TAX & LAW

INTERNATIONAL TAX SERVICES

CITIPOWER PTY AND POWERCOR AUSTRALIA LIMITED

ANALYSIS OF TRANSFER PRICES FOR IT SERVICES

20 November 2006

ERNST & YOUNG

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Contents

Executive Summary

Background

CitiPower Pty (‘CitiPower’) and Powercor Australia Limited (‘Powercor’) own and manage the electricity distribution network in Melbourne's CBD and inner suburbs and the Victorian regional and rural towns respectively. Domestic related parties provide a range of related services to CitiPower and Powercor. Electricity retailers sell electricity and send electricity bills to users of the electricity. The retailer pays CitiPower and Powercor directly for transporting electricity to the end user’s premises. Both the retailer and the end-user are considered to be customers of CitiPower and Powercor.

The prices charged to the retailer by CitiPower and Powercor as well as standards of service are regulated by the Victoria Essential Services Commission (‘ESC’). It is planned that these responsibilities will shortly transfer to the Australian Energy Regulator (‘AER’). In determining the prices to be charged by CitiPower and Powercor for the distribution of electricity to its customers, consideration is given to the costs incurred by CitiPower and Powercor in planning, building, operating and maintaining the distribution network (including ancillary services). Ancillary services are provided to CitiPower and Powercor by CKI/HEI Electricity Distribution (Services) Pty Limited (‘CHED Services’) which is a domestic related party.

Scope of Report

Ernst & Young has been engaged by CitiPower and Powercor to establish the appropriate arm’s length transfer prices for IT Services provided by CHED Services applying processes and methodologies that are accepted by the Australian Taxation Office (‘ATO’) with respect to the pricing of both domestic and international related party services.

For the purposes of this report, Ernst & Young has assumed that the data and information supplied by CitiPower and Powercor is correct and has relied on CitiPower and Powercor’s guidance in interpreting these facts. Ernst & Young has requested CitiPower and Powercor to review this report and confirm that there are no material misunderstandings or misrepresentations of the facts gathered during its preparation. CitiPower and Powercor are responsible for the accuracy of the financial data and business descriptions contained within this report.

Summary of Results

Comparability Benchmarking Analysis

The Cost Plus approach was found to be the most appropriate ATO accepted approach for determining an arm’s length transfer price. The resulting weighted average Cost Plus ratio (i.e., mark-up on operating costs) benchmark results are summarised in the table below.

The analysis in this report does not comment on how the IT Services costs and mark-up should be apportioned between CitiPower and Powercor.

Weighted Average Cost Plus Ratio for IT Services by Divisions

	All IT Services	Strategy, Application Development and Application Support	Infrastructure & User Services
Overall Ranking per Figure 2.4	2,3	2,1	2,3
Overall Relative Importance per Figure 2.4	M	M-H	L-M
Primary Benchmark[1]	18.93%	20.60%	12.26%
Secondary Benchmarks:			
- ABS Data[2]	7.72%	7.72%	7.72%
- ATO Statistics[3]	7.00% and 5.22%[4]	7.00% and 5.22%[5]	7.00% and 5.22%[6]
- ATO TR 1999/1[7]	7.5% (range of 5%-10%)	7.5% (range of 5%-10%)	7.5% (range of 5%-10%)

Refer to Section 4 of this report for a more detailed discussion of the results of the table above.

The table above sets out the results of the comparable company studies carried out and the data observed from the other available sources being ABS Data, ATO Statistics as well as guidance from TR 1999/1 (an ATO taxation ruling that deals with the pricing of related party services).

Briefly, each of the services provided in each of the 3 categories of services was ranked in terms of a range of 1 to 3 and Low to High i.e., 1H representing highly skilled, strategic personnel providing a high degree of value and 3L representing more supportive business functions that may provide a lesser degree of value relative to 1H types of services. Based on these rankings a company was selected as comparable for each main category if the level of expertise involved with respect to its services personnel (in broad terms) was similar to the level of expertise provided by CHED Services personnel for each category.

Conclusion

It is concluded that the Primary Benchmarks provided the strongest evidence and are therefore viewed to be commercially realistic mark-ups for the groupings of IT Services costs. The Secondary Benchmarks are generally based on a much broader group of service providers (i.e., "Business

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[1] Represents the 2001 to 2005 weighted average Cost Plus ratio of selected comparable companies.

[2] Represents the 2001-02 to 2002-03 weighted average Cost Plus ratio for Business Services i.e. the only industry category available for ABS services data is "Business Services". Years prior to 2001-02 have been excluded as a different approach to the calculation of the ABS financial data was taken prior to 2001-02 and is therefore not consistent for comparison to the 2001-02 to 2002-03 period.

[3] Represents the 1995-96 to 2003-04 weighted average Cost Plus ratio.

[4] ATO Statistics category is "Computer Services" (8%) and "Other Business Services" is 5.22%.

[5] ATO Statistics category is "Computer Services" (8%) and "Other Business Services" is 5.22%.

[6] ATO Statistics category is "Computer Services" (8%) and "Other Business Services" is 5.22%.

[7] "Safe harbour" range used in TR1999/1 ATO ruling that deals with pricing of related party services. Recommended mark-up for non-core or de minimus ($500,000 or less) services is 7.5% with a range of 5% to 10% accepted to accommodate pricing rules in other countries.

Services” or “Other Business Services”). In the case of TR 1999/1, the mark-up range is based on a fairly narrow safe harbour and is viewed as an indicator of a minimum mark-up for purposes of this analysis. We have therefore relied predominantly on the Primary Benchmarks in determining a weighted average mark-up for the IT Services groupings.

We recommend that a mark-up of 20.60% be applied to the Strategy, Application Development and Application Support Services and a mark-up of 12.26% be applied to the Infrastructure and User Services.

1 ATO and OECD Guidance in Relation to the Pricing of Related Party Services

1.1. Australia's Transfer Pricing Guidelines

1.1.1. Overview

Many countries, including Australia, have laws and regulations governing the pricing of intercompany transfers of tangible property, intangible property, and services across international boundaries.

Australia follows an "arm's length standard", consistent with the 1995 OECD Report - *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations* ('the 1995 OECD Report'). The basic concepts underlying transfer pricing in Australia are contained in Division 13 of Part III ('Division 13') of the *Income Tax Assessment Act 1936* ('ITAA').

1.1.2. Key Transfer Pricing Rulings that Impact the Pricing of Related Party Services

Key Australian Taxation Office ('ATO') transfer pricing rulings that provide the ATO's comments on the interpretation and application of the provisions of Division 13 and the arm's length standard that are relevant to the analysis of the IT Services provided by CHED Services include:

- Taxation Ruling 94/14 Income tax: application of Division 13 of Part III (international profit shifting) – some basic concepts underlying the operation of Division 13 and some circumstances in which section 136AD will be applied ('TR 94/14') which as the title suggests, provides guidance regarding basic transfer pricing concepts underlying Division 13;
- Taxation Ruling TR 97/20 Income tax: arm's length transfer pricing methodologies for international dealings ('TR97/20') which explains the application of various transfer pricing methods used to test whether related party dealings are arm's length;
- Taxation Ruling TR 98/11 Income tax: documentation and practical issues associated with setting and reviewing transfer prices in international dealings ('TR 98/11') which sets out the ATO's views on transfer pricing documentation and other issues; and
- Taxation Ruling TR 1999/1 Income tax: international transfer pricing for intra-group services ('TR 1999/1') which provides more detailed guidance regarding how to test whether the prices for services with related parties conform to the arm's length principle.

Although these rulings generally apply to overseas related party transactions, they have also been used by the ATO and Australian companies to provide guidance with respect to the pricing of domestic related party dealings.

1.1.3. Australian Arm's Length Requirement

The transfer pricing provisions of the ITAA provide that the consideration that passes between two related parties should be an arm's length consideration.

Paragraphs 136AA(3)(c) and (d) of Division 13 provide that arm's length consideration is the consideration that might reasonably be expected to have been received or given or receivable or agreed to be given in respect of the supply or acquisition if the property had been supplied or acquired under an agreement between independent parties dealing at arm's length with each other in relation to the supply or acquisition. Sub-section 136AA(1) defines “property” as including services.

1.1.4. TR 97/20 - Transfer Pricing Methods

To determine the arm's length consideration, a number of methodologies are available. TR 97/20 provides ATO guidance as to appropriate methodologies. Broadly, the arm's length methodologies are divided into two groups:

1. Traditional transaction methods, being:
   - comparable uncontrolled price (‘CUP’) method;
   - resale price method; and
   - cost plus (‘CP’) method.
2. Profit methods, including:
   - profit split method; and
   - transactional net margin method.

Note that the CUP and CP methods are the two transfer pricing methods that are generally applied to services. The CUP and CP methods will be discussed in more detail as part of TR 1999/1. Discussion of the other methods is beyond the scope of this report.

1.1.5. TR 98/11 – Documentation

TR 98/11 outlines the ATO's expectations of the processes related parties should follow in preparing transfer pricing documentation as well as the nature of the documentation required.

The ATO’s Four Step Process

TR 98/11 recommends a four step process to be used in setting or reviewing transfer prices for cross-border dealings between associated enterprises. The four steps are:

Step One – Accurately characterise the dealings between the associated enterprises in the context of your business and document that characterisation.

Step Two – Select the most appropriate transfer pricing methodology or methodologies and document your choice.

Step Three – Apply the most appropriate method, determine the arm’s length outcome and document the process.

Step Four – Implement support processes and a review process to ensure adjustment for material changes. Document these processes.

Refer to **Attachment A** for a table providing more details with respect to the Four Steps.

Steps **One** through **Three** are the most relevant steps for this report.

TR 1999/1

As TR 1999/1 deals specifically with the pricing of related party services, this ruling is discussed in this report in some detail.

TR 1999/1 also follows international consensus with respect to the arm's length principle as it is applied among OECD countries in the 1995 OECD Report. TR 1999/1 acknowledges that related enterprise groups usually have internal service arrangements for a wide range of services and that these services may be recovered in a variety of ways. TR 1999/1 states that this ruling is also meant to be equally applicable to non-arm's length dealings between unrelated parties and therefore has a relatively broad application. The services covered by this ruling include administrative, management, technical, financial, marketing, sales or distribution, research and development and similar types of services.

TR 1999/1 distinguishes between chargeable services that are considered to be core to the business (i.e. integral to the profit earning activities of the business) and non-chargeable services (i.e. stewardship type costs). The ruling provides guidance regarding when costs associated with providing services should be recovered as well as when the recovery of those costs should include a mark-upon those costs.

