

TAX & LAW

INTERNATIONAL TAX SERVICES

CITIPower PTY AND POWERCOR AUSTRALIA LIMITED

ANALYSIS OF TRANSFER PRICES FOR CUSTOMER SERVICES (EXCLUDING METERING)

20 November 2006

 **ERNST & YOUNG**

Quality In Everything We Do

Contents

Executive Summary.....	1
1 ATO and OECD Guidance in Relation to the Pricing of Related Party Services	4
2 Step One: Accurately Characterise the Dealings between the Associated Enterprises	9
3 Step Two - Select the Most Appropriate Transfer Pricing Methodology.....	20
4 Step Three - Apply the Most Appropriate Method	21
Attachment A – The ATO's Four Step Process.....	25
Attachment B – Characterisation of Service Activity per TR 1999/1.....	27
Attachment C - Regulatory instruments (30 June 2006).....	29
Attachment D - Detailed Discussion of Search Performed for Comparable Company Benchmarks	34
Attachment E - Detailed Discussion ABS Data and ATO Statistics.....	47
Attachment F - Detailed Financial Information Supporting the CP Ratio Results of Attachment D.....	55

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 Customer Services (Excluding Metering) 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 Customer Services (Excluding Metering) costs and mark-up should be apportioned between CitiPower and Powercor.

Weighted Average Cost Plus Ratio for Customer Services (Excluding Metering) by Division

	All Customer Services (Excluding Metering)	Business Improvement Services¹	Ancillary Services²
Overall Ranking per Figure 2.4	3,2	2,1	3
Overall Relative Importance per Figure 2.4	L-M	M-H	L-M
Primary Benchmark³	10.82%	11.59%	9.85%
Secondary Benchmarks			
ABS Data ⁴	7.72%	7.72%	7.72%
ATO Statistics ⁵	5.22% - 14.82%	8.60% - 14.82%	5.22% - 8.00%
ATO TR 1999/1 ⁶	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 three 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

¹ “Business Services” within Customer Services (Excluding Metering) include: General management, Business Management, Retailer & Customer Relations and Business Improvement.

² “Back Office Services” within Customer Services (Excluding Metering) include: Customer Response, Special Reading, Data Management, Revenue Management and Reporting.

³ Represents the 2001 to 2005 weighted average Cost Plus ratio of selected comparable companies.

⁴ 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.

⁵ Represents the 1995-96 to 2003-04 weighted average Cost Plus ratio of the following ATO Statistics categories: “Other Business Services” (5.22%), “Accounting, Auditing and Bookkeeping” (8.00%), “Marketing and Business Management Services” (8.60%) and “Legal Services” (14.82%).

⁶ “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.

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. It should be noted that it was necessary to rely on some comparables that provided dissimilar services but with similar personnel and levels of expertise.

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 Customer Services (Excluding Metering) costs. The Secondary Benchmarks are generally based on a relatively broad and varied group of service providers (i.e., “Business Services” or “Accounting” and “Legal” 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 Customer Services (Excluding Metering) groupings.

The combined weighted average of 10.82% is recommended as the mark-up to be applied to Customer Services (Excluding Metering) costs for the following reasons:

- The Customer Services (Excluding Metering) division personnel provide a range of high level type ‘1’ to lower level type ‘3’ customer related services. Approximately 10% of the personnel in this division are ranked as a ‘1’, ‘2’ or ‘3,2’. The remaining 90% are ranked as a ‘3’. The results of the weighted average mark-ups for the Business Improvement Services benchmarks (11.59%) and the Ancillary Services benchmarks (9.85%) and the combination of the two groups of benchmarks (10.82%), as applied to the 10% and 90% mix of Customer Services costs above, does not differ materially. It therefore is mathematically practical to combine the mark-up results for the two groups of comparable companies.

In combining the full range of comparable service providers, some of the companies provide a range of higher value (‘1’, ‘2’) strategic and business improvement services and others focus on lower value (‘3’) ancillary services. The objective in including a range of business services companies is to calculate a mark-up range that is reflective of the broad spectrum of services provided within the Customer Services (Excluding Metering) division and therefore the varying range of personnel skills and the value of those skills to CitiPower and Powercor; and

- In each group of comparable service providers the spread between the minimum and maximum returns is not dissimilar in terms of a wide range of results. That is, there are returns as high as 14.26% for level 3 and 19.23% for level 1, 2 expertise and as low as 4.32% for level 3 and 5.06% for level 1, 2 expertise. Because of the similarly high and low returns for each category, notwithstanding the different levels of expertise, it is considered more appropriate to group all of the comparable companies provide an overall weighted average mark-up.

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 Customer Services (Excluding Metering) 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-up on 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-up on 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 Customer Services (Excluding Metering) 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'.

