'000
Short-term employee benefits	342	230
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Total	**342**	**230**

Short-term employee benefits

Fees including superannuation benefits and salaries paid to the Directors.

16. FINANCIAL INSTRUMENTS

The Corporation's principal financial instruments are outlined below. The financial instruments arise directly from 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

Carrying Amount	Note	2018 Consolidated $'000	2017 Consolidated $'000	2018 Parent $'000	2017 Parent $'000
Financial Assets					
Trade and other receivables	8	359	344	350	333
Financial Liabilities					
Trade and other payables	10	359	344	350	333

The above table excludes prepayments and statutory receivables/payables which are not within the scope of AASB 7 *Financial Instruments.*

16. FINANCIAL INSTRUMENTS (continued)

Financial risk management overview

As at 30 June 2018, the Corporation had exposure to the following risks:

- Credit risk;
- Liquidity risk; and
- Operational risk.

Credit risk

Credit risk arises when there is 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 generally represented by the carrying amount of financial assets (net of any allowance for impairment).

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

Receivables

All trade debtors are recognised as amounts receivable at balance date. The collection of receivables is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters in demand. Debts which are known to be uncollectible are written off.

An allowance for impairment is raised when there is objective evidence that ERIC-A will not be able to collect all amounts due. No interest is earned on trade debtors. The average credit period on receivables, unless otherwise agreed, is 30 days. There are no receivables that are past due or considered impaired as at the reporting date.

The aging of all the Company's trade and other receivables at the end of the reporting period has not exceeded the past due date of 30 days.

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due. The risk is assessed to be negligible given that the Corporation’s operating expenses are fully funded by grant income from the Fund which is administered by the Crown Entity. During the current year there were no defaults of any amounts payable.

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

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.

17. 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.

Refer to Note 15 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 Director related entities

The Directors of the Corporation are also Directors for the NAP, NOP and AUP. Distributions received 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.

18. 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 period ended 30 June 2018

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.

INDEPENDENT AUDITOR'S REPORT

Electricity Retained Interest Corporation – Endeavour Energy

To Members of the New South Wales Parliament and Directors of the Electricity Retained Interest Corporation – Endeavour Energy

Opinion

I have audited the accompanying financial report of the Electricity Retained Interest Corporation – Endeavour Energy (the Corporation), which comprises the Consolidated Statement of Comprehensive Income for the year ended 30 June 2018, the Consolidated Statement of Financial Position as at 30 June 2018, the Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity for the year then ended, and 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 report:

- is 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 2018 and of its performance for the year ended on that date
  - complying with Australian Accounting Standards and the Corporations Regulations 2001
- is in accordance with section 45E of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015

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' (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 Corporation on 21 September 2018, would be in the same terms if provided to the directors as at the time of this Independent Auditor's Report.

Other Information

Other information comprises the information included in the annual report of the Corporation and consolidated entity for the year ended 30 June 2018, other than the financial report and my Independent Auditor's Report thereon. The directors are responsible for the other information. At the date of this independent Auditor's Report, the other information I have received comprise the Directors' Report and the Directors' Declaration.

My opinion on the financial report 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 report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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 Report

The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, the 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 the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, 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 unless the directors either intend to liquidate or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report as a whole is 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 report.

A description of my responsibilities for the audit of the financial report 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.

My opinion does not provide assurance:

- that the Corporation or the consolidated entity carried out their activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.

Aaron Green

Director, Financial Audit Services

3 October 2018
SYDNEY

Electricity Retained Interest Corporation-Endeavour Energy

ABN 61 573 737 242

Directors' Report
for the year ended 30 June 2018

Directors' Declaration

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 Electricity Retained Interest Corporation – Endeavour Energy's financial position as at 30 June 2018 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*, *Corporation Act 2001* and 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.

Further this declaration has been made after receiving the declarations required to be made to the Directors by the Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2018.

On behalf of the Board

Director ....

Trevor Davis

Dated 26/9/18

Electricity Retained Interest Corporation-Endeavour Energy

ABN 61 573 737 242

Directors' Report
for the year ended 30 June 2018

The Directors present their report on Electricity Retained Interest Corporation - Endeavour Energy (the Corporation) for the financial year ended 30 June 2018.

