From:	Stewart Walters
To:	Peter Crimp; Benedicte Colin; san.midha; Cassandra Wilkinson; Peter Wade; Michael Matsen
Subject:	Re: Updates
Date:	Sunday, 12 December 2021 5:12:14 PM
Attachments:	image006.png image008.png image012.png image013.png

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They aren't agreed Peter . But they do represent commercial upside and I assume opportunities the Board is assessing. Just wanted to see if AO would put any store in it. S

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From: Peter Crimp
Sent: Sunday, December 12, 2021 4:50:09 PM
To: Stewart Walters ; Benedicte Colin ; San Midha ; Cassandra Wilkinson ; Peter Wade ; Michael Matsen
Subject: RE: Updates

Hi Stewart, thanks for the update.

Would you be able to clarify the second point. Is reference to the commercial plan and the base model from a valuation perspective or assessment of returns. It has been clear throughout that TAHE has not included these "opportunities" in the asset valuation.

Thanks

Peter

Peter Crimp
Executive General Manager, Finance & Business Performance
Transport Asset Holding Entity (TAHE) NSW

470 Pitt Street, Haymarket NSW 2000
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NSW GOVERNMENT Transport Asset Holding Entity

From: Stewart Walters
Sent: Sunday, 12 December 2021 4:03 PM
To: Benedicte Colin ; Peter Crimp ; san.midha ; Cassandra Wilkinson ; Peter Wade ; Michael Matsen
Subject: Updates

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Hi All

I spoke again with Ian Goodwin:

- He will consider overnight whether the AO would seek 20/21 TAHE accounts to reflect higher asset valuation if access pricing increased – in two minds
- He would want to see any commercial plan (the BCG work on commercial opportunities, $381M in 10 years etc) approved by the Board to include in base model, otherwise may consider it if return on asset write down is close
- He confirmed that he expects PwC to re-run the valuation if higher cashflow (ie they wont rely on your great work Michael M).

R

Stewart

NSW GOVERNMENT | Treasury

Stewart Walters | Chief Financial and Operations Officer
Finance and Operations Group
52 Martin Place, Sydney (enter via 127 Phillip Street)

Angela Kirby, Executive Assistant

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From: Stewart Walters
Sent: Sunday, 12 December 2021 12:54 PM
To: ; Peter Crimp ; San Midha ; Cassandra Wilkinson ; Peter Wade
Subject: Audit Office email excerpt

Hi Benedicte and Peter

Excerpt from Ian's email to Mike this morning.

Hope this helps.

Regards

Stewart

1 AUDIT FINDINGS

1.1 Transport Asset Holding Entity – issues impacting the TSSA

TAHE's asset valuation is $1.2 billion below a supportable reasonable range. The difference between TAHE's asset valuation and a value within our view of a reasonable range is driven by TAHE adopting higher risk assumptions in its valuation than what is supported by our evidence. A lower discount rate (i.e. lower risk) is more supportable as TAHE is a monopoly rail infrastructure asset owner, with limited operational and maintenance risk, and has revenue contracts in place for the next 10 years.

APER

1.4.2 The estimated returns exclude the impact of TAHE's understated asset value - $1.2b

As part of the financial reporting process for the year ended 30 June 2021, TAHE engaged Price Waterhouse Coopers (PwC) to assist in the determination of the fair value of its property, plant and equipment using the DCF approach. The audit team, with the assistance of our experts, assessed the appropriateness and reasonableness of the judgements and assumptions applied by PwC in valuing TAHE's fair value of property, plant and equipment under the DCF model.

PwC determined a fair value range from $10.5 billion to $14.2 billion with a selected value of $12.8 billion. The audit calculated fair value of TAHE's property, plant and equipment resulted in a fair value range from $14.0 billion to $17.3 billion. Despite the overlap in the fair value range determined, there is a $1.2 billion difference between the TAHE selected value and the low end of our range.

The material difference between the PwC valuation and the audit valuation arises from differences in key assumptions used in the determination of the discount rate, including asset beta, gearing and cost of debt. In our view, the assumptions applied by management relating to TAHE's cash flows should be at the lower end of the risk spectrum when compared against other regulated assets. A lower discount rate is more supportable when considering that TAHE:

- is a monopoly rail infrastructure asset owner
- has limited operational and maintenance capital expenditure risk given the public operators fund the operational maintenance costs for TAHE's assets and NSW Treasury funds the capital maintenance expense through equity injections
- has cashflows for the regulated and unregulated assets contracted for the next 10 years.

Based on the above, NSW Treasury's returns estimate does not consider the reduction in the holding loss or additional depreciation expense resulting from TAHE's understated asset value of $1.2 billion.

NSW GOVERNMENT | Treasury

Stewart Walters | Chief Financial and Operations Officer
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52 Martin Place, Sydney (enter via 127 Phillip Street)

Angela Kirby, Executive Assistant

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