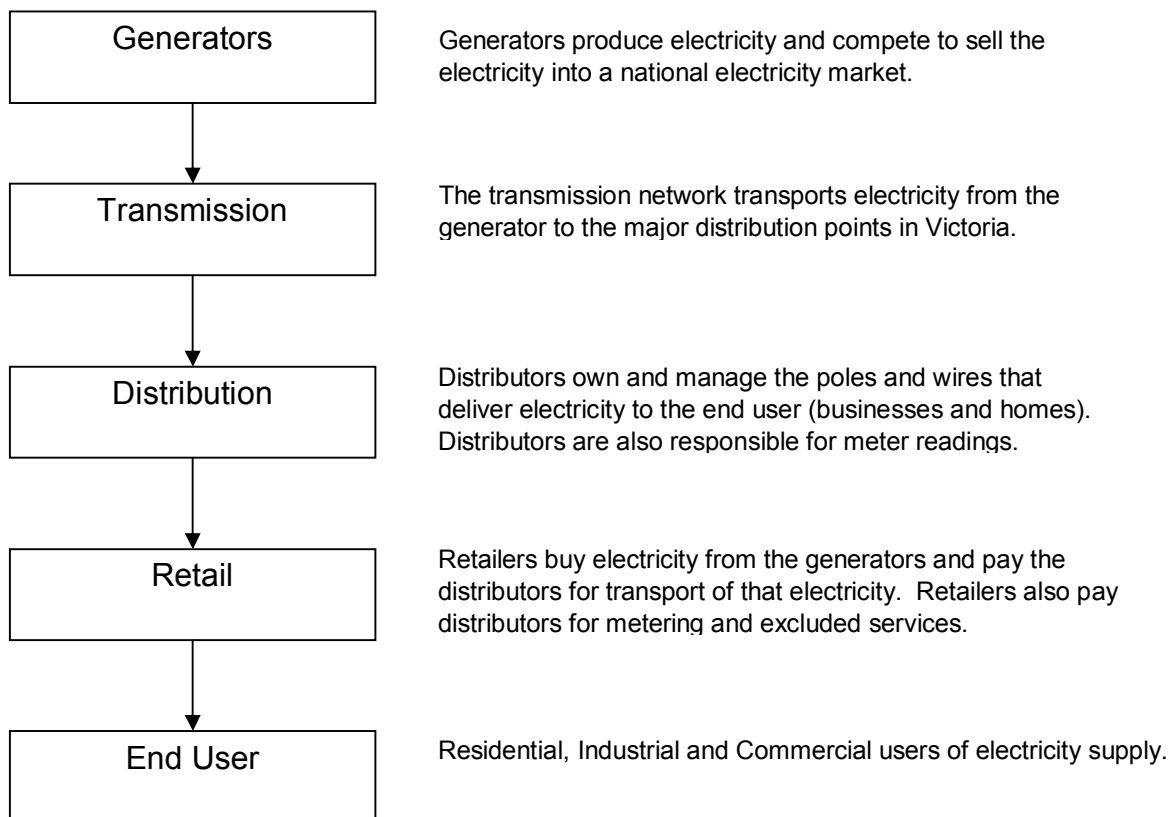
2 Step One: Accurately Characterise the Dealings between the Associated Enterprises

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 Customer Services (Excluding Metering) 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 Customer Services (Excluding Metering) to CitiPower and Powercor by CHED Services.

2.1. Industry

Electricity in Victoria is delivered through the following structure:



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:

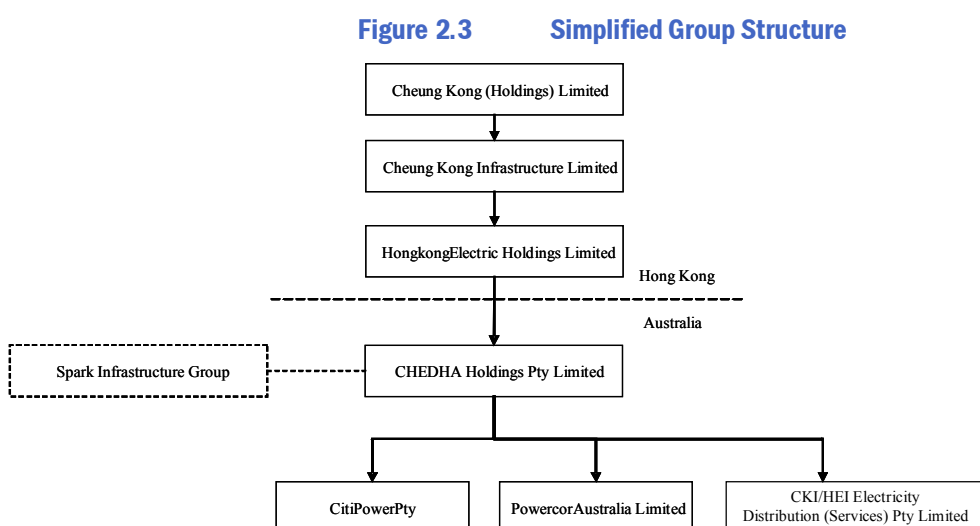
- Asset management;
- Reliability;
- Customer service;
- Efficient IT systems;
- Effective cost management;
- Financial and tax management;
- Pricing.

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.



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 Customer Services (Excluding Metering) provided by CHED Services.

A more detailed discussion of Customer Services (Excluding Metering) follows.

2.12. Customer Services (Excluding Metering)

2.12.1. CHED Services

This section of the report focuses on the Customer Services (Excluding Metering) provided by CHED Services.

2.12.2. Customer Services (Excluding Metering)

The various services provided by Customer Services (Excluding Metering) are summarised in a table in figure 2.4. Each Customer Service (Excluding Metering) 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-up on costs;

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

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

Figure 2.4 Summary of Customer Services (Excluding Metering)

