From: Stewart Walters
To: Benedicte Colin; michael.pratt
Cc: Bruce Morgan; san.midha
Subject: RE: Outstanding matters
Date: Saturday, 18 December 2021 7:45:54 AM
Attachments: image002.png
image003.png
image005.png

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Hi Benedicte

I believe based on the conversation Mike had with the AG, the audit evidence of the current financial returns model (with extrapolation out to year 33) coupled with a suitable signed HoA and a new PwC valuation based on that updated (HoA signed and Board minuted) cashflow would be considered appropriate.

When I scan the list below, I think most of that evidence and explanation is within what we already can procure and some is just nuance.

We are working on an enhanced disclosure note (which AO require for both TSSA and TAHE) and will share that with you later today – AO has provided guidance eon what elements are important to them in that note and I don't believe it is particularly inconsistent with what we have done.

Certainly key planks for the AO, in order to help ensure close out by end of next week, are;
- the signed HoA – and ideally if you could share a copy with them soonest, might avoid any minor wording tweak that could be important to AO and deliverable by TAHE
- the PwC valuation appropriately titled and narrated and ideally the whole valuation detail rather than a single cover page
- revised accounts
- enhanced disclosure

Hope this helps and we are all working to deliver as much as we can, to support you and Peter and the team as we can and to respond to the AO in a measured methodical manner.

R

Stewart

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

Angela Kirby, Executive Assistant

I acknowledge and pay my respects to the traditional owners and custodians on whose land I walk, work and live.

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From: Benedicte Colin
Sent: Friday, 17 December 2021 5:23 PM
To: Stewart Walters ; Michael Pratt

Cc: Bruce Morgan
Subject: FW: Outstanding matters
Importance: High

Mike, Stewart

TAHE received this e-mail from the Audit Office at 3.37 pm
Could you please confirm that:

- the AO will now accept a heads of agreement between TAHE and the operators and shareholders' letter as sufficient evidence of future price increase
- and that the conversation you had with the AG supersedes the below e-mail on this specific matter.

We will revert separately on the other matters (the list is long as you can see and some items remain problematic).

Given the intense workload imposed on all of us with these changes, I would also want absolute confirmation that we are all working towards the same objective which is to have signed financial statements and closed audit by the end of next week.

Regards
Benedicte

From: Peter Crimp
Sent: Friday, 17 December 2021 3:48 PM
To: Benedicte Colin
Subject: FW: Outstanding matters
Importance: High

From: Somaiya Ahmed
Sent: Friday, 17 December 2021 3:37 PM
To: Peter Crimp
Cc: Lynn Herisson ; Divya Bhandari

Subject: RE: Outstanding matters
Importance: High

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OFFICIAL: Sensitive - NSW Government

Hi Peter

Just to recap on our discussions from our 10:30am meeting today:

- DCF:
  - The updated DCF report is pretty much the same as the previous report, including the original value range. There is one page called scenario analysis that shows the updated range. There is no additional schedule in the appendix to show the inputs for the updated fees. Could you please provide the rationale/thinking behind this and why not an updated DCF which results in the new value range? We would expect the updated inputs (updated fees) should be within the valuation report to show the support for the updated range. It is also unusual that TAHE are adjusting accounts based on a scenario analysis value range which is briefly explained in one

page within the report. Scenario analysis seems to imply a 'what if' or possibility. But the updated fees are supposed to be the reality which is what you are basing your adjustment on. We were expecting an updated DCF not a scenario analysis.

    - You mentioned the updated fees calc was based on changing the 1.5% return on asset to 2.5% return on asset – did I understand that correctly?
    - Also, after our meeting I had some internal discussions on this, and we would expect the report would also consider whether there would be any significant changes to the beta/alpha or any other assumptions due to the increase in fees and expected return on assets of 2.5% as opposed to the original 1.5%
    - I understand based on what Lynn said is that the financials have already been updated with the new DCF value?
- Equity contribution:
    - As explained we have provided some feedback to Treasury by email on the recent spreadsheet and met with them on Wednesday to talk through these. We are also providing further feedback on this today.
- ALC – we are currently reviewing the updated figures and disclosures.
- You mentioned you won't be able to have signed agreements in place in such a short time, but you are getting a heads of agreement signed with TfNSW.
    - Can you please explain the reason why you can't have signed agreements but you can have heads of agreement if you are only updating the fee schedule in the actual agreements? Wouldn't both have to go through a similar process in terms of legal team reviews?
    - Given that the ERC minutes only have figures till 2024-25 and not beyond, our preference would be signed agreements to support the fees to 2031. Otherwise we only have the excel spreadsheet with no other support for the figures used.
    - Also, just confirming that only the fees will change in the agreements, and no other terms or clauses are changing in the agreements as a result of this update.
    - You also mentioned the updated fees (dollar figures) is not included in the heads of agreement you were referring to. As discussed on Tuesday, if there is a heads of agreement, it needs to be sufficiently specific. Without dollar figures, it is not sufficiently specific. We won't be able to accept that as audit evidence. We can't sign off based on numbers in a spreadsheet if there is no reference to those numbers in a signed document between the relevant parties.
- As discussed, we will also need to see enhanced disclosures around the changes that occurred between June and December as post balance date event and disclosures around the significant uncertainty around the fees post the forward estimate years and beyond 2031. The updated fees has been determined post balance date, so it is relevant to explain that in the accounts. We can discuss/review exact content for these disclosures.
- Just confirming your explanation for the ramp up in the fees in the back end – you explained it is based on the future spending/equity injections which accumulate each year which results in the ramp up in later years? Is that the correct interpretation of your explanation?
- The assumptions re decrease in opex for the ALC and Regional Rail Contract post 2030 in the spreadsheet provided by Treasury (using TAHE inputs and assumptions)– could you please provide the explanation/assumption for this decrease in the post 2031 period. Does the revenue forecast for the ALC also decrease at this point?
- As mentioned, there was no balance sheet forecast provided to Treasury for the calculations, the previous Balance sheet was a hidden tab. However, I understand we just received that today following our meeting – we are currently reviewing.
- I had asked about the assumption of 100% dividend payout ratio in the Treasury spreadsheet. However, we seem to have received an updated spreadsheet from Treasury just today with 70% payout ratio. Do we assume TAHE Board agreed to the 70% payout policy based on the previous SCI?
- Letter of shareholder support – as discussed, generally the letter would mention 12 months from audit report date, but the letter states 12 months from FS signing date. Just need to ensure is no significant gap between signing dates

We are working through things as quickly as we can. EY have the information you have provided.

Kind Regards
Somaiya

Somaiya Ahmed
Director - Financial Audit

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From: Peter Crimp
Sent: Friday, 17 December 2021 12:35 PM
To: Somaiya Ahmed
Cc: Lynn Herisson
Subject: Outstanding matters

Hi Somaiya,

Just following up on our earlier call. Unfortunately it was poor reception.

As you indicated it would be useful if you could document your remaining outstanding matters.

thanks

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

470 Pitt Street, Haymarket NSW 2000
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