

Financial Report

Annual Report for the year ended 30 June 2003

Contents

Directors' Report	84
Statement of Financial Performance	93
Statement of Financial Position	94
Statement of Cash Flows	95
Notes to Financial Statements	96
Directors' Declaration	109
Independent Audit Report to the Members	110

Financial Report

Directors' Report

Your directors present their report of Telecommunications Industry Ombudsman Ltd (the TIO) for the year ended 30 June 2003.

The TIO is a company limited by guarantee and incorporated in Australia in 1993 under the Corporations Act. The TIO is established to investigate, resolve, make determinations relating to and give directions relating to complaints by residential and small business consumers of telecommunications services.

The principal place of business for the TIO is Level 15/114 William Street, Melbourne, Victoria.

Directors

The current composition and membership of the Board up to the date of this report is as follows:

Two (2) directors appointed by Telstra:

A Barda

T C Hill

Two (2) directors appointed by Optus:

D C McCulloch, with G R Smith as alternate director.

M K Davidson

One (1) director appointed by Vodafone:

J F Rohan (Chairman)

One (1) director appointed by members who are other than Telstra, Optus, Vodafone and who are not internet service providers or internet service intermediaries:

D Havyatt

One (1) director appointed by internet service provider or internet service intermediary members:

R G Manson

Independent Director:

J M Harvey

Changes to Board composition are summarised in note 13 to the financial statements.

Financial Report

Directors' Report (continued)

Operating Results

The TIO recorded an operating surplus for the year of \$9,783 (2002, \$313,498). The results for the year ended 30 June 2003 and previous years are as follows:

Year	Total Revenue	Total Expenditure	Surplus/(Deficit)
1995-96	\$1,945,115	\$1,967,519	\$(22,404)
1996-97	\$2,177,575	\$2,102,623	\$74,952
1997-98	\$2,394,718	\$2,347,817	\$46,901
1998-99	\$3,258,048	\$3,292,788	\$(34,740)
1999-2000	\$3,885,195	\$3,915,990	\$(30,795)
2000-2001	\$5,201,679	\$5,086,519	\$115,160
2001-2002	\$5,537,714	\$5,224,216	\$313,498
2002-2003	\$5,821,007	\$5,811,224	\$9,783

Due to the surplus, members' funds were increased from \$713,538 at the start of the financial year to \$723,321 at the end of 2002-2003.

The TIO has been granted an exemption from income tax under Item 2.1 of Section 50-10 of the Income Tax Assessment Act 1997 until 30 June 2004.

Review of Operations

Growth Plateau

The TIO Scheme has had a further reduction in demand for complaint resolution services from the peak experienced in 2000-2001. The consistent rate of growth, which had characterised previous periods appears to have been arrested. It is considered that the peak number of complaints experienced in 2000-2001 was due to the impact of OneTel (15,084 contacts) on the market.

Overall contacts for 1994-95 to 2002-2003 are presented below. Contacts include cases categorised as enquiries, which are not allocated against individual members and complaints, which are raised against individual members.

Year	Total	% Increase over previous year
1994-95	17,205	-
1995-96	26,905	56
1996-97	43,715	62
1997-98	52,138	19
1998-99	64,394	24
1999-2000	67,761	5
2000-2001	98,853	45
2001-2002	91,190	-8%
2002-2003	72,771	-20%

Financial Report

Directors' Report (continued)

Debt Recovery

Bad debts of \$147,547 were written-off during the financial year. The provision for bad debts was reduced to \$48,270 for specific provisions. Debts were settled with a small number of members.

Cash Flow

The TIO's bankers, Commonwealth Bank of Australia, have provided the TIO with an overdraft facility of \$150,000. This facility has been maintained to alleviate any temporary cash flow shortages associated with the TIO's quarterly billing cycle. The overdraft was not called on during the year.

Performance

The TIO monitors levels of complainant satisfaction and confidence with the service provided by the TIO. Issues identified through the monitoring process are addressed as they arise by the Ombudsman and his team.