Customer Services (excluding metering)	Description of service provided	Ranking	Relative Importance
	<i>General description</i> – Customer Services (excluding metering) is responsible for building a customer service culture in CitiPower and Powercor, building customer related business alliances (including Retailers), responding to customer queries through a 24/7 call centre and management of customer data reporting systems required to track and bill customers for energy usage. Group has approximately 300 personnel – 9 are professional managers.		
General management	<i>Services:</i> (1 manager plus 1 assistant)		
	■ Create a customer services culture within the company	3,2	L-M
	■ Manage Customer Services processes and programs	3,2	L-M
	■ Manage the delivery of Customer Services	3,2	L-M
	■ Provide advice and support on Customer Services matters affecting the business	3,2	L-M
	■ Develop and implement Customer Services strategic plans	2	M
	■ Ensure Customer Services matters are effectively addressed as part of the Strategic Planning process	2	M
	■ Identify and develop key relationships with internal customers and other stakeholder groups	2	M
	■ Representation on strategic Industry bodies	2	M
	OVERALL RANKING – GENERAL MANAGEMENT	3,2	L-M
Business Management	2 personnel		
	<i>Services:</i>		
	■ Identify and develop long term alliance partnerships	1	H
	■ Manage and promote synergy opportunities with key service providers	1	H
	■ Play a leading strategic role in the development and implementation of business strategies and plans	1	H
	■ Development and implementation of major business activities	1	H
	■ Provide advice and support on business development activities	1	H
	OVERALL RANKING – BUSINESS MANAGEMENT	1	H

Customer Services (excluding metering)	Description of service provided	Ranking	Relative Importance
Customer Response	70 to 80 personnel		
	<i>Services:</i>		
	<ul style="list-style-type: none"> Contact Centre including provision of a 24/7 faults and emergencies line, a 24/7 general enquiries line, response to technical enquiries, ongoing training, full contingency service and administration of third party network contracts 	3	M
	<ul style="list-style-type: none"> Administration of and adherence to the Voltage Variation Guidelines 	3	M
	<ul style="list-style-type: none"> Investigation, processing, payment, reporting and analysis of claims 	3	M
	<ul style="list-style-type: none"> Business and Technical support for GSL payments and invoicing of chargeable and recoverable works 	3	M
	OVERALL RANKING – CUSTOMER RESPONSE	3	M
Connections	75 personnel		
	<ul style="list-style-type: none"> Completion of the field work associated with turn on/turn off and re-energisation/de-energisation service orders 	3	L
	<ul style="list-style-type: none"> Completion of the field work associated with miscellaneous service orders including check reads and identification/confirmation of customer details 	3	L
	<ul style="list-style-type: none"> Provision of standing data information obtained during field work to New Connections for update into the customer information systems 	3	L
	<ul style="list-style-type: none"> Updating of non standing data information obtained during field work directly into the customer information system 	3	L
	OVERALL RANKING – SPECIAL READING	3	L
Data Management	60 personnel		
	<i>Services:</i>		
	<ul style="list-style-type: none"> Represent at relevant FRC industry working groups 	2	M
	<ul style="list-style-type: none"> Monitor and implement corrective actions associated with system developments to ensure ongoing integrity and efficiency of data flows 	3	L-M
	<ul style="list-style-type: none"> Manage business to business (B2B) transactions including transfer requests, service order requests, customer details notifications, network tariff requests, contract demand requests and NMI standing data requests 	3	L-M
	<ul style="list-style-type: none"> Managing B2B exceptions and disputes 	3	L-M
	<ul style="list-style-type: none"> Manage MSATS transactions including updating reference data, resolving reference data exceptions, actioning NEMMCO performance reports, responses to retailer queries and managing embedded networks transactions and data 	3	L-M
	OVERALL RANKING – DATA MANAGEMENT	3	L-M

Customer Services (excluding metering)	Description of service provided	Ranking	Relative Importance
Revenue management	70+ personnel		
	<i>Services:</i>		
	<ul style="list-style-type: none"> ■ Network, metering and excluded service billing including investigation and resolution billing issues and errors 	3	L-M
	<ul style="list-style-type: none"> ■ Producing and issuing network bill files to retailers 	3	L-M
	<ul style="list-style-type: none"> ■ Actioning and responding to enquiries from retailers and other external parties 	3	L-M
	<ul style="list-style-type: none"> ■ Reporting on billing statistics, billing projects and as required 	3	L-M
	<ul style="list-style-type: none"> ■ Processing of retailer and non-tariff billing payments 	3	L-M
	<ul style="list-style-type: none"> ■ Investigation and correction of unallocated payments and outstanding and overdue charges 	3	L-M
	<ul style="list-style-type: none"> ■ Actioning and responding to enquiries from retailers and customers 	3	L-M
	<ul style="list-style-type: none"> ■ Preparation and analysis of monthly receivables and cash reporting, investigation and resolution of credit balances, managing bad debts, processing of unclaimed monies in accordance with the legislation 	3,2	L-M
	<ul style="list-style-type: none"> ■ Management and administration of the corporate credit policy and procedures 	3,2	L-M
	<ul style="list-style-type: none"> ■ Revenue Protection including identification and investigation of illegal usage, theft, errors, omissions and equipment failure, supporting police investigations and court appearances, monitoring of exceptions/management system reports 	3	L-M
	OVERALL RANKING – REVENUE MANAGEMENT	3	L-M

Customer Services (excluding metering)	Description of service provided	Ranking	Relative Importance
Retailer & Customer relations	8 personnel		
	<i>Services:</i>		
	■ Relationship management of retailers and specified major customers	2	L-M
	■ Negotiate major customer contract tariffs	2	L-M
	■ Management and administration of Use of System	3,2	L
	■ Development and implementation of customer service strategy	2	L-M
	■ Management and administration of customer complaints and enquiries	3	L
	■ Management of the Electricity and Water Ombudsman of Victoria function including monitoring and resolution of related complaints and enquiries	2	L-M
	■ Management and administration of customer service tracking surveys and other customer research, and analysis of results	3	L
	■ Administration of the privacy function	3	L
	■ Administration of the Customer Relationship Management system	3	L
	OVERALL RANKING – RETAILER & CUSTOMER RELATIONS	3,2	L-M
Business improvement	8 personnel		
	<i>Services:</i>		
	Analysis and review of systems and processes to identify improvement opportunities and ensure compliance with regulations and obligations	2	M
	Scoping and documentation of system enhancements and reporting change requests	2	L-M
	Co-ordination, prioritisation and management of change requests and business improvement projects	3,2	L-M
	Co-ordinate training and development needs associated with customer relations services	3	L-M
	Monitor & identify areas for improvement to enhance strategic relationships with internal & external customers	3	L-M
	Monitor & report on the effectiveness of the Implementation Plan	3	L-M
	Project management of Customer Services programs	3,2	L-M
	OVERALL RANKING – BUSINESS IMPROVEMENT	2	L-M