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)
Helen Conway
Scott Davies

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;
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 reporting period.

Operating results

The net result of the Corporation is $99.8 million at the end of the reporting period, representing the Corporation's 49.6 per cent share of Endeavour Energy Partnership's 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 paid or recommended

Total distribution paid at the end of this reporting period was $74 million.

Review of operations

A review of the operations of the Corporation during the financial period and the results of those operations found that during the period, the Corporation continued to engage in its principal activity.

During the year, the Endeavour Energy business undertook a restructure in order to comply with Australian Energy Regulator's (AER's) ring-fencing guideline which requires that from 1 January 2018, unregulated, competitive business activities be undertaken separately from regulated business activities. A new partnership, Network Unregulated Partnership (NUP) was established on 9 October 2017 as the entity to undertake Endeavour Energy's unregulated business activities. The Company established eight new entities to hold the State's 49.6 per cent interest in the NUP.

Electricity Retained Interest Corporation-Endeavour Energy

ABN 61 573 737 242

Directors' Report
for the year ended 30 June 2018

Endeavour Energy's unregulated business assets (held by NOP) were transferred to NUP on 9 October 2017 at market value of $10.7m (based on an asset valuation undertaken by KPMG) provided by from equity funding.

The financial results of the Corporation are disclosed in the attached financial statements. Financial and company secretariat support are provided by staff of the Treasury NSW for the Corporation and its subsidiaries.

Significant changes in state of affairs

As noted earlier, during the year, eight new entities were added to the Corporation's group to hold the retained interest in the NUP. The restructure does not impact the State's retained interest, which remains at 49.6 per cent. Refer to note 2 for details. There were no other significant changes in the state of affairs of the Corporation.

Significant events after the balance date

No matters or circumstances have arisen since the end of the financial period 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 financial period 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.

Indemnification of auditors

To the extent permitted by law, the Corporation has agreed to indemnify its auditors, Audit Office of NSW, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit.

No payment has been made to indemnify the Audit Office of NSW during or since the financial year.

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: ....

Trevor Danos

Dated

26/9/18

To the Directors
ERIC Epsilon Holdings Pty Limited

Auditor's Independence Declaration

As auditor for the audit of the financial statements of ERIC Epsilon Holdings Pty Limited for the year ended 30 June 2018, 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.

Aaron Green
Director, Financial Audit Services

21 September 2018
SYDNEY

Electricity Retained Interest Corporation-Endeavour Energy

ABN 61 573 737 242

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2018

	Notes	2018 Consolidated $'000	2017 Consolidated $'000	2018 Parent $'000	2017 Parent $'000
Distribution income	4	74,400	-	-	-
Transitional Asset Management Service Agreement (TAMSA) rebate	4	3,923			
Share of profit or loss of associates	4	99,844	-	-	-
Grants and other contribution	4	967	114	948	103
Contribution paid	5	(78,323)	-	-	-
Directors' fees	6	(349)	(28)	(349)	(28)
Other expenses	7	(618)	(86)	(599)	(75)
Net result for the period		**99,844**	**-**	**-**	**-**
Other comprehensive income:					
Share of associate's other comprehensive income/(loss) that may be reclassified subsequently to net result		(15,078)			
Share of associate's other comprehensive income/(loss) that will not be reclassified subsequently to net result		1,488	-	-	-
Total share of associate's other comprehensive income/(loss)		**(13,590)**	**-**	**-**	**-**
Total comprehensive income/(loss)		**86,254**	**-**	**-**	**-**