The ATO determines whether a service has been provided by an entity by considering whether a benefit has been conferred on the associated enterprise that the services are being provided to. To the extent that a benefit has been received for the service performed, an arm's length charge should reflect the economic and commercial value of that benefit. Fundamental to the determination of the economic and commercial value of the service provided is the concept that in order for the charge for certain valuable services to be considered to be arm's length, a profit element (mark-upon costs) may be required.

In TR 1999/1 the ATO's characterises service activities as follows:

- Non-chargeable activities - functions undertaken exclusively for the benefit of the service provider i.e. activities undertaken in its capacity as a shareholder, ultimate shareholder or group of companies with no benefit provided to the other related entities. If entities were unrelated and dealing with each other at arm's length they would not be prepared to pay the other party for these activities;
- Specific benefit activities – services undertaken that meet the specific needs of an associated entity. A charge for the value of the services would normally be made if the entities were dealing with each other at arm's length; and
- Centralised services – services undertaken that are intended to benefit the related group as a whole or a particular group of related subsidiaries and therefore must be apportioned between members of the group that receive a benefit from these centralised services. A charge for the relevant value of the service costs would normally be made if the entities were dealing with each other at arm's length.

See **Attachment B** for a table providing examples of these three groups of services.

Once the nature and quantum of the services have been identified, TR 1999/1 notes that irrespective of whether the costs are direct or indirect, the following internationally accepted methods may be used to determine an arm's length charge for the services rendered within the related group. Those methods are:

- *CUP method* – used to calculate an arm's length charge where services of a same or similar nature as those provided to a related party by the taxpayer entity are also provided to an unrelated third party by the taxpayer entity i.e., the unrelated third party charge assists in determining the charge for the comparable related party service; and

- *CP method* – to achieve a correct profit allocation to the entity providing the services, an arm's length charge for services (including centralised services) would normally be comprised of the direct and indirect costs incurred in providing the service as well as an appropriate mark-up on such costs. The CP method calculates an arm's length mark-up by analysing the mark-up (i.e., the profit earned on direct and indirect costs) earned by companies that provide "comparable" services to third parties.

In TR 1997/20 the ATO acknowledges that "there is a need to find an answer for all transfer pricing problems" and "absolute precision and certainty is very difficult to achieve". In the case of "finding an answer" with respect to the correct quantum of the mark-up to be applied to the costs incurred in the provision of services, publicly available data with respect to independent "comparable" service providers is generally used to benchmark the mark-up. However the range of Australian publicly available data on companies' primary comparable services is often limited. As a result, the comparability criteria used to select independent comparable companies may need to be broadened in order to obtain a larger range of independent comparable service providers. Broad industry data i.e., Australian Bureau of Statistics ('ABS') and ATO Taxation Statistics ('ATO Statistics') are also frequently considered by the ATO and should therefore be considered by the service provider in determining an arm's length mark-up.

Regarding the quantum of the mark-up, TR 1999/1 specifically indicates that "where the service provider has special expertise that is made available to the group members (e.g., engineering, legal or financial expertise), and the value of that expertise is not fully reflected in the cost of providing services, one might often find in comparable arm's length dealings a substantial mark-up is being used. The size of the mark-up would depend on the expected value to the recipient of the high-value services."

TR 1999/1 also provides administrative practices (a 'safe harbour') for services that meet the following criteria:

- Non-core services – relates to services provided which are not integral to the profit-earning activities of the business and the non-core services provided are not more than 15 per cent of the total accounting expenses of the Australian group of companies; or
- De minimum services – the total direct and indirect costs of supplying the services to the Australian associated enterprises are not greater than $500,000.

If the 'safe harbour' is met, the general rule is that a mark-up of 7.5 per cent would be charged on services provided with a range of 5 per cent to 10 per cent to allow for varying mark-up requirements in other international tax jurisdictions.

If the 'safe harbour' test is not met, an analysis of the functions and benefits provided by the services and service provider are required and the CUP or CP methods as discussed above should be applied in order to determine an arm's length charge for the services.

1.1.6. Conclusion

Based on TR 1999/1, the ATO has taken a position that a mark-up is required to be charged with respect to a range of specific and centralised services where it can be demonstrated that the services provide a benefit to the associated entity receiving those services. This position is binding on the ATO. Assuming a benefit is derived by the associated entity, the issue therefore is to determine what the quantum of the mark-up is, given the value of the benefit derived.

Section 2 of this report has analysed the IT Services provided by CHED Services and has considered the ranking and relative importance (i.e. benefit) of those services to CitiPower and Powercor. Sections 3 and 4 will further discuss and apply the CP method (in the absence of a CUP method) in order to establish commercially realistic mark-up/mark-ups on specific services using independent company and broad industry data, as well as indicative mark-ups as discussed in TR 1999/1's 'safe harbour'.

2 Step One: Accurately Characterise the Dealings between the Associated Enterprises

The Statement of Facts details our understanding of the industry that CitiPower and Powercor operate in. It includes a brief discussion of the relevant functions of CitiPower and Powercor with a particular focus on CHED Services and their provision of IT Services to CitiPower and Powercor.

The purpose of the Statement of Facts is to provide a context for the selection and the application of the pricing methodologies used to establish commercially realistic margins to be applied to costs incurred in providing the specified range of IT Services to CitiPower and Powercor by CHED Services.

2.1. Industry

Electricity in Victoria is delivered through the following structure:

Generators	Generators produce electricity and compete to sell the electricity into a national electricity market.
↓ Transmission	The transmission network transports electricity from the generator to the major distribution points in Victoria.
↓ Distribution	Distributors own and manage the poles and wires that deliver electricity to the end user (businesses and homes). Distributors are also responsible for meter readings.
↓ Retail	Retailers buy electricity from the generators and pay the distributors for transport of that electricity. Retailers also pay distributors for metering and excluded services.
↓ End User	Residential, Industrial and Commercial users of electricity supply.

In Victoria, there are five electricity distributors licensed to deliver electricity through their networks in the geographic region for which they are responsible. This is summarised in the following figure.

Figure 2.1 Electricity distributor by area served in Victoria

Electricity Distributor	Area Served in Victoria
Powercor	Western suburbs and western Victoria
SP Ausnet	Outer northern and eastern suburbs and eastern Victoria
United Energy Distribution	Southern suburbs and Mornington peninsula
CitiPower	City and inner suburbs
AGL Electricity	Northern and south-western suburbs

2.2. Industry Regulation

2.2.1. Regulations, Licences, Codes, Rules and Guidelines

CitiPower and Powercor must comply with a range of licences, codes and rules as a participant in the National Electricity Market. These obligations are administered by the Department of Industry, the ESC whose responsibilities are shortly to be transferred to the AER, the National Electricity Market Management Company and Energy Safe Victoria.

A summary of the regulations with respect to CitiPower and Powercor's electricity distribution business is provided in **Attachment C**.

2.2.2. Performance Targets

The ESC sets and regulates CitiPower and Powercor's network performance targets for its respective geographic regions of network coverage. The reliability targets that were set for 2006 to 2010 by geographic region relate to average frequency of unplanned/planned and momentary interruptions per year and average minutes of planned and unplanned disconnections per year. Performance targets have also been set for call centre grade of service.

2.2.3. Guaranteed Service Levels

Also regulated by the ESC are Guaranteed Service Levels ('GSL') that demonstrate and enforce CitiPower and Powercor's commitment to reliable and high-quality service. Customers are compensated where GSLs are not met.

2.3. Pricing

CitiPower and Powercor have a number of regulated tariffs including network, metering and standard service tariffs.

2.3.1. Network Tariffs

Network tariffs are charged on a continuous basis for the general provision of supply and maintenance of the network of poles, wires and equipment that distributes power to customers' premises.

Network tariffs cover the cost to distribute electricity along Victoria's extra high voltage transmission network owned by SPI PowerNet ('transmission tariffs'), and along CitiPower and Powercor's own respective distribution networks ('distribution tariffs') to customers' premises, on behalf of electricity retailers. The network tariff (i.e. the sum of the transmission and distribution tariffs) makes up about half of customers' electricity bills.

2.3.2. Metering Tariffs

Since 2006 customers are separately charged for meter provision and meter data services.

2.3.3. Standard Service Charges

Standard service charges are "one-off" charges for specific activities regulated by the ESC. The costs of specific activities i.e. special customer meter readings, switching on a supply connection and field visits, are charged on a one-off basis as they are incurred. The charges for operating and maintaining public lighting for local governments are also included in this class of charges (but are billed on a quarterly basis). These services remain subject to the scrutiny of the ESC.

2.3.4. Distribution Tariff Regulation

Distribution tariffs are regulated by the ESC, and reviewed in detail every five years. The most recent review for CitiPower and Powercor was completed in 2005, and applies for the years 2006-2010 inclusive. During this period, CitiPower and Powercor operate under an incentive-based framework where average distribution tariff movements are based on a CPI-X formula. CPI represents inflation for any given year and X represents an efficiency allowance. The X factors applying to CitiPower and Powercor for the period 2006 to 2010 are presented below.

Figure 2.2 X factors applying to CitiPower and Powercor for the period 2006 to 2010

Distributor	2006	2007	2008	2009	2010
CitiPower	8.7%	2.5%	2.5%	2.5%	2.5%
Powercor	17.3%	2.5%	2.5%	2.5%	2.5%

2.4. Billing

CitiPower and Powercor send details to electricity retailers who bill the end users for network tariffs or standard service fees directly. The retailers then pay CitiPower and Powercor.

2.5. Customers

Retailers and end-users of electricity are all customers of CitiPower and Powercor. End-users include all individuals and businesses across the residential, industrial and commercial sectors. This also encompasses government authorities and public amenities.

In Victoria customers can switch retailers not distributors, provided there is no change in geographic area.

Electricity retailers are CitiPower and Powercor's direct customers and are listed below:

- AGL
- Country Energy
- Energy Australia
- JackGreen
- Momentum Energy
- Origin Energy
- Powerdirect
- Red Energy
- TRUenergy
- Victoria Electricity

2.6. Critical Success Factors

Critical success factors for CitiPower and Powercor are:

- Asset management;
- Reliability;
- Customer service;
- Efficient IT systems;
- Effective cost management;
- Financial and tax management;
- Pricing.