Customer Services (excluding metering)	Description of service provided	Ranking	Relative Importance
Reporting	2 personnel		
	<i>Services:</i>		
	<ul style="list-style-type: none"> ■ Provide control, management and performance reports 	2	L-M
	OVERALL RANKING – REPORTING	3,2	L-M

Conclusion – the Customer Services (excluding metering) division is viewed as requiring a range of skill and experience with most personnel being ranked as a high 3 or low 2 i.e., most of the personnel in this area have on the job training. Exceptions are those personnel involved in high level business management who have been ranked a 1. Customer Services is viewed as having a low to 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 Customer Services (Excluding Metering).

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 Customer Services (Excluding Metering) provided by CHED Services. These methods are the:

- CUP method; and
- CP method.

Each of these methods and their relevance to the provision of Customer Services (Excluding Metering) 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 Customer Services (Excluding Metering), CHED Services do not provide similar services to unrelated parties. Therefore, the CUP method cannot be applied to Customer Services (Excluding Metering).

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 Customer Services (Excluding Metering) 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 Customer Services (Excluding Metering) 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 Customer Services (Excluding Metering) 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 Customer Services (Excluding Metering), 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 Customer Services (Excluding Metering). 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 Customer Services (Excluding Metering) costs and mark-up should be apportioned between CitiPower and Powercor.

Figure 4.1 Weighted Average Cost Plus Ratio for Customer Services (Excluding Metering) by Division

	All Customer Services (Excluding Metering)	Business Improvement Services ⁷	Ancillary Services ⁸
Overall Ranking per Figure 2.4	3,2	2,1	3
Overall Relative Importance per Figure 2.4	L-M	M-H	L-M
Primary Benchmark⁹	10.82%	11.59%	9.85%
Secondary Benchmarks			
ABS Data ¹⁰	7.72%	7.72%	7.72%
ATO Statistics ¹¹	5.22% - 14.82%	8.60% - 14.82%	5.22% - 8.00%
ATO TR 1999/1 ¹²	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

⁷ “Business Services” within Customer Services (Excluding Metering) include: General management, Business Management, Retailer & Customer Relations and Business Improvement.

⁸ “Back Office Services” within Customer Services (Excluding Metering) include: Customer Response, Special Reading, Data Management, Revenue Management and Reporting.

⁹ Represents the 2001 to 2005 weighted average Cost Plus ratio of selected comparable companies.

¹⁰ 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.

¹¹ Represents the 1995-96 to 2003-04 weighted average Cost Plus ratio of the following ATO Statistics categories: “Other Business Services” (5.22%), “Accounting, Auditing and Bookkeeping” (8.00%), “Marketing and Business Management Services” (8.60%) and “Legal Services” (14.82%).

¹² “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.

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. It should be noted that it was necessary to rely on some comparables that provided dissimilar services but with similar personnel and levels of expertise.

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 Customer Services (Excluding Metering) costs. The Secondary Benchmarks are generally based on a relatively broad and varied group of service providers (i.e., “Business Services” or “Accounting” and “Legal” 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 Customer Services (Excluding Metering) groupings.

The combined weighted average of 10.81% is recommended as the mark-up to be applied to Customer Services (Excluding Metering) costs for the following reasons:

- The Customer Services (Excluding Metering) division personnel provide a range of high level type ‘1’ to lower level type ‘3’ customer related services. Approximately 10% of the personnel in this division are ranked as a ‘1’, ‘2’ or ‘3,2’. The remaining 90% are ranked as a ‘3’. The results of the weighted average mark-ups for the Business Improvement Services benchmarks (11.59%) and the Ancillary Services benchmarks (9.85%) and the combination of the two groups of benchmarks (10.82%), as applied to the 10% and 90% mix of Customer Services costs above, does not differ materially. It therefore is mathematically practical to combine the mark-up results for the two groups of comparable companies.

In combining the full range of comparable service providers, some of the companies provide a range of higher value (‘1’, ‘2’) strategic and business improvement services and others focus on lower value (‘3’) ancillary services. The objective in including a range of business services companies is to calculate a mark-up range that is reflective of the broad spectrum of services provided within the Customer Services (Excluding Metering) division and therefore the varying range of personnel skills and the value of those skills to CitiPower and Powercor; and

- In each group of comparable service providers the spread between the minimum and maximum returns is not dissimilar in terms of a wide range of results. That is, there are returns as high as 14.26% for level 3 and 19.23% for level 1, 2 expertise and as low as 4.32% for level 3 and 5.06% for level 1, 2 expertise. Because of the similarly high and low returns for each category, notwithstanding the different levels of expertise, it is considered more appropriate to group all of the comparable companies provide an overall weighted average mark-up.

4.2.3. Observations

All Customer Services (Excluding Metering)

See discussion at Conclusion above.

Business Improvement Services (General Management, Business Management, Retailer and Customer Relations and Business Improvement)

It is noted that there are five business service companies that appear to predominantly provide a range of higher value ‘1’ and ‘2’ strategic and business improvement services. As the General Management, Business Management, Retailer and Customer Relations and Business Improvement

divisions provide a range of '1', '2' and '3,2' level services, the five companies that predominantly provide these types of services are grouped to benchmark a mark-up for these functions within CHED Services. This grouping results in a weighted average mark-up of 11.59%.