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 2018

	Notes	2018 Consolidated $'000	2017 Consolidated $'000	2018 Parent $'000	2017 Parent $'000
Current assets					
Trade and other receivables	8	382	114	373	103
Total current assets		**382**	**114**	**373**	**103**
Non-current assets					
Investment in associate	9	2,032,702	1,946,448	-	-
Total non-current assets		**2,032,702**	**1,946,448**	**-**	**-**
Total assets		**2,033,085**	**1,946,562**	**373**	**103**
Current liabilities					
Trade and other payables	10	382	114	373	103
Total current liabilities		**382**	**114**	**373**	**103**
Non-current liabilities					
Total non-current liabilities		**-**	**-**	**-**	**-**
Total liabilities		**382**	**114**	**373**	**103**
Net assets /(liability)		**2,032,702**	**1,946,448**	**-**	**-**
Equity					
Contributed capital	11	1,946,448	1,946,448	-	-
Accumulated gain / (loss) per SOCI		86,254	-	-	-
Total equity		**2,032,702**	**1,946,448**	**-**	**-**

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 2018

	Actual 2018 Consolidated $'000	Actual 2017 Consolidated $'000	Actual 2018 Parent $'000	Actual 2017 Parent $'000
Cash flows from operating activities	-	-	-	-
Cash flows from investing activities	-	-	-	-
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 2018

	Consolidated			Parent		
	Contributed Capital $'000	Accumulated funds $'000	Total $'000	Contributed Capital $'000	Accumulated funds $'000	Total $'000
Balance at 1 July 2017	**1,946,448**	**-**	**1,946,448**	**-**	**-**	**-**
Net result for the year	-	99,844	99,844	-	-	-
Other comprehensive income						
Investment in associates	-	(13,590)	(13,590)	-	-	-
Total other comprehensive income	-	(13,590)	(13,590)	-	-	-
Total comprehensive income	-	86,254	86,254	-	-	-
Owner related equity transactions:						
Retained interest from sale of Endeavour Energy	-	-	-	-	-	-
Total owner related equity transactions	-	-	-	-	-	-
Balance at 30 June 2018	**1,946,448**	**86,254**	**2,032,702**	-	-	-

	Consolidated			Parent		
	Contributed Capital $'000	Accumulated funds $'000	Total $'000	Contributed Capital $'000	Accumulated funds $'000	Total $'000
Balance at 2 June 2017	**-**	**-**	**-**	**-**	**-**	**-**
Net result for the year	-	-	-	-	-	-
Other comprehensive income						
Investment in associates						
Total other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-
Owner related equity transactions:						
Retained interest from sale of Endeavour Energy	1,946,448	-	1,946,448	-	-	-
Total owner related equity transactions	1,946,448	-	1,946,448	-	-	-
Balance at 30 June 2017	**1,946,448**	-	**1,946,448**	-	-	-

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 2018

Notes to the Consolidated Financial Statements for the year ended 30 June 2018

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:

1. Endeavour Energy Network Asset Partnership (NAP) holding regulated assets;
2. Endeavour Energy Network Operator Partnership (NOP) which operates the regulated assets;
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.

The Corporation is a NSW government entity and is 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 for the year ended were authorised for issue in accordance with a resolution of the Directors on 26 September 2018.

The Corporation is 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 (see "Entities within the Group") as at 30 June 2018. 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-assess 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, 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). 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) 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

To comply with AER's Ring-fencing Guideline, the Network Unregulated Partnership (NUP) was established by Endeavour Energy on 9 October 2017 to carry on unregulated business activities. Eight new entities (four NUPTs and four NUPT Trustees) were established to hold the State's interest in NUP. The restructure does not impact the State's retained interest, which remains at 49.6 per cent.

On 9 October 2017, the Endeavour Energy unregulated business stream was transferred for value and on an arm's-length basis to NUP under a sale and purchase agreement between NOP and NUP.

Under the Electricity Retained Interest Corporations Act 2015 No 6, a Fund has been established for the Corporation in the Special Deposit Account 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 Special Deposit Account is controlled by the State, and not the Corporation. Therefore, the Corporation (or the entities it controls) does not recognise the Special Deposit Account within its financial statements, and do not themselves pay distributions.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are general-purpose financial statements, and have been prepared on an accrual basis and in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, the requirements of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2015, and the Financial Reporting Directions mandated by the Treasurer.