Over the course of the year the service level efficiency standard of answering 80% of calls within 60 seconds was regularly and substantively achieved. Average resolution times were 63 days for Level 2 complaints (target 48 days), 80 days for Level 3 complaints (target 62 days) and 104 days for Level 4 complaints (target 90 days).

Industry Development

During 2002-2003 the TIO continued to work collaboratively with industry and the community to identify, prevent and/or address systemic problems. The TIO also actively participated in industry forums to assist in achieving this objective, and continued to contribute to the development of Consumer Codes of Practice.

Communications

The TIO worked to maintain general access to the Scheme and particularly identified consumers of a Non-English Speaking Background and youth as targeted demographics.

Governance

The Board concentrated on maintaining the financial stability of the TIO throughout the year. It established principles and parameters for the development of annual budgets, ensured that the financial reserve continued to build and progressed a number of changes to the Constitution, largely in the area of jurisdiction.

The Board had one member resign during the course of the year (Jane van Beelen, Telstra nominee), and unfortunately Susan Holmes, independent director since June 1999 sadly passed away on 20 September 2002. The Board was joined by Trevor Hill of Telstra and by Jane Harvey as the new Independent Director.

Establishment of a financial reserve

The Board ensured that the financial reserve continued to accumulate during 2002-2003 to ensure the TIO is protected from an increasing volume of bad debts and insulated from cash flow shortages inherent in the three monthly billing cycle. The reserve is to be progressively accumulated to a level of \$500,000 over a period of two years and is being funded by increases in complaint handling fees approved by the Board. The total in the financial reserve at 30 June 2003 was \$355,020.

Financial Report

Directors' Report (continued)

Fee Increases

The Board introduced fee increases for Level 1 complaints and Enquiries from \$18 to \$20 (excluding GST), effective from 1 July 2002.

Membership

The *Telecommunications Act 1997* required all carriers and eligible carriage service providers to be members of the TIO and comply with the Constitution and Memorandum and Articles of Association of the Scheme. Eligible carriage service providers are those which supply:

- a standard telephone service where some of the customers are residential or small business customers; or
- a public mobile telecommunications service; or
- a carriage service which enables end users to access the Internet.

A carriage service intermediary which arranges the supply of the services referred to above qualifies as an eligible carriage service provider.

These requirements are now incorporated in the *Telecommunications (Consumer Protection and Services Standard) Act 1999*.

The total number of members reduced from 963 at 30 June 2002 to 910 at 30 June 2003. The reduction was largely as a result of the continuing project to examine and determine the status of members with whom the TIO had no contact for a considerable period. Aside from these defunct members there was a small underlying increase in the number of members across the year.

Staffing

As at 30 June 2003, the TIO employed 56 staff, with a small number of these being part-time employees.

Principal Activities

During the year, the principal continuing activity of the TIO was the investigation and resolution of complaints from small businesses and residential consumers. There were no significant changes in the nature of the activities during the year.

Dividends

Under the terms of its Memorandum and Articles of Association, the TIO is not permitted to pay dividends to members.

Significant Changes in the State of Affairs

There have been no significant changes in the state of affairs of the company in the year ended 30 June 2003.

Financial Report

Directors' Report (continued)

Matters Subsequent to the End of the Financial Year

Fee Increases

The TIO Board has approved increases in the fees for Level 1 complaints and non-allocated enquiries from \$20 to \$25 (excluding GST) and for Reviews from \$150 to \$250 (excluding GST), and authorised a Work Value Project to be conducted to, in part, review all fee levels. The Work Value and Productivity Study is a major undertaking to review the costs of the Scheme and to identify opportunities for efficiency and productivity.

The following funding principles (adopted on 1 July 1999) will continue to apply:

- a) no provider is charged a fee (including overhead and any special levy) for the first four (4) Level 1 complaints received in any given quarter; and
- b) providers will not be individually charged for information-giving exercises (including queries about whether a particular provider is a member of the TIO), or for anonymous complaints. These matters will instead be logged as non-allocated enquiries.

Except for the matters noted above, at the date of this report no matter or circumstance has arisen since 30 June 2003 that has significantly affected or may significantly affect:

- a) the operations of the TIO in future financial years: or
- b) the results of those operations in future financial years: or
- c) the state of affairs of TIO in future financial years.