Ancillary Services (Customer Response, Special Reading, Data Management, Revenue Management and Reporting)

It is noted that there are four business service companies that appear to predominantly provide a range of lower value '3' ancillary services. As the Customer Response, Special Reading, Data Management, Revenue Management and Reporting service divisions provide primarily '3' level services, the four companies that predominantly provide these types of services are grouped to benchmark a mark-up for these functions within CHED Services. This results in a weighted average mark-up of 9.85%.

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.	<p>Identify the scope, type and timing of the international dealings with associated enterprises in the context of the taxpayer's business.</p> <p>This may require an understanding of the context of the dealings including:</p> <ul style="list-style-type: none"> ■ 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. 	<p>Identify the specific elements of the international dealings that are to be considered.</p> <p>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.</p> <p>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.</p> <p>Document the process adopted.</p>
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.	<p>Determine the most appropriate methodology or methodologies based on the facts and circumstances of the particular case.</p> <p>Document the choice of methodologies.</p>
Step 3:		
Apply the most appropriate method, determine the arm's length outcome and document the process.	<p>Define, examine and organise the rate on comparable dealings or comparable enterprises to enable comparability to be properly assessed.</p> <p>To improve comparability, it may be necessary to:</p> <ul style="list-style-type: none"> ■ adjust the date to account for material differences in comparability; ■ group or aggregate data; ■ extend the analysis over a number of years. <p>Data points or a range of results may emerge.</p>	<p>If necessary, broaden and refine the preliminary functional analysis. Prepare a comparability analysis.</p> <p>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.</p> <p>It may be necessary to apply several methods.</p> <p>Decide on the arm's length outcome. Document practical considerations such as:</p> <ul style="list-style-type: none"> ■ 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	<p>Examples of services provided with respect to a particular entity:</p> <ul style="list-style-type: none"> ■ 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	<p>Examples of centralised activities include:</p> <ul style="list-style-type: none"> ■ 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.

	<p>the group</p> <ul style="list-style-type: none">■ 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)	<p>What remains of the Tariff Order covers two areas:</p> <ul style="list-style-type: none"> ■ 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)	<p>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.</p> <p>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.</p>

Electricity Distribution Licence (Licence)	<p>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.</p> <p>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.</p>
EIG 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	<p>Broadly speaking, EIG11 requires the business to compensate any person whose property is damaged due to an unauthorised 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.</p> <p>Formally, this guideline is a relevant <i>guideline</i> for the purposes of clause 4.2.7 of the Electricity Distribution Code.</p>
EIG 14 Provision of Services by Electricity Distributors	<p>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:</p> <ul style="list-style-type: none"> (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]. <p>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.</p>
EIG 15 Connection of Embedded Generation	<p>EIG 15 addresses the:</p> <ul style="list-style-type: none"> (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

	<p>(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.</p>
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)	<p>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).</p> <p>Volume 2 also addresses 'pass through' arrangements and denies some further excluded service activities.</p>
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)	<p>The purpose of this <i>Metrology Procedure</i> is to set out:</p> <ul style="list-style-type: none"> ■ a summary of the obligations of the <i>Responsible Person</i>, in relation to type 5, 6 and 7 <i>metering installations</i> for <i>second tier loads</i>, that are contained in the <i>Code</i>, for ease of reference; ■ the additional obligations of the <i>Responsible Person</i> in relation to the provision, installation and maintenance of type 5, 6 and 7 <i>metering installations</i> for <i>second tier loads</i>, including the measurement of electrical <i>energy</i> and the provision of data to facilitate the efficient operation of the <i>market</i>; 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. <p>In particular, this <i>Metrology Procedure</i> sets out provisions for type 5, 6 and 7 <i>metering installations</i> relating to:</p> <ul style="list-style-type: none"> ■ the type of <i>metering installation</i> permitted for the measurement of <i>active energy</i>; ■ the collection or calculation, and processing, of <i>energy data</i>; ■ the provision, installation and maintenance of <i>metering installations</i>; ■ the components of each type of <i>metering installation</i>;

	<ul style="list-style-type: none"> ■ storage of, and rights of access to, <i>energy data</i> in the <i>metering installation</i>; and ■ testing and auditing of <i>metering installations</i>. <p>The ESC is Metrology Coordinator for Victoria under the National Electricity Rules clause 7.2.1A(b).</p>
NEC Chapter 9 Derogations	<p>The NEC Chapter 9 Derogations as far as the business is concerned cover:</p> <ul style="list-style-type: none"> ■ 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	<p>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.</p>
Public Lighting Code (Apr 2005)	<p>The Public Lighting Code sets the minimum standards for public lighting services to be provided by the business to public lighting customers.</p>
Electricity System Code (Oct 2000)	<p>Regulates the provision of shared transmission network services and connection to the transmission network generators, distributors and end users.</p>
ESC Information Specification (Service Performance) 2006 (Information Specification)	<p>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.</p> <p>Business compliance with the Information Specification is required under clause 26 of the Licence.</p>
Access Undertaking	<p>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.</p> <p>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 <i>Australian Energy Market Regulations 2005 (Cth)</i> 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</p>

	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 rights 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 Customer Services (Excluding Metering) 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 analysis¹³.
- *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.

¹³ 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 Customer Services (Excluding Metering) functions are presented in figure D.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 service providers.