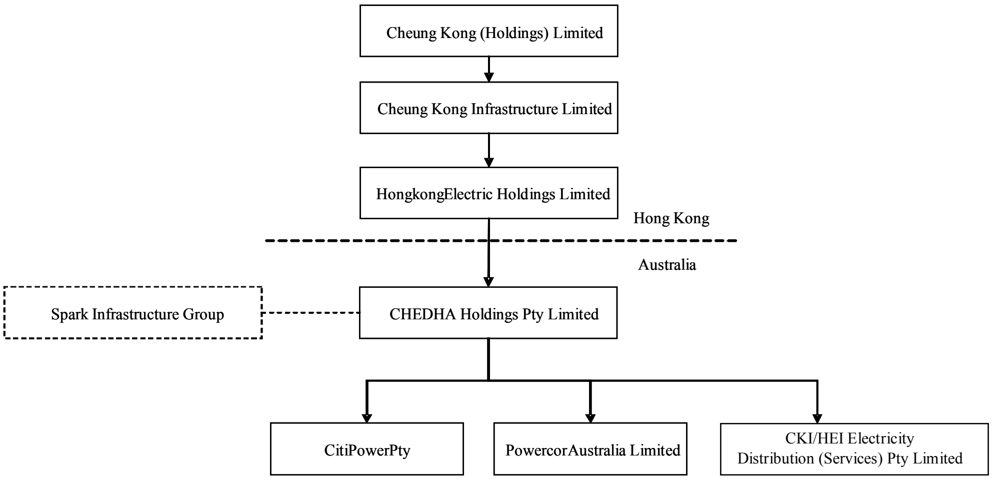
2.7. Group Structure

Cheung Kong (Holdings) Limited ('CKH') is the ultimate parent entity of the Cheung Kong Group, a leading Hong Kong based multinational conglomerate.

Cheung Kong Infrastructure Limited ('CKI') and Hongkong Electric Holdings Limited ('HEH') are listed on the Hong Kong Stock Exchange and members of the Cheung Kong group of companies. Both CKI and HEH together own 51 per cent of CitiPower and Powercor through CHEDHA Holdings Pty Limited ('CHEDHA'). The remaining 49 per cent of CitiPower and Powercor is owned by Spark Infrastructure Group ('Spark'), a utility infrastructure entity listed on the Australian Stock Exchange.

A simplified group structure is illustrated in figure 2.3.

Figure 2.3 Simplified Group Structure



2.8. CHEDHA

CHEDHA is an Australian holding company and holds the investments in the CitiPower and Powercor Group (collectively 'CHEDHA Group').

CHEDHA Holdings also owns CHED Services in Australia. As noted above, CHED Services provides all ancillary services to CitiPower and Powercor including corporate, IT, metering (excluding metering installation and maintenance) and customer services.

2.9. CitiPower

2.9.1. Electricity Distribution

CitiPower owns and operates the electricity distribution network that delivers electricity to Melbourne's CBD and inner suburbs. The inner suburbs covered include Armadale, Balwyn, Brunswick, Camberwell, Carlton, Caulfield, Collingwood, Fitzroy, Hawthorn, Kew, Middle Park, North Balwyn, Northcote, North Melbourne, Port Melbourne, Prahran, Richmond, St Kilda, South Melbourne, South Yarra and Toorak.

Coverage includes major offices of government and the private sector and famous landmarks such as Federation Square, the Melbourne Cricket Ground, the Victorian Arts Centre and Colonial Stadium.

2.9.2. Distribution Network

The network area covers 157 square kilometres and is the most concentrated of the five Victorian distribution networks accounting for 25 percent of Victoria's employment and 22 percent of its Gross State Product. The network is made up of approximately 60,843 poles, 4,000 kilometres of electricity lines, 39 zone substations and 4,280 distribution transformers to serve more than 286,000 customers. 40 percent of CitiPower's network is underground cable.

2.10. Powercor

2.10.1. Electricity Distribution

Powercor is Victoria's largest electricity distributor, delivering electricity to approximately 640,000 premises across 65 percent of Victoria. Powercor's electricity distribution network covers 150,000 square kilometres and spans from Melbourne's western suburbs to the borders of South Australia and New South Wales.

2.10.2. Distribution Network

The distribution network consists of 502,000 poles, 63 zone substations and 67,500 distribution transformers that are planned, built, installed, managed and augmented by Powercor. The network is predominantly overhead, however underground cable network will expand as housing estates are built in Powercor's territories.

2.11. CHED Services

As noted above, this report is limited to the discussion and analysis of IT Services provided by CHED Services.

A more detailed discussion of IT Services follows.

2.12. IT Services

2.12.1. CHED Services

This section of the report focuses on the IT Services provided by CHED Services.

2.12.2. IT Services

The various services provided by IT Services are summarised in a table in figure 2.4. Each IT service is categorised by the importance, value created or benefit received to/by the electricity distribution businesses of CitiPower and Powercor and has been ranked in a range of 1 to 3.

The range is defined as follows:

1 – directly relates to the overall performance and strategic direction of the electricity distribution business and the service is provided by tertiary qualified, highly skilled and highly experienced personnel who may be difficult to replace.

2 – essential to the continuation of business operations and performed by professional or registered/qualified tradespeople that are medium to high in skill and experience and may require some consideration to replace.

3 – services that are supportive of the business operations and can be performed by non-professional personnel with lower levels of skills and experience and may be more readily replaced.

The 1 to 3 range is further characterised using a value designation of H' (high), 'M' (medium) to 'L' (low) in order to assist with assessment of the percentage of a potential mark-up on costs based on the service's relative value to the CitiPower and Powercor business:

H – critical to the profit earning activities of the business, therefore attracting the highest mark-upon costs;

M – very important to the profit earning activities of the business, therefore attracting a high mark-upon costs;

L – important to the profit earning activities of the business but less important than H or M activities, therefore attracting a moderate mark-upon costs.

Figure 2.4 Summary of IT Services

IT Services	Description of service provided	Ranking	Relative Importance
IT Services	*General description* – provides a complete range of required IT services to CitiPower and Powercor. Includes approximately 120 full time internal personnel and 120 external contractors.		
Strategy	*General description* – develops high level strategic policy with respect to all aspects of CitiPower and Powercor's IT software, hardware and infrastructure. Strategy comprises less than 5% of IT Services.		
	■ Strategy and policy services leading the development of business linked IT strategies and policies.	1	H
	■ Project services, monitoring and integrating proposed developments against IT strategy.	1	H
	■ Communication services, communicating the strategy policy and activity to the business.	1	H
	■ Development and maintenance of technical infrastructure strategy	1	H
	■ Development and maintenance of Application Strategy (5-10year view)	1	H
	■ Support / input to business and regulatory strategies	1	H
	OVERALL RANKING - STRATEGY	1	H
Infrastructure	*General description* – maintains CitiPower and Powercor's IT system infrastructure as detailed in bullet points below. Infrastructure comprises approximately 15% - 25% of IT Services.		
	■ Unix/Windows/relational database management and administration	2	M
	■ Outage management, backup and restoration	2,3	M
	■ Performance measurement and system tuning	2	M
	■ Data Centre Services	2,3	M
	■ Capacity planning	2,3	M
	■ LAN Services, including File and Print infrastructure	2,3	M
	■ Hardware and sytems upgrade and maintenance	2	M
	■ Business Continuity provision	2	M
	■ Change and Configuration Control	2,3	M
	■ Disaster Recovery Services	2	M
	OVERALL RANKING - INFRASTRUCTURE	2,3	M

IT Services	Description of service provided	Ranking	Relative Importance
Application support	*General description* – Application Support generally manages and maintains the specialised commercial software that has been developed to meet the business requirements of CitiPower and Powercor. Application Support comprises approximately 20% - 35% of IT Services. Includes internal personnel and external contractors as required.		
	■ FRC applications for: – Customer Billing – Market Data Exchange – Meter Data Management – Meter Reading Management – Customer Relationship Management – Business Reporting	2	M
	■ Distribution applications for: – Enterprise Resource Planning – Business reporting – Fleet management – Treasury management – Works management – Field mobile computing – Content Management	2	M
	■ Spatial applications for: – Outage management – GSL notifications – GIS – Public lighting internet access system – Public lighting faults management system – SCADA	2	H
	■ 2nd level application support	2	M
	■ Vendor management	2	M
	■ Fail and fix / patch	2	M
	■ Data fix	2,3	M
	■ Production schedule support	2	M
	OVERALL RANKING – APPLICATION SUPPORT	2	M

IT Services	Description of service provided	Ranking	Relative Importance
Application development	*General description* – Application Development customises specialised commercial software to meet the business requirements of CitiPower and Powercor. Application Development comprises approximately 35% - 55% of IT Services. Includes internal personnel and external contractors as required.		
	■ Preparation of development requests and statements of work	2	M
	■ Assessment of requests including cost estimates	2	M
	■ Liaising with software vendors	2	M
	■ Application design	1,2	M-H
	■ Application coding	2	M-H
	■ Acceptance and integration testing	2,3	M
	■ Migration	3	M
	■ Project Management	2	M-H
	■ Vendor Management	2	M
	■ Change, configuration and risk management procedures	3	M
	OVERALL RANKING – APPLICATION DEVELOPMENT	2	M
User services	*General description* – provides personnel related IT systems to CitiPower and Powercor (software, hardware, Internet). User Services comprises approximately 5% - 10% of IT Services.		
	■ Electronic Mail System	3	L-M
	■ Service Desk Services	3	L-M
	■ On site user support and desktop services	3	L-M
	■ Internet Services	3	L-M
	■ Equipment purchase and provisioning	3	L
	■ Security administration for the infrastructure, the applications and data	2	M
	OVERAL RANKING - USER SERVICES	3,2	L-M
	OVERALL RANKING – IT SERVICES	2,3	M
Conclusion – IT Services division is viewed as requiring a range of skill and experience with most personnel being ranked as a 2 i.e., requiring specific certifications as well some ranked as a 3 i.e., on the job training. Exceptions are those personnel involved in high level strategy who have been ranked a 1. IT services is viewed as having a medium level of importance to CitiPower and Powercor.			

3 Step Two - Select the Most Appropriate Transfer Pricing Methodology

The purpose of this section is to identify the transfer pricing method to be used to determine an arm's length charge for the provision of the various IT Services.

3.1. Selection of the Transfer Pricing Method

As discussed in Section 1 above, TR 1999/1 provides for two methods to determine an arm's length charge for the IT Services provided by CHED Services. These methods are the:

- CUP method; and
- CP method.

Each of these methods and their relevance to the provision of IT Services by CHED Services is discussed below.

3.1.1. CUP Method

The CUP method is used to calculate an arm's length charge where services of a same or similar nature as those provided to a related party by the taxpayer entity are also provided to an unrelated third party by the taxpayer entity i.e., the unrelated third party charge assists in determining the charge for the comparable related party service.

With respect to IT Services, CHED Services do not provide similar services to unrelated parties. Therefore, the CUP method cannot be applied to IT Services.

3.1.2. CP Method

The CP method calculates an arm's length mark-up by analysing the mark-up (i.e., the profit earned on direct and indirect costs) earned by companies that provide "comparable" services to third parties.