Likely Developments and Expected Results of Operations

The TIO has budgeted for a modest increase in complaint numbers in 2003-2004.

Environmental Regulations

Apart from statutory provisions of general applicability, the TIO is not subject to any specific environmental regulation.

Financial Report

Directors' Report (continued)

Information on Directors

Director	Experience	Special Responsibilities
J F Rohan B Mech Eng, Grad Dip IE, MBA, FIEAust	John has been Executive Director, Vodafone Pacific, MD of Vodafone Australia Pty Ltd, Vodafone New Zealand Ltd and Vodafone Network Pty Ltd. Previous positions include Executive General Manager of James Hardie Building Services and Technologies, Chief Executive of McConnell Dowell's Building Product Group, Australia and New Zealand and General Manager of Comalco Building Products. John has previously served as Chairman of the TIO Board and as a member of the TIO Council.	Chairman from 1 August 2001
D S Havyatt BSc, MA, FAICD	Director, Regulatory, AAPT. David has held previous management positions with Telstra and Hutchison Telecoms. David is also a member of the Boards of ACIF and the Australian Mobile Telecommunications Association.	Director from 13 December 2000
D C McCulloch B Juris, LLB, LLM	General Manager, Government Affairs, Optus. David was formerly Director of Broadcast Policy with the Federation of Commercial Television Stations.	Director from 10 October 2001
A Barda BSc (Mathematics), MBA	Group General Manager, Commercial Operations, Service Division, Telstra. Gus joined Telstra in 1976. He has held management responsibilities across a number of disciplines.	Director from 16 November 2001
M K Davidson	Director Customer Service, Consumer & Multimedia Division, Optus. Mark has a background in customer service and was formerly National Manager, Customer Service Contact centres with Optus.	Director from 18 January 2002
R G Manson BA (Hons), ICAA, ICAEW, AICD	Chief Executive Officer, Impaq Australia. Robert was formerly the Managing Director of The Greater Union Organisation.	Director from 13 June 2002

Financial Report

Directors' Report (continued)

Information on Directors (continued)

Director	Experience	Special Responsibilities
T C Hill AICD	Group Manager, Consumer & Compliance, Regulatory Division, Telstra. Trevor has worked for Telstra in a variety of management and policy roles.	Director from 30 October 2002 (initially Alternate Director for J van Beelen)
J M Harvey BCom, MBA, ICAA, AICD	Formerly a Partner at KPMG. Directorships include: Bayside Health Network, The Lyceum Club, Rural Finance Corporation, Royal Flying Doctor Service.	Director from 7 April 2003
G R Smith B Econ / Politics (Hons)	Manager Regulatory Operations, Optus. He has formerly worked with AUSTEL, the Reserve Bank of Australia and the Victorian state government.	Alternate Director for D McCulloch from 4 March 2002
J L van Beelen LLB, B Econ	Deputy Director, Regulatory, Telstra. Jane joined Telstra as a lawyer in 1995 and has filled various roles in the Legal & Regulatory group.	Director from 4 February 2002 to 5 March 2003
S L Holmes Dip Phys Ed, B Ed, B Psych, M Psych (clin)	Susan acted as a Company Director for a variety of boards of management. Previously she was Executive General Manager – Corporate Services, Royal Automobile Club of Victoria (RACV) Ltd from 1996-1999, Chief Executive, Melbourne City Marketing from 1992-1995 and Chief Executive, Small Business Development Corporation from 1988 to 1991.	Director from 4 June 1999 (Deceased 20 September 2002)

Financial Report

Directors' Report (continued)

Meetings of Directors

The numbers of meetings of the company's directors (excluding meetings of committees of directors) held during the year ended 30 June 2003, and the number of meetings attended by each director were:

	Number Eligible to Attend	Number Attended
Number of meetings held: 7		
Number of meetings attended by:		
J F Rohan	7	6
D Havyatt	7	3
D C McCulloch	7	7
A Barda	7	6
M K Davidson	7	3
J L van Beelen	4	1
T C Hill (As Alternate for J van Beelen)	3	3
T C Hill	3	3
G R Smith (As Alternate for D McCulloch)	0	0
S L Holmes	1	1
R. Manson	7	4
J M Harvey	2	2

Directors' Benefits

During the year, director's fees of \$7,437.50 were paid to Susan Holmes and Jane Harvey for their terms as the independent director.