Figure D.2 SIC Codes Searched in BWW

SIC Code	Description
7349	Building Cleaning and Maintenance Services, Not Elsewhere Establishments primarily engaged in furnishing building cleaning and maintenance services, not elsewhere classified, such as window cleaning, janitorial service, floor waxing, and office cleaning.
7361	Employment Agencies Establishments primarily engaged in providing employment services, except theatrical employment agencies and motion picture casting bureaus. Establishments classified here may assist either employers or those seeking employment.
7363	Help Supply Services Establishments primarily engaged in supplying temporary or continuing help on a contract or fee basis. The help supplied is always on the payroll of the supplying establishments, but is under the direct or general supervision of the business to which the help is furnished. Establishments which provide both management and staff to operate a business are classified according to the type of activity of the business.
7389	Business Services, Not Elsewhere Classified Establishments primarily engaged in furnishing business services, not elsewhere classified.
8111	Legal Services Establishments which are headed by members of the bar and are primarily engaged in offering legal advice or services.
8721	Accounting, Auditing, and Bookkeeping Services Establishments primarily engaged in furnishing accounting, bookkeeping, and related auditing services. These establishments may use data processing and tabulating techniques as part of providing their services.

8741	Management Services Establishments primarily engaged in furnishing general or specialized management services on a day to day basis and on a contract or fee basis. Establishments in this industry do not provide operating staff. Management and operation of a business, where operating staff as well as management is provided, is classified according to the activity of the establishment managed.
8742	Management Consulting Services Establishments primarily engaged in furnishing operating counsel and assistance to managements of private, non-profit, and public organizations. These establishments generally perform a variety of activities, such as strategic and organizational planning; financial planning and budgeting; marketing objectives and policies; information systems planning, evaluation and selection; human resource policies and practices planning; and production scheduling and control planning. These establishments are characterized by the breadth and scope of the problems they address.
8743	Public Relations Services Establishments primarily engaged in the preparation of materials, written or spoken, which are designed to influence the general public or other groups in promoting the interests of their clients.
8744	Facilities Support Management Services Establishments primarily engaged in furnishing personnel to perform a range of services in support of the operations of other establishments or in providing a number of different continuing services, on a contract or fee basis, within another establishment.
8748	Business Consulting Services, Not Elsewhere Classified Establishments primarily engaged in furnishing business consulting services, not elsewhere classified, on a contract or fee basis.

Figure D.3 ANZSIC Codes Searched in IBISWorld

ANZSIC Code	Description
L7810	Scientific Research Consists of units mainly engaged in undertaking research in the agricultural, biological, physical or social sciences.
L7821	Architectural Services Relates to establishments mainly engaged in providing architectural services.
L7822	Surveying Services Consists of establishments mainly engaged in providing surveying services.
L7823	Consulting Engineering Services 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 involve the design and management of: construction and engineering infrastructure projects; environmental projects; and industrial processes and equipment.

L7829	<p>Technical Services</p> <p>Consists of units mainly engaged in providing scientific and technical services n.e.c. Included are enterprises mainly engaged in collecting, collating or analysing meteorological information, or in supplying meteorological forecasts, or in providing scientific testing services. Testing services are provided by this industry for the agricultural sector, the mining sector, the manufacturing sector, and the construction sector. The major segments of this industry in Australia are pollution monitoring services, weather station operations, technical services for the mining sector (particularly testing in relation to exploration activities), forensic science, construction materials testing, and general laboratory operations which may undertake testing for general product safety and quality.</p>
L7831	<p>Data Processing Services</p> <p>Enterprises engaged in providing data processing services.</p>
L7832	<p>Information Storage and Retrieval Services</p> <p>Units mainly engaged in providing information storage and retrieval services (other than library or bibliographic services).</p>
L7833	<p>Computer Maintenance Services</p> <p>Consists of units mainly engaged in providing computer maintenance or repair services. Establishments in this industry provide services in computer maintenance, computer repair and repair of computer peripheral equipment.</p>
L7834	<p>Computer Consultancy Services</p> <p>Enterprises engaged in providing computing services, excluding hardware sales, repairs and leasing.</p>
L7841	<p>Legal Services</p> <p>Establishments mainly engaged in providing legal services. This includes solicitors, barristers and legal aid offices. Conveyancing services provided by lawyers and patent offices also form part of this report.</p>
L7842	<p>Accounting Services</p> <p>Establishments mainly engaged in providing accounting, auditing or bookkeeping services. The services provided relate to all areas of taxation - from FBT, personal and company income tax returns, capital gains and BAS statements related to the GST. The auditing of large private and public company accounts is also undertaken. Many firms also offer business advice and assistance.</p>
L7851	<p>Advertising Service</p> <p>Establishments mainly engaged in providing advertising services (except sale of advertising space in their own publications or broadcasts). The industry relates to agencies that assist clients in creating and placing advertising on TV, pay-TV, newspapers, magazines, outdoors/billboards and increasingly in areas such as the internet. Many larger agencies also offer 'below the line' services which include direct mail, PR and other sales promotion activities.</p>
L7852	<p>Commercial Art and Display Services</p> <p>Units mainly engaged in commercial arts and display services, including graphic design and web-page design and maintenance services.</p>
L7853	<p>Market Research Service</p> <p>Enterprises mainly engaged in providing market research services.</p>
L7854	<p>Business Administrative Services</p> <p>Units mainly engaged in providing a range of services to support the operation of a business or businesses. These services are primary to ANZSIC Classes in the business services, property services or finance and insurance services but do not predominantly come from any one class.</p>