The CP method calculates the direct and the indirect costs incurred by the supplier of related party services. A mark-up is added to these costs to arrive at an arm's length net profit giving consideration to the functions performed and the benefits received or provided.

CHED Services provides a range of IT Services as previously described in Section 2. Applying the arm's length principle to the provision of services by CHED Services and taking into account the ATO's comments and recommended approach set out in TR 1999/1, which the ATO is bound to adhere to, a mark-up is appropriate, if not required, for the majority of IT Services provided by CHED Services.

4 Step Three - Apply the Most Appropriate Method

The CP method is applied in two ways:

1. **Primary benchmarks** - a search was performed to identify independent Australian "comparable" companies that provide the same or similar functions as the IT Services provided by CHED Services. Due to limitations of publicly available data for independent Australian comparable companies, as well as the variations in the range of services provided within IT Services, a broader search criteria was adopted with respect to some of the comparable companies. The financial performance of the comparable companies is analysed to provide a primary benchmark range.
2. **Secondary benchmarks** - broad industry data was analysed to provide a secondary benchmark range. Broad industry data may include ABS Data or ATO Statistics. The application of TR 1999/1 was also considered where appropriate.

4.1. Profit Level Indicator ('PLI') Definition

The ratio of earnings before interest, taxes and adjustments ('EBIT'), divided by operating expenses ('Cost Plus ratio') was selected as the profit level indicator ('PLI') to benchmark IT Services. This ratio provides a direct measure of the operating performance of the comparable service providers and excludes the effect of financing and investment decisions.

Adjusted EBIT is calculated by adjusting operating profit before tax to remove the effects of a number of non-operating items. Non-operating expense items include interest expense, amortisation and write-off of goodwill and net loss on disposal of fixed assets and investments. These amounts are excluded to calculate earnings that are more representative of the companies' operating functions.

"Operating expenses" is calculated as total expenses less non-operating expenses, including borrowing costs, amortisation and write-off of goodwill, and the impact on the profit and loss from the disposal of fixed assets and investments for the relevant period.

4.2. Summary of Results

4.2.1. Comparability Benchmarking Analysis

Refer to **Attachment D** for a detailed discussion of the search performed for comparable company benchmarks and **Attachment E** for ABS Data and ATO Statistics including the weighted average Cost Plus ratio benchmark results. Refer to **Attachment F** for detailed financial information supporting the Cost Plus ratio results of **Attachment D**.

The resulting weighted average Cost Plus ratio benchmark results are summarised at figure 4.1 below.

The analysis in this report does not comment on how IT Services costs and mark-up should be apportioned between CitiPower and Powercor.

Figure 4.1 Weighted Average Cost Plus Ratio for IT Services by Divisions

	All IT Services	Strategy, Application Development and Application Support	Infrastructure & User Services
Overall Ranking per Figure 2.4	2,3	2,1	2,3
Overall Relative Importance per Figure 2.4	M	M-H	L-M
Primary Benchmark[8]	18.93%	20.60%	12.26%
Secondary Benchmarks:			
- ABS Data[9]	7.72%	7.72%	7.72%
- ATO Statistics[10]	7.00% and 5.22%[11]	7.00% and 5.22%[12]	7.00% and 5.22%[13]
- ATO TR 1999/1[14]	7.5% (range of 5%-10%)	7.5% (range of 5%-10%)	7.5% (range of 5%-10%)

The table above sets out the results of the comparable company studies carried out and the data observed from the other available sources being ABS Data, ATO Statistics as well as guidance from TR 1999/1.

Briefly, each of the services provided in each of the three categories of services were ranked in terms of a range of 1 to 3 and Low to High i.e., 1H representing highly skilled, strategic personnel providing a high degree of value and 3L representing more supportive business functions that may provide a lesser degree of value relative to 1H types of services. Based on these rankings a company was selected as comparable for each main category if the level of expertise involved with respect to its services personnel (in broad terms) was similar to the level of expertise provided by CHED Services personnel for each category.

4.2.2. Conclusion

It is concluded that the Primary Benchmarks provided the strongest evidence and are therefore viewed to be commercially realistic mark-ups for the groupings of IT Services costs. The Secondary Benchmarks are generally based on a much broader group of service providers (i.e., “Business Services” or “Other Business Services”). In the case of TR 1999/1, the mark-up range is based on a

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[8] Represents the 2001 to 2005 weighted average Cost Plus ratio of selected comparable companies.

[9] Represents the 2001-02 to 2002-03 weighted average Cost Plus ratio for Business Services i.e. the only industry category available for ABS services data is “Business Services”. Years prior to 2001-02 have been excluded as a different approach to the calculation of the ABS financial data was taken prior to 2001-02 and is therefore not consistent for comparison to the 2001-02 to 2002-03 period.

[10] Represents the 1995-96 to 2003-04 weighted average Cost Plus ratio.

[11] ATO Statistics category is “Computer Services” (8%) and “Other Business Services” is 5.22%.

[12] ATO Statistics category is “Computer Services” (8%) and “Other Business Services” is 5.22%.

[13] ATO Statistics category is “Computer Services” (8%) and “Other Business Services” is 5.22%.

[14] “Safe harbour” range used in TR1999/1 ATO ruling that deals with pricing of related party services. Recommended mark-up for non-core or de minimus ($500,000 or less) services is 7.5% with a range of 5% to 10% accepted to accommodate pricing rules in other countries.

fairly narrow safe harbour and is viewed as an indicator of a minimum mark-up for purposes of this analysis. We have therefore relied predominantly on the Primary Benchmarks in determining a weighted average mark-up for the IT Services groupings.

We recommend that a mark-up of 20.60% be applied to the Strategy, Application Development and Application Support Services and a mark-up of 12.26% be applied to the Infrastructure and User Services.

4.2.3. Observations

All IT Services

Australian companies providing a range of IT related services are used to benchmark the mark-up for the IT Services division. Some of these companies provide a range of end-to-end integrated IT services. Some focus on higher value ('2-1') strategy, application development and application support and others focussed on medium to lower value ('3-2') infrastructure and user services. The objective in including a range of IT companies is to calculate a mark-up range that is reflective of the broad spectrum of IT services provided within the IT division and therefore the varying range of personnel skills and the value of those skills to CitiPower and Powercor. This overall grouping of comparable companies covering a range of IT services results in a weighted average mark-up of 18.93%.

Strategy, Application Development and Application Support

It is noted that there are four IT service companies that appear to predominantly provide a range of higher value '2-1' strategic, application development and application support services with some lower value '3' services. It should be noted that one of the companies, Technology One, has significant involvement in the development of its own proprietary software which results in a higher level of assets and risks than CHED Services as well as a high mark-up on costs. Two of the companies provide lower level IT services and have been included in this IT service company grouping to offset the higher asset, function and profit levels of Technology One.

As the Strategy, Application Development and Application Support divisions comprise approximately 60% to 75% of IT Services costs provided by CHED Services, the four companies that predominantly provide these types of services may be used to benchmark a mark-up for these functions within CHED Services. This results in a weighted average mark-up of 20.60%.

Infrastructure and User Services

It is noted that there is one IT service company that appears to predominantly provide a range of infrastructure and user services that are around the 2 level. As the Infrastructure and User Service divisions comprise approximately 25% to 40% of IT Services costs provided by CHED Services, the one company that predominantly provides these types of services may be used to benchmark a mark-up for these functions within CHED Services. This results in a weighted average mark-up of 12.26%.

Attachment A – The ATO's Four Step Process

	Data Collection and Organisation	Action/Evaluation
Step 1:		
Accurately characterise the international dealings between the associated enterprises in the context of the taxpayer's business and document that characterisation.	Identify the scope, type and timing of the international dealings with associated enterprises in the context of the taxpayer's business. This may require an understanding of the context of the dealings including: ■ Organisation, decision processes and systems, and incentive structures. ■ The conditions affecting the industry, the nature of the competition experienced, economic and regulatory factors. ■ The business objectives, strategies adopted, and financial performance. ■ Intellectual assets used, their contribution, ownership and reward. ■ The economically important activities undertaken by each of the associated enterprises, resources used and risks assumed in each.	Identify the specific elements of the international dealings that are to be considered. Prepare a preliminary functional analysis. Explain the conditions affecting the industry and the business strategies available to the taxpayer as these affect the functional analysis. A critical part of the analysis is to ascertain which are the most economically important functions, assets and risks and how these might be reflected by a comparable price, margin or profit on the dealings. Determining if intangibles have been appropriately rewarded in light of contribution and ownership. Document the process adopted.
Step 2:		
Select the most appropriate transfer pricing methodology or methodologies and document the choice.	Identify the available data that may establish an arm's length consideration for each of the dealings and for the dealings taken in their entirety.	Determine the most appropriate methodology or methodologies based on the facts and circumstances of the particular case. Document the choice of methodologies.
Step 3:		
Apply the most appropriate method, determine the arm's length outcome and document the process.	Define, examine and organise the rate on comparable dealings or comparable enterprises to enable comparability to be properly assessed. To improve comparability, it may be necessary to: ■ adjust the date to account for material differences in comparability; ■ group or aggregate data; ■ extend the analysis over a number of years. Data points or a range of results may emerge.	If necessary, broaden and refine the preliminary functional analysis. Prepare a comparability analysis. Establish the level of reliability which can be placed in the answers derived from application of the selected method and the conclusions which are drawn. It may be necessary to apply several methods. Decide on the arm's length outcome. Document practical considerations such as: ■ assumptions and judgements made; ■ how data points or ranges were

	Data Collection and Organisation	Action/Evaluation
		interpreted; ■ how results from different methods were used.
Step 4:		
Implement support processes, install review processes to ensure adjustment for material changes and document these processes.	Monitor international dealings and their economic context to identify any material changes as they occur. Collect data relevant to evaluating the impact of these changes on the arm's length consideration.	If the data used to establish the outcome changes, then the process and the choice of methodology should be reviewed. Put a system in place to support ongoing application of the chosen method in future years. Establish a review mechanism to ensure that if material changes occur, the comparability analysis or methodology is adjusted as appropriate.