All information in these financial statements is presented consistent with the not-for-profit classification of the General Government entity.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The principal accounting policies adopted in the preparation of the financial statements are set out below and in the relevant notes. Significant accounting policies relevant to the whole reporting period are listed in the first part of the summary below.

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.
As stated in Note 1, the Corporation was established on 2 June 2017, therefore the comparative information is for the period 2 June 2017 (date of inception) to 30 June 2017.

Statement of compliance

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

New, revised or amending standards and interpretations effective for the first time

The accounting policies applied in the year are consistent with those of the previous financial year.

Significant impacts on the accounting policies from the adoption of new accounting standards and interpretations, if any, are disclosed in the relevant accounting policy.

New standards and interpretations not yet effective

The following new standards and interpretations have recently been issued or amended but are not yet effective for the current reporting period but may be applicable to the Corporation are:

- AASB 9 *Financial Instruments (2014)* (operative date 1 July 2018)
- AASB 15 *Revenue from Contracts with Customers* (operative date 1 July 2019)
- AASB 1058 *Income of Not-for-profit Entities* (operative date 1 July 2019)
- AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 (operative date 1 July 2018)
- AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) (operative date 1 July 2018)
- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (operative date 1 July 2018)
- AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15 (operative date 1 July 2018)
- AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 (operative date 1 July 2018)
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities (operative date 1 July 2019)
- AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections (operative date 1 July 2018)
- AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation (operative date 1 July 2019)
- AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures (operative date 1 July 2019)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and interpretations not yet effective (continued)

As mandated by Treasury Circular TC18-01, the Corporation has not early adopted any new accounting standards, amendments and interpretations that have been issued but are not yet effective. It is considered impracticable to presently determine the impact of adopting those new standards and interpretations.

Significant Accounting 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.

Revenue and other income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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 account contractually defined terms of payment.

Distribution income

Distribution income is recognised reflecting the quarterly distributions from the partnerships which the State retains. This is offset by the Distribution expense to the State as all financial returns must be deposited into the ERIC-E Special Deposit Account (SDA). The SDA is controlled by the State. Refer to Note 4 and 5.

Grants and other 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 grant will flow to the Corporation, and the amount of the grant can be measured reliably.

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 Corporation reimburses NSW Treasury for these services and is recognised as other expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents are not recognised in the Statement of Financial Position as the ERIC-E Special Deposit Account is controlled by the State.

Trade and other receivables

Receivables from trade and other debtors are recognised at amounts due less an allowance for any uncollectible amounts. Collectability of these receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for impairment loss on trade and other receivables is raised when there is objective evidence that the Corporation will not be able to collect the debt.

Allowance for impairment loss on trade and other receivables

Where receivables are outstanding beyond the normal trading terms, the likelihood of recover of these receivables is assessed by management. This assessment is based on enquiries as to the intention of late paying customers to pay, supportable past collection history, and historical write-offs of bad debts.

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* using the equity method.

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 associates net assets with the exception of property, plant and equipment which are adjusted to fair value, if required, in accordance with Treasury's Policy and Guidelines Paper TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value*, AASB 116 *Property, Plant and Equipment* and AASB 13 *Fair Value Measurement*.

A fair value analysis of the valuation of property, plant and equipment (PPE) was undertaken as at the reporting date to assess the reasonableness of the book value of the PPE shown in the associate's account. The analysis applied a discounted cash flow methodology using historical cash flow data and projection out to 2038. Estimated future cash flows were discounted using an appropriate weighted average cost of capital specific to the associate. The fair value analysis concluded that the book value of the PPE adopted by the associate is a reasonable proxy for fair value.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Going Concern

The State will provide the Corporation 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

Notes to the Consolidated Financial Statements
for the year ended 30 June 2018

4. INCOME

	2018 Consolidated $'000	2017 Consolidated $'000	2018 Parent $'000	2017 Parent $'000
Distribution received from partnerships	74,400	-	-	-
Transitional Asset Management Service Agreement (TAMSA) rebate	3,923	-	-	-
Share of profit / (loss) of associate	99,844	-	-	-
Contribution from Crown Entity[1]	967	114	948	103
Total	**179,134**	**114**	**948**	**103**

[1.] The Corporation does not have a bank account. 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 Special Deposit Account controlled by the State (Crown Entity) and the Corporation was appointed as the administrator for the Fund.