L7855	Business Management Services Enterprises mainly engaged in providing business management services, including business analysis, efficiency or organisation and methods studies, personnel management, public relations consultancy or statistical services.
L7861	Employment Placement Services Relates to units mainly engaged in personnel search, selection, referral and placement in connection with employment in any field. The services may be supplied to the potential employer or the prospective employee and may involve the formulation of job descriptions, the screening and testing of applicants and the investigation of references.
L7862	Contract Staff Services Relates to units mainly engaged in supplying their own employees to other businesses on a fee or contract basis. Assignments are mainly short term and performed under the supervision of staff of the client unit.
L7863	Secretarial Services Relates to units mainly engaged in providing secretarial services, which includes typing, word processing, stenographic services, compiling mailing lists, or providing addressing or mailing services.
L7864	Security and Investigative Services Establishments mainly engaged in providing security, protection services or private enquiry services, other than units of police forces and government security agencies. The industry includes guards and patrols, monitored security systems, casual and permanent security staff at licensed premises and similar establishments and at events, ATM and cash collection services and some aspects of secure document and computer data storage.
L7865	Pest Control Services Enterprises engaged in providing industrial or domestic pest control services, including weed control services.
L7866	Cleaning Services Establishments mainly engaged in providing window, building, telephone cleaning or similar cleaning services (except carpet cleaning or shampooing services, steam cleaning, or sand blasting of building exteriors).
L7867	Contract Packing Services Consists of establishments mainly engaged in packing goods in bottles, cans, cartons, collapsible tubes, plastic sachets, plastic film or bags or other containers or materials on a contract or fee basis n.e.c.
L7869	Business Services Relates to units mainly engaged in providing business services n.e.c., such as auctioning or valuing services (except in the case of real estate, wool or livestock), translation services and telephone answering services. Also included in This industry report are units mainly engaged in debt collecting, or in mercantile or consumer credit reporting. Since it is estimated that this latter component is the major component and most cohesive part of this overall miscellaneous industry, this report mainly deals with this area but information is presented on some other components.

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
	<p>Business Improvement Services comprises of the following sub divisions: General Management, Business Management, Retailer & Customer Relations & Business Improvement</p>
Adcorp Australia Limited	<p>Advertising agency services specialising in employment, property, automotive, education and auctioneering. Adcorp is also a supplier of web-based products and services particularly for the employment market including website design, development and database support services.</p>

Company	Business Description
APP Corporation Pty Ltd	<p>APP Corporation Pty Ltd core areas of business are:</p> <p><i>Project Management:</i></p> <ul style="list-style-type: none"> ■ Project management ■ Program management ■ Property directorship/leadership ■ Client representative ■ Risk management ■ Relocation management ■ Feasibility studies ■ Independent verification/probity auditor ■ Distressed project recovery ■ Procurement management ■ Project/property advice regarding agreement for leases ■ Litigation support, technology and event management services. <p><i>Business Project Management:</i></p> <ul style="list-style-type: none"> ■ Strategic portfolio definition ■ Project and program management ■ Establishing a project, program or portfolio management office ■ Business transformation ■ Prioritising your projects ■ Ensuring your projects are adequately resourced ■ Understanding relationships between projects ■ Leveraging corporate knowledge across the program of initiatives ■ Developing and implementing a tailored project and program management framework to facilitate more consistent delivery of projects across an organisation ■ Identifying and capitalising on potential synergies within the program ■ Change management ■ Knowledge management ■ Feasibility Studies <p><i>Urban Development & Property</i></p> <ul style="list-style-type: none"> ■ Strategic advice on: <ul style="list-style-type: none"> - Planning agreements - Rezoning and master planning - Rail projects - Road projects - Sustainable outcomes - Land development management - Water, sewer, power ■ Government negotiations ■ Environmental audits and monitoring ■ Contaminated sites ■ Project verification ■ Site servicing ■ Property advisory <p><i>Events</i></p> <ul style="list-style-type: none"> ■ Sponsorship and marketing ■ Event management ■ Event overlay works ■ Special event consulting <p><i>Technology</i></p> <ul style="list-style-type: none"> ■ Management and strategic consultancy ■ Technology consulting ■ Technology relocation and migration management ■ Implementation, QA and procurement management

Company	Business Description
<p>Clemenger Communications Limited</p>	<p>Provision of advertising and marketing communications services in Australia and New Zealand including:</p> <ul style="list-style-type: none"> ■ Advertising ■ Contract publishing ■ Customer relationship marketing ■ Database management ■ Direct mail ■ Email marketing ■ Entertainment advertising ■ Environmental graphics ■ Ethnic marketing ■ Event management & marketing ■ Field marketing ■ Government lobbying ■ Graphic design ■ Industry lobbying ■ Infomercials ■ Loyalty magazines ■ Market research ■ Media planning and buying ■ Merchandise aids ■ Online interactivity ■ Package design ■ Promotions and sales ■ Point of sale promotion ■ Public relations ■ Sponsorship
<p>Photon Group Limited</p>	<p>Integrated marketing services, specialising in retail marketing and merchandising, advertising, public relations, graphic design, digital printing, production sales of promotion material and Point of Sales (POS), Point of Production (POP) media planning and communications, e-mail marketing, events management and direct marketing.</p>
<p>Sinclair Knight Merz Holdings Limited</p>	<p>Sinclair Knight Merz Group is a global professional services firm working with public and private sector clients across several chosen market areas. Services include engineering, scientific studies, planning, economics, logistics, architecture, geotechnical engineering, project management and spatial information.</p> <p>This comparable has ultimately been rejected as it generally provides engineering advice and not customer services.</p>