Attachment B – Characterisation of Service Activity per TR 1999/1

Characterisation of Service Activity	Examples of Service Activity	Comments
Non-chargeable	Functions undertaken exclusively for the benefit of the service provider i.e. activities undertaken in its capacity shareholder, ultimate shareholder or group of companies with no benefit provided to the other related entities	If entities were dealing with each other at arm's length they would not be prepared to pay the other party for these activities
Specific benefit	Examples of services provided with respect to a particular entity: ■ Assistance with a specific borrowing proposal ■ Assistance with the planning and raising of funds for an acquisition ■ Undertaking investment analyses ■ Performance of certain accounting functions such as compliance with tax laws ■ Provision of guarantees ■ Training for employees	Services undertaken that meet the specific needs of an associated entity – a charge would normally be made if the entities were dealing with each other at arm's length
Centralised services	Examples of centralised activities include: ■ Administrative service i.e. planning, accounting, auditing, legal and computer services ■ Financial services such as management of cash flows, working capital, deposits, interest and currency exposures ■ Assistance with production, buying, distribution and marketing ■ Advertising ■ Personnel services i.e. recruitment and training ■ Preparation of an environmental policy for general use ■ Installation of new telecommunications equipment for use throughout	Services undertaken that are intended to **benefit the related group as a whole** or a particular group of related subsidiaries and therefore must be pro-rated between members of the group that receive a benefit from these centralised services. A charge for the relevant value of the service costs would normally be made if the entities were dealing with each other at arm's length.

	the group ■ Special training for senior management of the parent co ■ Analysis of markets ■ Administration of intangibles ■ Research and development of manufacturing, warehousing, distribution and marketing technologies	

Attachment C - Regulatory instruments (30 June 2006)

Code or Guideline	Purpose
Electricity Industry Act 2000 (**EIA**)	The EIA establishes the Essential Service Commission's (**ESC**) powers in relation to price regulation, licensing, terms and conditions of supply of electricity, load shedding. It also establishes the businesses' powers in terms of easements and land access and includes provisions in relation to electricity supply emergencies. The EIA is also the vehicle by which the Victorian Electricity Supply Industry Tariff Order is created and the mechanism by which the ESC is empowered to regulate the electricity supply industry.
Victorian Electricity Industry Tariff Order (**Tariff Order**)	What remains of the Tariff Order covers two areas: ▪ The first sets out the pricing principles that are to be applied by the ESC in making a price determination. ▪ The second area covers the criteria to be applied by the ESC in determining whether particular services are an excluded service and the basis for setting terms and charges for excluded services.
Electricity Safety Act 1998 (**ESA**)	The ESA establishes Energy Safe Victoria (ESV) and sets out the businesses' obligations as a network operator in terms of safety issues such as vegetation clearance, undergrounding cables, cathodic protection and the rules governing Electricity Safety Management Schemes. The ESA also gives powers to ESV to issue safety regulations such Electricity Safety (Network Asset) Regulations 1998 and the Vegetation Clearance Regulations 2005 to which the business is subject.
Electricity Distribution Code (Jan 2006) (**Code**)	The Code regulates the provision of distribution services and connection to the distribution network by embedded generators and end users. The Code prescribes standards for the quality and reliability of supply, information to customers, complaint handling and other matters. The Code is critical to the business in that it sets out customer and business obligation regarding connection (clause 2), planning obligation on the business (clause 3), minimum reliability and quality of supply requirements (clause 4 & 5), GSLs (clause 6), connection requirements in regard to embedded generators (clause 7), requirement for emergency response plans (clause 8), customer and distributor provision of information requirements (clause 9), complaint and dispute resolution procedures (clause 10), actions in the event of Code non compliance (clause 11), circumstances for disconnection (clause 12), conditions for reconnection of supply (clause 13), the obligation to comply with Electricity Customer Metering Code (clause 14), liability and indemnity regarding electricity supply (clause 15 & 16) and provision for contractual force majeure under the Deemed Distribution Contract.

Electricity Distribution Licence (**Licence**)	The Licence is issued by the ESC under powers conferred upon it under Division 3 of the EIA. The Licence authorises the business to distribute electricity in its franchise area. The Licence also includes a large number of further obligations on the business covering Use of System Agreements, connection obligations, Deemed Distribution Contracts, requirements to provide certain information, requirement to comply with relevant codes, guidelines and orders, regulatory audits, dispute resolution (EWOV), payment of licence fees and assorted provisions for transferring , varying or revoking a licence.
ElG 3 Regulatory Information Requirements Issue 5 (Dec 2005) (**EIG3**)	EIG3 cover the preparation and submission of the Regulatory Accounts and is issued under the ESC power's to issue Guidelines under the EIA. In particularly it covers the scope and form of financial information that must be provided by the business to the ESC and the relevant audit requirements.
EIG 5 Connection and Use of System Agreement	EIG5 outlines principles against which the ESC may decide whether connection or use of system agreements are fair and reasonable.
EIG 11 Voltage Variation Compensation	Broadly speaking, EIG11 requires the business to compensate any person whose property is damaged due to an un-authorised voltage variation affecting where the aggregate consumption of electricity which is taken from the relevant customer's point of supply is, or is reasonably expected to be, less than 160 megawatt hours in any year. Formally, this guideline is a relevant ***guideline*** for the purposes of clause 4.2.7 of the Electricity Distribution Code.
EIG 14 Provision of Services by Electricity Distributors	The purpose of EIG 14 is detail the ESC's considerations in determining what it considers 'fair and reasonable charges' in the following aspects of electricity distribution: (a) the undergrounding of distribution fixed assets [see clause 2]; (b) the determination of customer contributions to the capital cost of new works and augmentation [see clause 3]; (c) the contestability of connection and augmentation works [clause 4]; and (d) the provision of excluded services [clause 5]. In practice the EIG 14 requires the business to consider the incremental revenue and incremental costs in determining a customer's contribution in relation to a connection offer, the requirement for contestability for certain customer initiated works and the basis by which the ESC will assess excluded service charge applications.
EIG 15 Connection of Embedded Generation	EIG 15 addresses the: (a) the way in which distributors negotiate connection agreements with embedded generators [clause 2]; (b) the charges under, and other terms and conditions of, connection agreements, including principles distributors must observe in setting those charges and other terms and conditions [clause 3]; (c) the payment to embedded generators of a share of distributors' avoided distribution system costs [clause 4]; and

	(d) the payment to embedded generators of distributors' avoided customer TUOS usage charges [see clause 5]. This guideline is a relevant guideline for the purposes of clauses 10.3 and 11.1 of the businesses' Licences.
EIG 16 Regulatory Audits of Distribution Business	EIG 16 is the relevant guideline for the purposes of clause 24 of the Licence and covers the rights and conduct of the ESC, the business and the auditor in the event of a regulatory audit.
EIG 17 Electricity Ring Fencing	The purpose of EIG 17 is to limit the use of vertical market power by a distributor. It places a number of obligations on the business in terms of its conduct with retailers based on ensuring that conduct is non-discriminatory in nature.
EDPR Final Decision Vol 2 (Oct 2005)	Volume 2 of the 2006-10 EDPR sets out the formal price controls for the next five years including distribution (section 2) and transmission (section 3) tariffs in addition to the arrangements for the service incentive scheme (section 2.3). It also sets out the price control for prescribed metering services (section 4). Volume 2 also addresses 'pass through' arrangements and denies some further excluded service activities.
Electricity Customer Transfer Code (Apr 2004) (**Transfer Code**)	The Transfer Code specifies the rules associated with the transfer of customers between retailers. The Code deals with such matters as when the transfer may occur in association with a meter reading and whether there can be any objections to the transfer from other market participants.
Electricity Customer Metering Code (Jan 2006) (**Metering Code**)	The Metering Code regulates the standards of metering for sale of electricity to customers.
Victorian Electricity Supply Industry Metrology Procedure (Version 4 Feb 2005) (**Metrology Procedure**)	The purpose of this *Metrology Procedure* is to set out: ■ a summary of the obligations of the *Responsible Person,* in relation to type 5, 6 and 7 *metering installations* for *second tier loads,* that are contained in the *Code*, for ease of reference; ■ the additional obligations of the *Responsible Person* in relation to the provision, installation and maintenance of type 5, 6 and 7 *metering installations* for *second tier loads,* including the measurement of electrical *energy* and the provision of data to facilitate the efficient operation of the *market*; and ■ the obligations of NEMMCO in relation to the conversion of consumption energy data into trading interval data to facilitate the efficient operation of the market. In particular, this *Metrology Procedure* sets out provisions for type 5, 6 and 7 *metering installations* relating to: ■ the type of *metering installation* permitted for the measurement of *active energy*; ■ the collection or calculation, and processing, of *energy data*; ■ the provision, installation and maintenance of *metering installations*; ■ the components of each type of *metering installation*;

	■ storage of, and rights of access to, *energy data* in the *metering installation*; and ■ testing and auditing of *metering installations.* The ESC is Metrology Coordinator for Victoria under the National Electricity Rules clause 7.2.1A(b).
NEC Chapter 9 Derogations	The NEC Chapter 9 Derogations as far as the business is concerned cover: ■ Equalisation payments (clause 9.8.4); ■ Responsibility for regulating distribution connection services (clause 9.7.4); ■ Distribution network pricing (clause 9.8.7); and ■ Metering (clause 9.9.9, 9.9.10 and 9.9A)
Deemed Distribution Contract	The Deemed Distribution is issued by the business under clause 40A of the EIA by Government Gazette specifying the terms and conditions applying in respect of the distribution of electricity. The terms and conditions largely mirror customer obligations in the Distribution Code however there is also reference to the conditions surrounding demand resets.
Public Lighting Code (Apr 2005)	The Public Lighting Code sets the minimum standards for public lighting services to be provided by the business to public lighting customers.
Electricity System Code (Oct 2000)	Regulates the provision of shared transmission network services and connection to the transmission network generators, distributors and end users.
ESC Information Specification (Service Performance) 2006 (**Information Specification**)	The purpose of the Information Specification is to set out the cyclic reporting requirements by the Victorian electricity distributors to the ESC. The Information Specification covers all non-financial reporting requirements. Business compliance with the Information Specification is required under clause 26 of the Licence.
Access Undertaking	The ACCC has accepted access undertakings under s 44ZZA of the TPA from all electricity network service providers including CitiPower and Powercor. The businesses' were required to submit these access undertakings to the ACCC under the National Electricity Code. These requirements have been removed from the National Electricity Rules. However, a network service provider can still submit an access undertaking to the ACCC in connection with access to its network services if it wishes to do so. The ACCC will continue to consider such undertakings in accordance with the requirements of s 44ZZA. The transitional provisions in the new National Electricity Law (Schedule 3, clauses 7 to 9) provide that any reference in a document (however described) to the "National Electricity Code" or to a "code participant" (other than NEMMCO) is to be read as a reference to the "National Electricity Rules" or to a "registered participant" respectively. For the avoidance of doubt, the *Australian Energy Market Regulations 2005 (Cth)* apply these provisions to access undertakings given in accordance with the requirements of the National Electricity Code. This means that the access undertakings referred to above

	continue in effect, subject to these modifications.
Default Use of System Agreement (**UoSA**)	Clause 4 of the Licence requires the business to have in place a Default Use of System Agreement approved by the ESC. Under their Licences, Retailers are required to either negotiate a Use of System Agreement with the business or accept the Default Use of System Agreement. The UoSA covers all matters involving the relationship between a retailer and distributor including connection, disconnection, billing and payment, credit support, information exchange, communications, force majeure, enforcement of sights against customers and termination of the UoSA.