Except for that noted above, since 30 June 2003, no director of the company has received, or has become entitled to receive, a benefit because of a contract that the director, a firm of which the director is a member or a company in which the director has a substantial financial interest, has made (during the year ended 30 June 2003 or at any other time) with:

- a) the TIO, or
- b) a company that the TIO controlled, or a body corporate that was related to the company, when the contract was made or when the director received, or became entitled to receive, the benefit.

Financial Report

Directors' Report (continued)

Insurance of Officers

During the financial year, the TIO paid a premium of \$9,370.78 to insure certain officers of the company.

The officers of the company covered by the insurance policy included all directors as listed in this report, Council members, the Ombudsman J E Pinnock and the Secretary P J Carruthers.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the company.

Auditors

During the reporting year the audit partners of our current auditor, Stockfords, left Stockfords and moved to RSM Bird Cameron. The partner servicing the TIO moved with the rest of the audit business and has been retained as the TIO auditor in accordance with Section 327 of the Corporations Act 2001. RSM Bird Cameron are now the TIO auditors.

This report is made in accordance with a resolution of the directors.

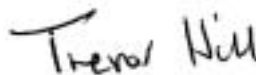


J F Rohan

Director

Sydney

4 September 2003



T C Hill

Director

Financial Report

Statement of Financial Performance

For the year ended 30 June 2003

	Notes	2003 \$	2002 \$
Revenue from ordinary activities			
Revenue from operating activities	2	5,821,007	5,537,714
Total revenue from ordinary activities	2	5,821,007	5,537,714
Expenses from ordinary activities			
Employee benefits expense		4,087,759	3,629,873
Legal fees		18,035	101,557
Depreciation and amortisation expenses		176,671	186,956
Borrowing costs		4,583	11,187
Telephone costs		217,743	260,529
Marketing expenses		282,029	252,149
Rent expense		214,767	190,138
Computer expenses		321,160	166,681
Other expenses from ordinary activities	3	488,477	425,146
Total expenses from ordinary activities		5,811,224	5,224,216
Surplus for the year	9	9,783	313,498

The above Statement of Financial Performance should be read in conjunction with the accompanying notes.

Financial Report

Statement of Financial Position

As at 30 June 2003

	Notes	2003 \$	2002 \$
Current Assets			
Cash Assets	4	1,349,070	1,181,326
Receivables	5	34,718	11,747
Prepayments		102,700	54,393
Total Current Assets		1,486,488	1,247,466
Non – Current Assets			
Property, Plant and Equipment	6	127,228	297,606
Total Non – Current Assets		127,228	297,606
Total Assets		1,613,716	1,545,072
Current Liabilities			
Payables	7	688,581	611,705
Lease Liabilities	12	13,750	55,000
Provisions – Annual Leave		146,025	116,826
Total Current Liabilities		848,356	783,531
Non – Current Liabilities			
Lease Liabilities	12	-	13,750
Provisions – Long Service Leave		42,039	34,253
Total Non – Current Liabilities		42,039	48,003
Total Liabilities		890,395	831,534
Net Assets		723,321	713,538
Members' Funds			
Accumulated Surplus	9	723,321	713,538
Total Members' Funds		723,321	713,538

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Financial Report

Statement of Cash Flows

For the year ended 30 June 2003

	Notes	2003 \$	2002 \$
Cash Flows from Operating Activities			
Receipts from members (inclusive of GST)		5,770,145	5,762,539
Payments to suppliers and employees (inclusive of GST)		(5,589,704)	(4,782,432)
Borrowing costs		(4,583)	(11,187)
		175,858	968,920
Interest received		53,178	35,454
Net cash inflow from operating activities	14	229,036	1,004,374
Cash Flows from Investing Activities			
Payments for plant and equipment		(6,292)	(34,700)
Proceeds from sale of plant and equipment		-	2,400
Net cash (outflow) from investing activities		(6,292)	(32,300)
Cash Flows from Financing Activities			
Repayment of lease liabilities		(55,000)	(96,234)
Net cash (outflow) from financing activities		(55,000)	(96,234)
Net Increase in Cash Held		167,744	875,840
Cash at the beginning of the financial year		1,181,326	305,486
Cash at the End of the Financial Year	4	1,349,070	1,181,326