Under this arrangement, dividend distribution from the partnership are paid into the Fund and subsequently remitted to the Consolidated Fund. Any operational expenditures of the Corporation are to be met by the Fund effectively giving the Corporation a grant contribution towards its operational costs.

5. CONTRIBUTION PAID

Contribution paid to Crown Entity	78,323	-	-	-
Total	**78,323**	**-**	**-**	**-**

6. DIRECTORS' FEES

Fees	319	26	319	26
Superannuation contribution	30	2	30	2
Total	**349**	**28**	**349**	**28**

7. OTHER EXPENSE

Audit fees	64	86	46	75
Other	554	-	553	-
Total	**618**	**86**	**599**	**75**

8. RECEIVABLES

Receivable from Crown Entity	382	114	373	103
Total	**382**	**114**	**373**	**103**

9. INVESTMENT IN ASSOCIATE

The Corporation's investment in an associate represents 100 per cent interest in the shares of the ERIC Epsilon Holdings Pty Ltd, which has investment in an associate consisting of NSW Government's 49.6 per cent share in Endeavour Asset Partnership (NAP) and Endeavour Operator Partnership (NOP) and Endeavour Network Unregulated Partnership (NUP), with the Edwards partner consortium holding the other 50.4 percent.

	2018	2017	2018	2017
	Consolidated $'000	**Consolidated $'000**	**Parent $'000**	**Parent $'000**
Investment in associate	2,032,702	1,946,448	-	-
Total	**2,032,702**	**1,946,448**	**-**	**-**
The Corporation's share of associate's assets and liabilities				
Current assets	211,197			-
Non-current assets	4,788,676			-
	4,999,873	-	-	-
Current liabilities	165,416			-
Non-current liabilities	2,801,755			-
	2,967,171	-	-	-
Net assets	**2,032,702**	**-**	**-**	**-**

9. INVESTMENT IN ASSOCIATE (continued)

	Actual 2018 Consolidated $'000	Actual 2017 Consolidated $'000	Actual 2018 Parent $'000	Actual 2017 Parent $'000
Revenue	750,250			-
Profit before income tax	(51,089)			-
Income tax expense	-			-
Stamp duty[1]	225,333			-
Distribution income recognised	(74,400)			-
Profit after income tax	**99,844**	**-**	**-**	**-**
Other comprehensive income	(13,590)			-
Total comprehensive income	**86,254**	**-**	**-**	**-**

* Contributed equity excludes State's stamp duty.

The Corporation's share of associates's commitments for expenditure

Capital expenditure	68,002	-		-
Operating leases as lessee	5,357	-		-
Operating leases as lessor	645	-		-

10. CURRENT PAYABLES

Accruals	382	114	373	103
Total	**382**	**114**	**373**	**103**

11. EQUITY

Contributed Capital - retained interest in partnerships[1]	1,946,448	1,946,448	-	-
Accumulated surplus	86,254	-	-	-
Closing Balance	**2,032,702**	**1,946,448**	**-**	**-**

[1] ***Contributed capital***

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.

12. LEGAL INTEREST IN NAP, NOP & NUP

The Corporation, through Endeavour Network Asset Partnership Trusts (NAPTs), Endeavour Network Operator Partnership Trusts (NOPTs) and Endeavour Network Unregulated Partnership Trusts (NUPTs), holds a 49.6 per cent legal equity interest in NAP, NOP and NUP.

All financial returns of NAP, NOP and NUP 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 Special Deposit Account (SDA) which is controlled by the State, in accordance with the *Electricity Retained Interest Corporations Act 2015 No 6*. The Corporation recognises the retained interest in NAP, NOP & NUP on the Consolidated Statement of Financial Position using the equity method.

13. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Corporation's contingent assets is nil and contingent liabilities of $1.64 million represents its 49.6 per cent share in the associate's contingent assets and contingent liabilities.