Attachment D - Detailed Discussion of Search Performed for Comparable Company Benchmarks

D.1 Introduction

Australian searches were undertaken to identify comparable data relating primarily to service providers and companies performing IT Services functions. The following section outlines the selection process for comparable companies that perform broadly similar services functions.

D.2 Companies Search

Search Criteria

The selection criteria employed to identify comparable companies included:

- *Profit motive:* Service providers with a profit motive as their primary operational driver were considered comparable i.e. mainly companies. Other organisational structures such as trusts, partnerships, associations and not-for-profit-organisations are excluded from the entities selected, as it may be difficult to discern or measure commercial returns.
- *Independent:* Companies with international related party transactions that might impact the commercial realism of operating returns may have been excluded, including:
  - Foreign owned companies.
  - Domestic companies that have significant dealings with foreign affiliates.
- *Geographical Market:* Companies considered for this analysis operate primarily in Australia, to ensure the business cycles and economic conditions are comparable.
- *Primarily characterised as service companies*: Companies were only considered as comparable if they undertake service functions. This was verified by review of the short business descriptions contained in databases and company websites.
- *Financial data availability*: Companies with at least three years of available financial data from five years of data were accepted as comparable for this analysis[15].
- *Financial performance and stability:*
  - Companies that experienced continued losses were excluded as they were not indicative of a commercial return for a service provider. Specifically companies with three years of consecutive losses over five years or two consecutive years of losses over three years of available data were excluded.
  - Companies under external administration and companies that have volatile earnings or have undergone major disruptions to the normal course of business may have been excluded i.e. bankruptcy, merger, acquisition etc.

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[15] The ASIC Reports Service enables Ernst & Young to determine the availability of the annual financial reports of all companies registered in Australia

Databases

The databases accessed to identify potential companies that perform IT Services functions are presented in figure E.1.

Figure D.1 Source of Information - Electronic Databases

Electronic Database	Description
Business Who's Who	BWW provides business descriptions for over 40,000 Australian operations. It contains information about what major functions the business carries out based on a four-digit US Standard Industrial Classification ('SIC') code system; employee numbers; business address; size of turnover; and, in some cases a listing of the parent company.
IBISWorld	The IBIS database is a commercial database of the top 2,000 public and private Australian companies, classified according to the Australian New Zealand Standard Industrial Classification ('ANZSIC') system.

Industry Categories Searched

The figure below provides a list of the SIC codes searched via the BWW database to identify a selection of Australian IT Service providers.

Figure D.2 SIC Codes Searched in BWW

SIC Code	Description
7371	**Computer Programming Services** Establishments primarily engaged in providing computer programming services on a contract or fee basis. Establishments of this industry perform a variety of additional services, such as computer software design and analysis; modifications of custom software; and training in the use of custom software.
7373	**Computer Integrated Systems Design** Establishments primarily engaged in developing or modifying computer software and packaging or bundling the software with purchased computer hardware (computers and computer peripheral equipment) to create and market an integrated system for specific application. Establishments in this industry must provide each of the following services: ■ The development or modification of the computer software ■ The marketing of purchased computer hardware ■ Involvement in all phases of systems development from design through installation.
7374	**Computer Processing and Data Preparation and Processing Services** Establishments primarily engaged in providing computer processing and data preparation services. The service may consist of complete processing and preparation of reports from data supplied by the customer or a specialized service, such as data entry or making data processing equipment available on an hourly or time-sharing basis.
7375	**Information Retrieval Services** Establishments primarily engaged in providing on-line information retrieval services on a contract or fee basis. The information generally involves a range of subjects and is taken from other primary sources. Establishments primarily engaged in performing activities, such as credit reporting, direct mail advertising, stock quotation services, etc., and who also create data bases are classified according to their primary activity.

7376	**Computer Facilities Management Services** Establishments primarily engaged in providing on-site management and operation of computer and data processing facilities on a contract or fee basis.
7377	**Computer Rental and Leasing** Establishments primarily engaged in renting or leasing computers and related data processing equipment on the customers' site, whether or not also providing maintenance or support services.
7378	**Computer Maintenance and Repair** Establishments primarily engaged in the maintenance and repair of computers and computer peripheral equipment.
7379	**Computer Related Services, Not Elsewhere Classified** Establishments primarily engaged in supplying computer related services, not elsewhere classified. Computer consultants operating on a contract or fee basis are classified in this industry.

Figure D.3 ANZSIC Codes Searched in IBISWorld

ANZSIC Code	Description
L7823	**Consulting Engineering Services** This class consists of units mainly engaged in providing consultant engineering services. Also included are units mainly engaged in providing quantity surveying services. Consulting engineering establishments are mainly engaged in applying physical laws and principles of engineering to a broad range of activities in the areas of construction, manufacturing, mining transport and the environment. Assignments undertaken by consultants may involve: provision of advice, preparation of feasibility studies, preparation of preliminary and final plans and designs, provision of technical services during the construction or installation phase, and inspection and evaluation of engineering and environmental projects. The principal activities of consultant engineering establishments involves the design and management of: construction and engineering infrastructure projects; environmental projects; and industrial processes and equipment.

Search Results

After the application of the elimination criteria, the resulting companies identified from the databases are contained in the following figure below.

Figure D.4 Business descriptions of service providers identified

Company	Business Description
ASG Group Limited	ASG Group has been providing computer infrastructure, application development, systems integration and specialist technical services to clients in Australia and Internationally since 1996.
Oakton Limited	Oakton provide services in the following key areas: Enterprise Strategy and Architecture, Application Development, Process and Application Integration, Information Management, Customer Management, Mobility Solutions, Project Management, Packaged Solutions, Managed Services.

Company	Business Description
Sonnet Corporation Limited	Sonnet Corporation Ltd is primarily a service-based company that provides the following information technology services: ▪ IT Service Management (ITSM) ▪ Project Management and Infrastructure Deployment ▪ Facilities Management and Service Desk Support ▪ Procurement Services
Technology One Limited	Technology One Limited is a provider of enterprise business software solutions. The company develop, market, sell, implement and support its own fully integrated software solutions that manage business needs in areas such as financials, budgeting, human resource and payroll, supply chain, business intelligence, performance planning, property, student management and assets.
Volante Group Limited	The principal activities of the consolidated entity are the provision of IT products, projects and managed services (Volante Systems), IT application and development services (Volante Solutions), remarketing of IT equipment (Global Remarketing) and IT recruitment services (Affinity).

Profitability Measure

The ratio of earnings before interest, taxes and adjustments, divided by operating expenses ('cost plus' ratio) was selected as the Profit Level Indicator ('PLI'). This ratio provides a direct measure of the operating performance of the entity and excludes the effect of financing and investing decisions.

Adjusted earnings are calculated by adjusting operating profit before tax to remove the effects of a number of non-operating items. Non-operating expenses include interest expense, amortisation and write-off of goodwill and net loss on disposal of fixed assets and investments. Non-operating revenue items include interest income and net gain on disposal of fixed assets and investments. These amounts are excluded to calculate earnings that are more representative of the companies' operating functions.

Operating expenses is calculated as total expenses less non-operating expenses including borrowing costs, amortisation and write-off of goodwill, and the impact on the profit and loss from the disposal of fixed assets and investments for the relevant period.

The period used for the comparable company analysis is 2001 to 2005. A five year period is employed to reduce the impact of short-term economic conditions on financial performance. In cases where data is not available for the full period for the comparable companies identified, comparables are not excluded on this basis. However at least three years of financial data is required for inclusion in the analysis.

Financial Analysis Results – All IT Services

As the majority of comparable companies identified from the IT Services search perform more than one sub category of IT Service, Figure D.5 provides the results of all the comparables. The result provides a benchmark for the mark-up of the whole IT Services division.

Figure D.5 Comparable company cost plus ratio results

Comparable Company	2005	2004	2003	2002	2001	Weighted Average 2001-2005
ASG Group Ltd	10.23%	14.38%	0.74%			11.20%
Oakton Ltd	32.39%	31.99%	21.73%	51.49%	53.58%	34.31%
Sonnet Corporation Ltd	13.02%	14.33%	8.38%			12.26%
Technology One Limited	32.76%	33.99%	26.33%	37.89%	36.62%	33.25%
Volante Group Limited	4.01%	4.72%	2.89%	2.36%	4.11%	3.63%

Range	Weighted Average 2001-2005
Minimum	3.63%
Lower quartile	11.20%
Average	18.93%
Median	12.26%
Upper quartile	33.25%
Maximum	34.31%

Financial Analysis Results – Strategy, Application Development & Application Support

The IT Services comparables that performed broadly similar functions to the Strategy, Application Development and Application Support sub categories are also grouped to provide separate mark up. The weighted average of the four comparables identified over 2001-2005 is 20.60%.

Figure D.6 Comparable company cost plus ratio results

Comparable Company	2005	2004	2003	2002	2001	Weighted Average 2001-2005
ASG Group Ltd	10.23%	14.38%	0.74%			11.20%
Oakton Ltd	32.39%	31.99%	21.73%	51.49%	53.58%	34.31%
Technology One Limited	32.76%	33.99%	26.33%	37.89%	36.62%	33.25%
Volante Group Limited	4.01%	4.72%	2.89%	2.36%	4.11%	3.63%
Average						20.60%

Financial Analysis Results – Infrastructure and User Services

Of the five companies identified, only one performed functions broadly similar to the Infrastructure and User Services sub category. The results are provided below.

Figure D.7 Comparable company cost plus ratio result

Comparable Company	2005	2004	2003	2002	2001	Weighted Average 2001-2005
Sonnet Corporation Ltd	13.02%	14.33%	8.38%			12.26%

Attachment E - Detailed Discussion ABS Data and ATO Statistics

E.1 Selection of Industry Benchmarks

Two sources of industry-wide financial performance indicators were analysed: the Australian Bureau of Statistics ('ABS Data'); and the ATO Taxation Statistics ('ATO Statistics').

E.2 ABS Data

The ABS publication, 'Summaries of Industry Performance' contains summary statistics on the financial performance of management units within the industry classifications. The following figures list summary characteristics of the data set.