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

Financial Report

Notes to the Financial Statements

30 June 2003

NOTE 1 – Summary of Significant Accounting Policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

a) Income Tax

The company is exempt from income tax under Item 2.1 of Section 50-10 of the *Income Tax Assessment Act 1997*. As part of the introduction of the new tax system, the TIO was required to reapply for income tax exemption status. The TIO has been notified of a further tax exempt status up to 30 June 2004 by the ATO.

b) Acquisitions of Assets

The cost method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition.

c) Revenue Recognition

Volume and overhead billing fees are charged to members for complaint resolution services. Invoices are raised at the commencement of each quarter on an estimate basis. Revenue is raised monthly based on the level of complaints received.

d) Receivables

Amounts due from members are recognised as the amounts receivable.

Collectibility is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

e) Depreciation of Property, Plant and Equipment

Depreciation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment over its expected useful life to the company. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

Furniture and fittings	5-10 years;
Plant and equipment	3-5 years.

Financial Report

Notes to the Financial Statements

30 June 2003 (continued)

NOTE 1 – Summary of Significant Accounting Policies (continued)

f) Leasehold Improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the company, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over 5 years.

g) Leased Non-Current Assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the company will obtain ownership of the asset, the life of the asset. Lease assets held at the reporting date are being amortised over 5 years.

Lease payments are allocated between interest (calculated by applying the interest rate implicit in the lease to the outstanding amount of the liability), rental expense and reduction of the liability.

Other operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

h) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

i) Amounts Due to Members

Amounts due to members represents funds owing as a result of estimated case numbers determined in the previous quarter being greater than actual case numbers recorded during the final quarter of the reporting period. The resulting adjustment represents amounts owed to members.

Financial Report

Notes to the Financial Statements

30 June 2003 (continued)

NOTE 1 – Summary of Significant Accounting Policies (continued)

j) Maintenance and Repairs

Maintenance and repair costs are charged as expenses as incurred.

k) Employee Entitlements

i) Wages and Salaries and Annual Leave

Liabilities for wages and salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

ii) Long Service Leave

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

l) Interest Bearing Liabilities

Interest bearing liabilities are carried at their principal amounts that represent the present value of future cash flows associated with servicing the debts. Interest is accrued over the period it becomes due and is recorded as a part of other creditors.

m) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred, and include finance lease charges.

n) Cash

For the purpose of the statement of cash flows, cash includes deposits on call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of any outstanding bank overdrafts.

Financial Report

Notes to the Financial Statements

30 June 2003 (continued)

NOTE 2 – Revenue from Ordinary Activities

	2003 \$	2002 \$
Revenue From Operating Activities		
Volume and overhead billing fees	5,767,829	5,499,860
Revenue From Outside Operating Activities		
Proceeds from sale of property, plant and equipment	-	2,400
Interest	53,178	35,454
Total Revenue from Ordinary Activities	5,821,007	5,537,714

NOTE 3 – Surplus from Operating Activities

	2003 \$	2002 \$
The surplus from operating activities includes the following net gains and expenses:		
Gains		
Bad debt recovery	-	10,085
Profit (loss) on sale or write-off of plant and equipment	-	42
Expenses		
Borrowing costs		
Finance charges on finance leases	4,583	11,187
Depreciation		
Furniture and fittings	22,166	20,177
Plant and equipment	35,433	47,708
	57,599	67,885
Amortisation		
Leasehold improvements under finance lease	119,071	119,071
	119,071	119,071
Other charges against assets		
Bad and doubtful debts - trade debtors**	57,818	1,181
Other provisions		
Employee entitlements	36,985	50,079
Rental related to operating leases		
Minimum lease payments	406,797	269,513

**In 2002, bad debts incurred during the year were written off against the provision for doubtful debts to the value of \$239,147. In 2003, bad debts were expensed as incurred.