14. COMPENSATION OF KEY MANAGEMENT PERSONNEL

	2018 Parent $'000	2017 Parent $'000
Short-term employee benefits[1]	349	28
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Total	**349**	**28**

1. **Short-term employee benefits**

Fees including superannuation benefits and salaries payable to the Directors.

15. FINANCIAL INSTRUMENTS

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

Financial Instrument Categories

Carrying Amount	Note	2018 Consolidated $'000	2017 Consolidated $'000	2018 Parent $'000	2017 Parent $'000
Financial Assets					
Trade and other receivables	8	382	114	373	103
Financial Liabilities					
Trade and other payables	10	382	114	373	103

The above table excludes prepayments and statutory receivables/payables which are not within the scope of AASB 7 *Financial Instruments.*

15. FINANCIAL INSTRUMENTS (continued)

Financial Risk Management Overview

As at 30 June 2018, the Corporation had exposure to the following risks:

- Credit risk
- Liquidity risk; and
- Operational risk

Credit Risk

Credit risk arises when there is 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 generally represented by the carrying amount of financial assets (net of any allowance for impairment).

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

Receivables

All trade debtors are recognised as amounts receivable at balance date. The collection of receivables is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters in demand. Debts which are known to be uncollectible are written off.

An allowance for impairment is raised when there is objective evidence that Corporation will not be able to collect all amounts due. No interest is earned on trade debtors. The average credit period on receivables, unless otherwise agreed, is 30 days. There are no receivables that are past due or considered impaired as at reporting date.

Liquidity Risk

Liquidity risk is the risk the Corporation will be unable to meet its payment obligations when they fall due. The risk is assessed to be negligible given that the Corporation's operating expenses are fully funded by grant income from the Fund which is administered by the Crown Entity. During the current year there were no defaults of any amounts payable.

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

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.

16. 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 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 Director related entities

The Directors of the Corporation are also Directors for the Endeavour Asset Network Partnership, Endeavour Asset Operator Partnership and Endeavour Energy Network Unregulated Partnership. Distributions from the Partnerships to the Corporation during the year are reported in the Consolidated Statement of Operating 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.

17. EVENT AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial statements

Appendix 1

Internal Audit and Risk Management Statement for the 2017-18 Financial Year for the State Rail Authority Residual Holding Corporation (SRARHC)

I, Michael Pratt am of the opinion that the SRARHC 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, first term expires April 2020.
- Independent Member, Jon Tyers, appointed August 2012, first term August 2012 to October 2015, second term extended from November 2015 to October 2018.
- Independent Member, Paul Ruiz, appointed December 2017, first term expires December 2020.
- Deborah O'Toole - Independent Member, appointed December 2017, first term expires December 2020.
- Independent Member, Patricia Azarias, appointed November 2015, first term was due to expire November 2018, Resigned on 10 July 2018.
- Independent Member, Garry Dinnie, appointed June 2013, term expired during December 2017.

Michael Pratt
Secretary
Date: 9-10-18

Virginia Tinson
Director of Risk & Compliance / Acting Chief Audit Executive
Telephone: 02 9228 3783
Date: 25/09/18

Appendix 2

Internal Audit and Risk Management Statement for the 2017-18 Financial Year for the Liability Management Ministerial Corporation (LMMC)

I, Michael Pratt am of the opinion that the 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, first term expires April 2020.
- Independent Member, Jon Isaacs, appointed August 2012, first term August 2012 to October 2015, second term extended from November 2015 to October 2018.
- Independent Member, Paul Kulz, appointed December 2017, first term expires December 2020.
- Deborah O'Toole - Independent Member, appointed December 2017, first term expires December 2020.
- Independent Member, Patricia Azarias, appointed November 2015, first term was due to expire November 2018. Resigned on 10 July 2018.
- Independent Member, Garry Dinnie, appointed June 2013, term expired during December 2017.

Michael Pratt
Secretary
Date: 9-10-18

Virginia Tinson
Director of Risk & Compliance / Acting Chief Audit Executive
Telephone: 02 9228 3783
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Treasury

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