Figure E.1 ABS Summary of Industry Performance

Attributes	Details
Time series	1995-1996 to 2000-2001
Source	Amalgam of survey and Tax Return data
Coverage	All size operations (includes large and small and medium businesses as defined); large businesses defined as management units which employ over 200 people or have assets greater than A$200m; small and medium business have less than 200 employees and less than A$200m in assets.
Data	Number of businesses in industry, people employed, income statement items (not available from statutory reports (i.e. ASIC Annual Returns) such as gross profit, operating expenses as well as operating revenue and interest; balance sheet items; industry averages for key income statement items, balance sheet items and industry statistics; and industry performance ratios
Classification	Two-digit ANZSIC code

Figure E.2 ABS Summary of Industry Performance

Attributes	Details
Time series	2001-2002 to 2002-2003
Source	Amalgam of Australian Business Register, survey and Tax Return data
Coverage	All size operations (includes large and small and medium businesses as defined); large businesses defined as management units which employ over 200 people; medium businesses have less than 200 employees and greater than 20 employees; small businesses have less than 20 employees.

Attributes	Details
Data	Number of businesses in industry, people employed, income statement items (not available from statutory reports (i.e. ASIC Annual Returns) such as gross profit, operating expenses as well as operating revenue and interest; balance sheet items; industry averages for key income statement items, balance sheet items and industry statistics; and industry performance ratios
Classification	Two-digit ANZSIC code

The large business category of statistics was selected as the data set.

E.3 ATO Statistics

The annual ATO publication, '*Taxation Statistic*', presents information collected from the 'Form C' income tax return for companies. For taxation purposes, companies include all bodies or associations, corporate or unincorporated, excluding partnerships. Figure E.3 lists summary characteristics of the data set.

Figure E.3 ATO Taxation Statistics

Attributes	Details
Time series	1995-96 to 2003-2004
Source	Data considered for benchmarking is sourced from Company Tax Returns i.e. 'Form C' income tax return. (For taxation purposes, companies include all bodies or associations, corporate or unincorporated, excluding partnerships.)
Coverage	Data from the returns of entities which return a Form C to the ATO.
Data	All tax return data fields are available: the preferred time series is industry classification by income, which includes all sources of income such as operating and non-operating revenue; operating and non-operating expenses, including COGS.
Classification	Three-digit ANZSIC code

E.4 Profitability Benchmarks

Categories relevant for benchmarking providers of IT Services include:

- ABS Data: ANZSIC L78 – Business Services
- ATO Statistics: ANZSIC L783 – Computer Services
- ATO Statistics: ANZSIC L786 - Other Business Services

E.5 Profitability Measure

The ratio of earnings before interest, taxes and adjustments, divided by operating expenses ('cost plus' ratio) was selected as the PLI. In calculating this ratio less expense breakdown was available and adjustments were only made where amounts could be identified.

E.6 Benchmarking Results

Australian Bureau of Statistics
SUMMARY OF INDUSTRY PERFORMANCE, 78 Business Services, Large businesses

	Unit	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	
Industry structure								
Operating businesses	No.	329	349	364	382	420	428	
Employment	No.	186,748	217,417	220,020	279,380	296,581	336,397	
Income statement								
Sales of goods and services	$m	15,789	18,196	19,031	24,905	26,853	29,256	
Cost of sales	$m	8,413	9,085	10,014	12,329	13,195	14,696	
Purchases	$m	2,371	1,576	1,619	2,269	2,703	2,530	
Selected expenses	$m	6,074	7,517	8,447	10,212	10,539	12,328	
Opening stocks	$m	245	274	218	293	397	357	
Closing stocks	$m	277	282	270	445	444	519	
Trading profit	**$m**	**7,377**	**9,111**	**9,017**	**12,575**	**13,658**	**14,561**	
Interest income	$m	2,420	2,488	2,366	1,955	5,199	8,246	
Other operating income	$m	5,341	3,972	3,238	3,404	3,446	5,010	
Labour costs	$m	7,120	8,474	8,573	10,831	11,834	14,832	
Depreciation	$m	522	681	656	802	871	1,025	
Other operating expenses	$m	201	292	341	345	311	269	
Earnings before interest and tax	**$m**	**7,295**	**6,124**	**5,050**	**5,957**	**9,288**	**11,691**	
Interest expenses	$m	2,674	2,579	2,066	2,305	5,283	8,127	
Operating profit before tax	**$m**	**4,620**	**3,545**	**2,985**	**3,652**	**4,005**	**3,563**	
Balance sheet								
Current assets	$m	28,137	35,056	33,460	29,270	27,531	30,330	
Non-current assets	$m	64,368	53,386	54,720	56,747	56,300	62,608	
Total assets	$m	92,505	88,442	88,180	86,017	83,831	92,937	
Current liabilities	$m	23,947	32,998	24,803	26,046	23,288	29,028	
Non-current liabilities	$m	26,795	20,392	19,564	19,973	14,667	14,065	
Total liabilities	$m	50,742	53,390	44,367	46,019	37,956	43,092	
Net worth	**$m**	**41,763**	**35,052**	**43,813**	**39,998**	**45,875**	**49,845**	
								Weighted Average
EBIT		4,875	3,636	2,684	4,002	4,089	3,445	22,731
OE		16,256	18,532	19,584	24,307	26,211	30,822	135,712
EBIT/OE		29.99%	19.62%	13.71%	16.46%	15.60%	11.18%	16.75%

Note the ABS data for 1995-96 to 2000-01 period was not used in the analysis due to the difference in the compilation and calculation of the data in comparison to 2001-02 to 2002-03.

Australian Bureau of Statistics

SUMMARY OF INDUSTRY PERFORMANCE, 78 Business Services, Large businesses

	Large		
Data items	**2001-02**	**2002-03**	
Operating businesses (Number)	216	286	
Employment (Number)	n.a.	n.a.	
Income statement			
Sales of goods and services ($ Millions)	26639.3	30975.7	
Cost of sales ($ Millions)	11914.5	15603.3	
Purchases ($ Millions)	1440.3	3485.1	
Selected expenses ($ Millions)	10514.5	12213.1	
Opening stocks ($ Millions)	527.4	514.2	
Closing stocks ($ Millions)	567.6	609.1	
Trading profit ($ Millions)	14724.8	15372.4	
Interest income ($ Millions)	1051.6	1887	
Other operating income ($ Millions)	2078.1	3615.5	
Labour costs ($ Millions)	13477	14611	
Depreciation ($ Millions)	1184.5	1246	
Other operating expenses ($ Millions)	311.9	420.8	
Earnings before interest and tax ($ Millions)	2881.1	4597.2	
Interest expenses ($ Millions)	1556.4	2498.5	
Operating profit before tax ($ Millions)	1324.7	2098.7	
Balance sheet			
Current assets ($ Millions)	11184	20652.1	
Non-current assets ($ Millions)	19699.8	31098.2	
Total assets ($ Millions)	30883.8	51750.3	
Current liabilities ($ Millions)	9367.2	13942.7	
Non-current liabilities ($ Millions)	6896	16711.4	
Total liabilities ($ Millions)	16263.2	30654.2	
Net worth ($ Millions)	14620.5	21096.1	
			Weighted Average
EBIT	1,830	2,710	4,540
OE	26,888	31,881	58,769
EBIT/OE	6.80%	8.50%	7.72%

ATO Statistics
Computer Services

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	
Income Statement										
Gross PPS income	5 308 943	8 799 810	8 141 390	14 260 514	20 483 781					
Gross RPS income	13 574	1 939 365	671 910	863 442	8 567 595					
Other sales of goods & services	4 574 973 600	5 338 722 832	6 739 561 371	8 999 636 521	11 573 462 998	11,796,704,639	16,001,079,322	14,791,595,535	14,439,718,890	
Distribution from partnerships	40 827 856	8 831 618	15 386 043	5 803 636	5 633 942	34,479,726	51,725,521	23,687,232	4,978,826	
Distribution from trusts		28 501 454	23 836 200	31 708 065	48 022 865	32,075,772	33,794,685	29,965,773	27,334,747	
Gross interest	37 243 089	40 896 495	41 852 280	59 075 921	94 095 596	104,157,997	115,150,280	100,324,722	112,695,001	
Gross rents, leasing & hiring	15 095 855	14 920 571	36 335 709	62 548 074	80 458 473	44,637,810	97,702,432	82,264,593	39,786,008	
Gross dividends	7 800 077	14 728 347	13 444 612	13 453 881	42 575 791	40,312,754	40,130,503	136,111,177	267,607,735	
Fringe benefit employee contributions			8 660 666	11 502 240	13 920 911	13,597,650	14,223,689	12,557,076	12,050,169	
Assessable government industry payment		8 942 242	14 679 235	20 415 515	22 138 625	11,505,243	21,932,825	19,148,884	15,040,455	
Other gross income	2 010 495 338	1 676 584 535	1 921 597 710	2 382 580 334	2 674 225 168	2,624,384,399	2,773,996,076	2,448,737,427	2,913,129,018	
Total income	6 686 435 821	7 142 867 233	8 824 167 126	11 601 848 206	14 583 585 793	14,731,360,487	19,180,651,921	17,648,693,900	17,833,212,002	
Cost of sales	1 684 295 740	1 634 559 486	1 555 569 224	2 069 507 844	3 921 884 678	3,369,580,015	4,383,673,233	3,904,278,997	3,651,506,613	
External labour costs	516 227 929	543 916 230	776 322 865	1 004 225 709	1 348 600 696	1,223,786,651	1,365,999,810	1,188,677,159	1,060,198,096	
Superannuation	160 034 375	168 662 284	224 652 222	335 019 563	373 548 470	418,843,032	548,185,357	557,561,726	569,603,236	
Bad debts	9 194 451	9 996 862	22 533 923	18 537 353	24 371 142	48,322,492	64,122,952	29,763,069	29,494,116	
Lease expenses - Australia	90 627 323	117 323 861	117 789 326	168 731 860	124 926 867	269,012,060	382,739,446	274,496,148	99,310,540	
Lease expenses - Overseas	27 933	305 388	362 602	659 514	563 227	270,086,380	383,258,653	275,284,884	100,874,551	
Rent expenses	158 782 055	170 025 957	190 658 363	218 445 388	246 487 922	281,396,197	379,445,175	409,399,700	404,536,994	
Interest expenses - Australia	38 384 042	36 692 261	39 344 679	74 461 134	54 631 381	71,064,757	97,919,078	98,268,801	92,655,027	
Interest expenses - Overseas	5 774 519	7 059 215	4 172 909	3 700 365	6 727 758	14,625,835	37,689,939	34,770,423	24,842,565	
Royalty expenses - Australia	5 463 341	4 464 112	14 597 069	42 229 396	16 226 756					
Royalty expenses - Overseas	58 478 141	57 130 059	97 600 561	98 794 021	163 117 779					
Depreciation expenses	181 342 577	209 294 750	225 099 571	325 644 459	305 832 170	395,303,891	674,907,959	660,857,743	594,561,714	
Motor vehicle expenses	72 487 918	77 766 635	84 518 427	101 261 840	109 929 090	95,750,574	99,429,788	95,127,510	91,118,697	
Repairs and maintenance	56 398 429	60 968 779	66 321 119	78 684 213	107 513 026	178,971,138	260,121,867	187,190,233	229,326,360	
All other expenses	3 271 264 260	3 724 204 161	4 982 008 410	6 503 563 598	7 026 586 007	8,297,905,914	10,530,593,131	9,439,353,035	9,415,906,381	
Total expenses	6 308 783 086	6 822 369 458	8 401 496 064	11 043 466 304	13 830 947 041	14,928,774,712	19,205,981,907	17,420,130,322	16,748,992,394	
Operating profit/loss	375 043 510	320 496 452	420 701 820	558 381 880	752 638 752	-197,414,241	-25,329,985	228,563,578	1,084,219,608	
Extraordinary items	650 855	- 10 757 194	- 1 686 826	22 977	- 5 924 753	23,761,201			-10,540,568	
Total profit or loss	379 326 907	309 740 627	421 194 324	558 404 867	746 713 972	-173,652,990	-22,159,565	227,160,093	1,073,679,040	
Balance Sheet										
Opening stock	94 382 559	106 217 663	72 180 032	91 335 690	130 793 030	175,292,744	246,590,251	208,392,724	167,213,311	
Closing stock	107 333 913	109 230 229	75 471 747	96 634 421	163 645 706	217,636,412	227,042,157	183,424,102	186,808,024	
Trade debtors	674 409 703	686 266 752	809 388 114	1 103 981 143	1 374 994 321	1,510,587,220	2,011,964,773	1,830,449,690	1,803,092,465	
Current assets	1 940 373 494	1 933 825 536	2 349 471 612	3 196 317 505	5 490 321 815	5,871,674,947	7,487,468,299	6,452,019,029	6,764,127,074	
Total assets	3 463 039 219	3 548 689 939	4 791 235 857	5 406 636 080	8 932 961 495	9,954,119,912	13,187,373,647	11,592,851,249	11,603,077,496	
Trade creditors	455 447 755	465 910 513	529 111 565	656 218 505	796 095 023	899,673,001	1,311,171,700	872,194,397	838,178,796	
Current liabilities	1 823 922 200	1 739 054 623	2 206 310 845	2 869 094 691	4 287 183 579	5,315,134,233	6,831,046,092	5,847,369,301	5,524,410,742	
Total liabilities	2 574 217 358	2 558 596 172	3 462 546 526	4 048 190 073	5 873 305 475	7,309,617,376	9,546,548,812	8,397,324,562	7,747,687,537	
Shareholders' funds	888 387 616	989 860 511	1 328 689 331	1 358 446 007	3 059 628 838	2,644,597,153	3,640,824,835	3,195,526,687	3,855,389,959	
Ratio Analysis										**Weighted Average**
EBIT	381,958,982	323,351,433	422,367,128	577,467,458	719,902,295	-215,881,646	-4,871,248	261,278,080	1,089,022,199	
OE	2,993,360,265	3,054,413,821	3,375,970,066	4,461,741,207	6,743,001,895	6,545,178,206	8,539,779,759	7,847,738,063	7,215,588,421	
EBIT/OE	12.76%	10.59%	12.51%	12.94%	10.68%	-3.30%	-0.06%	3.33%	15.09%	7.00%