Financial Report

Notes to the Financial Statements

30 June 2003 (continued)

NOTE 4 – Cash Assets

	2003	2002
	\$	\$
Cash at bank and on hand	23,791	260,239
Deposits at call	1,325,279	921,087
	1,349,070	1,181,326

Deposits at call

The deposits are bearing floating interest rates between 4.05% and 4.20% (2002 3.55% and 4.05%). Deposits at call includes a cash reserve of \$355,020 established by the Board of the TIO during the previous reporting period.

NOTE 5 – Receivables

	2003	2002
	\$	\$
Other Receivables	24,918	-
Interest Receivable	4,500	4,131
Amounts due from members	53,570	145,616
Less: Provision for doubtful debts	48,270	138,000
	34,718	11,747

Financial Report

Notes to the Financial Statements

30 June 2003 (continued)

NOTE 6 – Property, Plant and Equipment

	2003 \$	2002 \$
Plant and equipment		
Plant and equipment - at cost	266,256	260,524
Less: Accumulated depreciation	243,010	207,577
	23,246	52,947
Total plant and equipment	23,246	52,947
Furniture and fittings		
Furniture and fittings - at cost	134,910	134,349
Less: Accumulated depreciation	85,628	63,461
	49,282	70,888
Leasehold improvements under finance lease – at cost	595,351	595,351
Less: Accumulated amortisation	540,651	421,580
	54,700	173,771
Total Furniture and fittings	103,982	244,659
	127,228	297,606

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

	Plant & Equipment	Furniture & fittings	Leasehold improvements under finance lease	Total
	\$	\$	\$	\$
Carrying amount at 1 July 2002	52,947	70,888	173,771	297,606
Acquisitions	5,732	560	-	6,292
Transfers	-	-	-	-
Net book amount of disposals	-	-	-	-
Depreciation /amortisation	(35,433)	(22,166)	(119,071)	(176,670)
Carrying amount at 30 June 2003	23,246	49,282	54,700	127,228

Financial Report

Notes to the Financial Statements

30 June 2003 (continued)

NOTE 7 – Current Liabilities - Payables

	2003	2002
	\$	\$
Amounts due to members	216,457	205,414
Trade creditors	188,568	214,520
Other creditors	283,556	191,771
	688,581	611,705

Financing Arrangements

The company has an overdraft facility of \$150,000 which may be drawn at any time and terminated by the bank without notice. This facility is unused at balance date. The interest rate is 10.8%.

The overdraft facility is secured by a charge over the assets of the company.

NOTE 8 – Financial Instruments

a) Credit Risk Exposures

The credit risk on financial assets of the company which has been recognised on the statement of financial position, is generally the carrying amount, net of any provisions for doubtful debts.

b) Interest Rate Risk Exposures

The company's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the company intends to hold fixed rate assets and liabilities to maturity.

Financial Report

Notes to the Financial Statements

30 June 2003 (continued)

NOTE 8 – Financial Instruments (continued)

b) Interest Rate Risk Exposures (continued)

2003	Notes	Fixed interest maturing in:				Total
		Floating interest rate	1 year or less	Over 1 to 5 years	Non-interest bearing loan	
		\$	\$	\$	\$	\$
Financial assets						
Cash assets	4	1,349,070	-	-	-	1,349,070
Receivables	5	-	-	-	34,718	34,718
		1,349,070	-	-	34,718	1,383,788
Average interest rate		3.55%	-	-		
Financial liabilities						
Payables	7	-	-	-	688,581	688,581
Finance lease liabilities	8,12	-	13,750	-	-	13,750
		-	13,750	-	688,581	702,331
Average interest rate		-	7.75%	-		
Net financial assets (liabilities)		1,349,070	(13,750)	(0)	(653,863)	681,457
2002	Notes	Fixed interest maturing in:				Total
		Floating interest rate	1 year or less	Over 1 to 5 years	Non-interest bearing loan	
		\$	\$	\$	\$	\$
Financial assets						
Cash assets	4	1,181,326	-	-	-	1,181,326
Receivables	5	-	-	-	11,747	11,747
		1,181,326	-	-	11,747	1,193,073
Average interest rate		2.35%	-	-		
Financial liabilities						
Payables	7	-	-	-	611,705	611,705
Finance lease liabilities	8,12	-	55,000	13,750	-	68,750
		-	55,000	13,750	611,705	680,455
Average interest rate		-	7.75%	7.75%		
Net financial assets (liabilities)		1,181,326	(55,000)	(13,750)	(599,958)	512,618