ATO Statistics
Other business services

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	
Income Statement										
Gross PPS income	130 867 634	105 451 983	154 186 180	136 435 923	150 927 205					
Gross RPS income	153 040	1 413 593	9 847 996	31 562 350	13 113 502					
Other sales of goods & services	6 298 418 179	7 071 488 279	7 673 219 236	10 248 779 006	13 101 687 884	15,701,347,719	18,658,420,976	18,283,962,980	18,126,821,727	
Distribution from partnerships	79 698 899	16 392 935	11 409 892	13 982 632	13 183 619	33,129,987	31,623,857	22,982,812	23,132,160	
Distribution from trusts		79 028 968	68 834 488	75 665 527	98 246 848	212,270,102	255,166,426	270,269,046	292,836,366	
Gross interest	336 406 930	210 962 004	180 727 868	101 196 538	152 104 374	261,012,229	202,307,298	198,957,681	158,179,389	
Gross rents, leasing & hiring	94 259 539	70 905 491	92 108 472	107 134 078	97 062 907	239,054,874	237,732,731	264,114,949	246,450,865	
Gross dividends	157 095 923	88 939 386	26 458 860	153 945 932	225 742 304	396,869,038	320,264,172	262,256,821	185,844,435	
Fringe benefit employee contributions			7 446 268	7 573 756	15 419 553	10,679,991	11,332,826	11,370,072	12,837,516	
Assessable government industry payment		1 476 302	4 705 573	5 702 340	8 224 167	8,756,584	15,980,537	12,429,970	28,648,623	
Other gross income	4 831 735 663	2 813 096 588	3 424 201 118	4 226 536 395	4 805 052 865	6,051,277,675	6,478,393,678	6,943,600,471	6,116,458,259	
Total income	11 797 615 143	10 459 155 403	11 653 145 951	15 108 514 615	18 680 765 229	22,938,400,300	26,300,717,485	26,271,302,341	25,191,399,070	
Cost of sales	3 172 908 636	3 314 339 306	3 221 738 530	3 358 828 761	4 468 624 414	5,507,228,970	6,704,312,212	7,187,907,567	8,178,755,777	
External labour costs	950 288 900	647 314 522	829 568 973	1 124 255 854	1 427 743 185	1,652,546,144	1,988,728,724	1,654,668,300	1,673,099,584	
Superannuation	252 265 240	239 223 526	285 459 488	406 181 199	464 275 709	672,550,094	801,137,656	835,850,322	812,141,417	
Bad debts	19 832 665	10 135 569	22 013 003	16 583 592	30 770 145	34,497,364	37,582,697	30,750,590	27,511,302	
Lease expenses - Australia	53 901 648	66 578 810	57 453 303	81 800 240	122 027 021	136,882,646	122,016,913	94,414,759	79,575,982	
Lease expenses - Overseas	217 889	299 535	509 482	474 886	409 010	138,104,727	122,687,212	95,274,847	80,343,654	
Rent expenses	184 643 451	154 277 233	167 264 681	203 855 509	251 817 858	311,229,918	342,808,471	357,093,412	371,725,917	
Interest expenses - Australia	363 796 834	166 409 552	127 983 931	133 907 751	186 513 137	269,223,599	270,344,831	285,916,578	207,175,320	
Interest expenses - Overseas	4 593 095	21 813 351	7 261 469	4 057 812	4 637 955	11,591,170	51,351,532	26,615,606	36,667,624	
Royalty expenses - Australia	41 318 548	8 666 212	7 749 262	8 401 715	7 482 481					
Royalty expenses - Overseas	26 197 242	16 258 363	7 638 515	18 348 144	43 146 309					
Depreciation expenses	309 757 312	147 621 632	207 079 184	250 461 801	279 126 950	388,278,816	414,534,498	344,633,542	328,681,303	
Motor vehicle expenses	233 648 332	110 396 913	117 259 128	128 691 095	143 201 666	176,936,115	193,039,591	188,602,259	184,220,378	
Repairs and maintenance	80 985 042	43 185 653	46 160 062	58 424 359	76 000 118	147,350,680	134,947,343	112,075,699	97,346,869	
All other expenses	5 346 958 846	4 928 948 854	5 987 101 474	8 432 544 011	10 412 043 376	12,829,292,692	14,046,387,384	13,899,047,301	11,871,502,691	
Total expenses	11 041 320 123	9 875 435 072	11 092 227 205	14 226 816 706	17 917 136 513	22,197,908,974	25,159,122,796	25,056,428,464	23,928,208,454	
Operating profit/loss	752 435 299	583 720 325	561 041 934	881 697 910	763 628 724	740,491,386	1,141,594,689	1,214,873,877	1,263,190,616	
Extraordinary items	32 303 593	2 825 418	- 4 851 367	-3 776 531	61 561 613	-24,160,605			-15,856,076	
Total profit or loss	777 392 757	586 545 755	556 314 438	877 921 387	825 190 347	716,330,738	1,145,098,037	1,211,415,565	1,247,334,540	
Balance Sheet										
Opening stock	193 206 699	155 946 728	109 406 583	142 957 081	144 062 538	168,075,071	209,160,538	182,148,673	552,301,591	
Closing stock	193 933 481	174 062 419	133 996 607	165 375 421	171 836 003	229,952,190	228,187,705	232,741,276	551,690,433	
Trade debtors	907 135 076	808 354 330	761 620 618	1 118 855 497	1 594 219 063	3,361,293,818	2,368,700,510	1,966,724,652	2,281,725,105	
Current assets	5 155 921 593	3 678 350 937	3 050 754 127	4 569 735 371	5 797 909 306	10,054,951,884	10,017,243,565	7,995,329,541	8,209,613,983	
Total assets	9 737 653 365	7 582 252 521	7 604 945 205	8 855 689 431	13 891 365 842	21,370,751,372	23,105,573,049	22,178,927,524	15,443,601,659	
Trade creditors	709 857 182	1 433 952 749	616 824 142	841 745 959	1 009 544 500	1,290,292,249	1,270,925,858	1,192,202,815	876,977,022	
Current liabilities	5 256 660 607	3 869 897 028	2 655 506 394	4 365 692 760	7 209 824 103	7,856,368,415	8,376,912,891	7,249,470,142	5,496,303,693	
Total liabilities	7 809 827 266	5 471 878 148	5 346 385 942	6 857 112 351	10 879 187 043	14,986,602,386	14,881,344,883	13,630,238,545	8,973,362,985	
Shareholders' funds	1 927 300 461	2 109 460 948	2 258 559 263	1 998 577 080	3 012 178 799	6,384,144,293	8,224,228,166	8,548,688,979	6,470,257,260	
Ratio Analysis										**Weighted Average**
EBIT	784,418,298	560,981,224	515,559,466	918,466,935	802,675,442	760,293,926	1,260,983,754	1,328,448,380	1,348,854,171	
OE	10,672,923,751	9,687,246,128	10,956,995,085	14,088,851,166	17,726,668,242	21,994,898,166	24,908,182,701	24,800,318,598	23,704,904,874	
EBIT/OE	7.35%	5.79%	4.71%	6.52%	4.53%	3.46%	5.06%	5.36%	5.69%	5.22%

Attachment F - Detailed Financial Information Supporting the CP Ratio Results of Attachment D and Search Matrices