Financial Report

Notes to the Financial Statements

30 June 2003 (continued)

NOTE 8 – Financial Instruments (continued)

b) Interest Rate Risk Exposures (continued)

Reconciliation of Net Financial Assets to Net Assets

	Notes	2003 \$	2002 \$
Net financial assets as above		681,457	512,618
Non financial assets and liabilities			
Property, plant and equipment	6	127,228	297,606
Prepayments		102,700	54,393
Provisions		(188,064)	(151,079)
Net assets per statement of financial position		723,321	713,538

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	2003		2002	
	Carrying amount \$	Carrying amount \$	Carrying amount \$	Carrying amount \$
Recognised financial instruments				
Financial assets				
Cash Assets	23,791	23,791	260,239	260,239
Deposits	1,325,279	1,325,279	921,087	921,087
Receivables	82,988	82,988	149,747	149,747
	1,432,058	1,432,058	1,331,073	1,331,073
Financial liabilities				
Payables	688,581	688,581	611,705	611,705
Lease liabilities	13,750	13,750	68,750	68,750
Non-traded financial liabilities	702,331	702,331	680,455	680,455

None of the classes of financial assets and liabilities are readily traded on organised markets in standardised form.

Net fair value is exclusive of costs which would be incurred on realisation of an asset, and inclusive of costs which would be incurred on settlement of a liability.

Financial Report

Notes to the Financial Statements

30 June 2003 (continued)

NOTE 9 – Accumulated Surplus

	2003	2002
	\$	\$
Accumulated Surplus at the beginning of the financial year	713,538	400,040
Surplus for the year	9,783	313,498
Accumulated Surplus at the end of the financial year	723,321	713,538

NOTE 10 – Remuneration of Directors

Directors of Entity

	2003	2002
	\$	\$
Income paid or payable, or otherwise made available, to directors in the company in connection with the management of the affairs of the company.	16,213	32,130

The numbers of directors whose total income from the company or related parties was within the specified bands are as follows:

	2003	2002
\$0	9	16
\$1 - \$19,999	2	0
\$20,000 - \$29,999	0	0
\$30,000 - \$39,999	0	1

NOTE 11 – Remuneration of Auditors

	2003	2002
	\$	\$
Remuneration for audit of the financial reports of the company	18,190	24,959
Remuneration for other services	0	3,981

Financial Report

Notes to the Financial Statements

30 June 2003 (continued)

NOTE 12 – Commitments for Expenditure

	2003 \$	2002 \$
Lease Commitments:		
Representing:		
Non-cancellable operating leases	679,096	711,202
Operating Leases		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Not later than one year	427,564	377,347
Later than one year but not later than 5 years	251,532	333,855
Commitments not recognised in the financial statements	679,096	711,202
Finance Leases		
Commitments in relation to finance leases are payable as follows:		
Not later than one year	13,933	58,483
Later than one year but not later than 5 years	-	13,934
Minimum lease payments	13,933	72,417
Less: Future finance charges	(183)	(3,667)
Total lease liabilities	13,750	68,750
Representing lease liabilities:		
Current	13,750	55,000
Non-current	-	13,750
	13,750	68,750

The average interest rate implicit in the leases is 7.75%

Financial Report

Notes to the Financial Statements

30 June 2003 (continued)

NOTE 13 – Related Parties

Directors

The names of persons who were directors of TIO at any time during the financial year are as follows:

Name of Director	Date of Appointment	Date of Resignation
J Rohan	01 August 2001	Continuing
J Harvey	7 April 2003	Continuing
D Havyatt	13 December 2000	Continuing
D McCulloch	10 October 2001	Continuing
A Barda	16 November 2001	Continuing
M Davidson	18 January 2002	Continuing
G Smith	4 March 2002	Continuing
R Manson	13 June 2002	Continuing
T Hill	30 October 2002	Continuing
J Van Beelen	4 February 2002	5 March 2003
S Holmes	04 June 1999	20 September 2002

Transactions with directors and director related entities

J Rohan is a current TIO director nominated by Vodafone Pacific Pty Ltd. TIO invoiced \$75,189 during the year in respect of complaint handling fees for Vodafone Pty Ltd and other related Vodafone entities. Vodafone entities invoiced the TIO for \$4,548 for the provision of telecommunications services during the reporting period.

One former director, J Van Beelen and two current directors, A Barda and T Hill are employees of Telstra Corporation. TIO invoiced \$2,636,379 and \$264,329 during the year in respect of complaint handling fees for Telstra Corporation and Telstra Big Pond respectively. Telstra Corporation invoiced the TIO for \$195,416 for the provision of telecommunications services during the reporting period.

Two current directors, D McCulloch and M Davidson and one alternate director, G Smith are employees of Optus Networks Pty Ltd. TIO invoiced \$1,545,277 for Optus Networks Pty Ltd and related entities. Optus entities invoiced the TIO for \$2,730 for the provision of telecommunications services during the reporting period.

A director, D Havyatt, is an employee of AAPT Ltd. TIO invoiced \$421,104 during the year in respect of complaint handling fees for AAPT Ltd. AAPT invoiced the TIO for \$31,781 for the provision of telecommunications services during the reporting period.

All of the above transactions with directors and director related entities were based on normal commercial terms and conditions.

Financial Report

Notes to the Financial Statements

30 June 2003 (continued)

NOTE 14 – Reconciliation of Surplus from Ordinary Activities after Income Tax to Net Cash Inflow from Operating Activities

	2003	2002
	\$	\$
Surplus from ordinary activities after income tax	9,783	313,498
Depreciation and amortisation	176,671	186,956
Loss/(gain) on disposal of fixed assets	0	(42)
Changes in operating assets and liabilities:		
Decrease in receivables	2,316	252,593
Decrease (increase) in other operating assets	(73,595)	(27,995)
Increase in payables	76,876	229,285
Increase in other provisions	36,985	50,079
Net cash inflow from operating activities	229,036	1,004,374

Financial Report

Notes to the Financial Statements

30 June 2003 (continued)

Directors' Declaration

The directors declare that the attached Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and Notes to the Financial Statements:

- a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- b) give a true and fair view of the company's financial position as at 30 June 2003 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date.

In the directors' opinion:

- a) the financial statements and notes are in accordance with the Corporations Act; 2001; and
- b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



J F Rohan

Director

Sydney

4 September 2003

RSM Bird Cameron Partners

Chartered Accountants

Level 31, Nauru House
80 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West Melbourne VIC 8007
T +61 3 9040 3700 F +61 3 9040 3711
www.rsm.com.au

INDEPENDENT AUDIT REPORT

To the members of Telecommunications Industry Ombudsman Limited

Scope

We have audited the financial report of Telecommunications Industry Ombudsman Limited for the financial year ended 30 June 2003, comprising the attached Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, Notes to the Financial Statements and the Directors' Declaration. The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Telecommunications Industry Ombudsman Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2003 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards; and
- (b) other mandatory professional reporting requirements.

Date: 17 September, 2003
Address: Melbourne, Victoria


RSM BIRD CAMERON PARTNERS
Chartered Accountants

R B MIANO
Partner

Liability is limited by the Accountants' Scheme pursuant to the NSW Professional Standards Act 1994

Major Offices in:
Perth, Sydney, Melbourne,
Adelaide and Canberra
ABN 36 965 185 036

RSM Bird Cameron Partners is an independent member firm of RSM International, an affiliation of independent accounting and consulting firms.