Company	Business Description
UXC Limited	<p>UXC is comprised of autonomous, individually branded Business Units, which provide a diversified portfolio of specialised businesses, products and services including:</p> <p>Business Solutions Involved in consulting, implementation and integration, application, and infrastructure services, including knowledge management; project and change management; CRM, ERP, financial and business information applications; technology architecture; IT security; and data storage and management.</p> <p>Utility Services Engaged in asset and data management for utilities, including electricity distribution asset inspection, management and maintenance services; the provision of utility meter installation and reading services; related data management and GIS services; mobile telephony and industrial design.</p> <p>IP Ventures Involved with identifying, developing and commercialising intellectual property to realise associated capital gains.</p>
<p>Ancillary Services comprises of the following sub divisions: Customer Response, Special Reading, Data Management, Revenue Management & Reporting</p>	
Computershare Limited	<p>The principal activities include registry and related services, provision and management of employee share and option plans, laser imaging, intelligent mailing, scanning and electronic delivery, investor analysis, investor communication and management information services and technology service.</p> <p>This comparable has ultimately been rejected as a comparable company for ancillary services as the share registry services are provided primarily to large corporations (versus individuals). As such, the services are likely to be more complex level '1' or level '2' type services and are consequently not seen as being comparable to the lower level '3' type ancillary services provided to CitiPower and Powercor.</p>
Outsource Aust Pty Ltd	<p>Outsource Aust Pty Limited provides the following services:</p> <ul style="list-style-type: none"> ■ Office Services Management of office support functions. ■ Information Management Manage information by design and transformation of critical documents, forms and records using IT solutions. ■ Financial Services Provision of a large range of financial and accounting solutions, integration with existing or future systems and general ledger management service.
Programmed Maintenance Services Limited	<p>Property maintenance services to commerce, government & industry by way of programmed maintenance; painting of all types of buildings & structures, maintenance of properties and infrastructure assets, industrial services and corporate signage.</p>

Company	Business Description
Salmat Limited	The principal activities of Salmat Limited are the provision of commercial services. The company operates through two business divisions: business process outsourcing and customer contact solutions. Business Process Outsourcing (45 per cent of sales revenue) provides data management and processing services for companies that outsource these functions. This includes printing and mailing services, document design, barcode addressing, data formatting, database development, data management and segmentation, archival and retrieval, electronic bill presentment and payment, and customer relationship management. Customer Contact Solutions (55 per cent of sales revenue) provides delivery services for client messages. Delivery of these messages may be through Salmat Limited's tele-services operation or via its letterbox delivery network, which is supported by its customer targeting tools. This division serves an extension to the marketing and advertising divisions of large retail and commercial organizations. The company also provides logistical support for promotional materials through its fulfilment operation. Salmat Limited derives approximately 3 per cent of total sales revenue from its New Zealand operations. The company also has business interests in Asia, which constitute approximately 6 per cent of total sales revenue in 2003. Salmat has consolidated offshore operations in New Zealand, the Philippines, Taiwan and Hong Kong and has international related party dealings associated with these operations but these meet the criteria established in the search criteria. Salmat Limited is listed on the ASX with the largest single shareholder holding 29.3 per cent of shares.
Servcorp Ltd	Provider of office facilities that can be tailored to include business support services and IT and communication systems.

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 – Customer Services Excluding Metering

Business services companies that provide a broad range of services in marketing, project management, technical services and data management were used collectively to benchmark the Customer Services excluding Metering division. The overall value of the services provided by this division is medium value ('3,2') and L-M.

Figure D.5 Comparable company cost plus ratio results

Comparable Company	2005	2004	2003	2002	2001	Weighted Average 2001-2005
Adcorp Australia Limited	28.35%	31.88%	5.41%	5.81%	7.13%	9.00%
APP Corporation Pty Ltd	9.75%	2.89%	2.95%	3.81%		5.06%
Clemenger Communications Limited	19.88%	19.20%	22.25%	20.76%	19.22%	19.23%
Outsource Aust Pty Ltd	3.36%	6.20%	5.42%		-0.16%	4.32%
Photon Group Limited	17.21%	17.45%	15.56%	12.84%		16.81%
Programmed Maintenance Services Ltd	13.93%	14.03%	14.33%	14.66%	14.57%	14.26%
Salmat Limited	12.24%	12.14%	10.94%	5.72%	5.57%	9.73%
Servcorp Ltd	21.25%	14.26%	4.70%	-0.65%	18.32%	11.09%
UXC Limited	8.18%	8.34%	6.37%			7.85%

Range	Weighted Average 2001-2005
Minimum	4.32%
Lower quartile	7.85%
Average	10.82%
Median	9.73%
Upper quartile	14.26%
Maximum	19.23%

Financial Analysis Results – Business Improvement Services

Business services companies that provide a range of services in marketing, project management and technical services were used to benchmark the General Management, Business Management, Retailer & Customer Relations & Business Improvement divisions of the Customer Services excluding Metering division. The services in these sub divisions are comprised primarily of high value ('1') strategic services and medium value ('2') professional services with some limited lower value ('3') administrative-type services. The objective of including marketing, project management and technical services companies is to calculate a mark-up range that is reflective of the range of services provided within the Business Improvement divisions and therefore the varying range of personnel skills and the value of those skills to CitiPower and Powercor.

Figure D.6 Comparable company cost plus ratio results

Comparable Company	2005	2004	2003	2002	2001	Weighted Average 2001-2005
Adcorp Australia Limited	28.35%	31.88%	5.41%	5.81%	7.13%	9.00%
APP Corporation Pty Ltd	9.75%	2.89%	2.95%	3.81%		5.06%
Clemenger Communications Ltd	19.88%	19.20%	22.25%	20.76%	19.22%	19.23%
Photon Group Limited	17.21%	17.45%	15.56%	12.84%		16.81%
UXC Limited	8.18%	8.34%	6.37%			7.85%

Range	Weighted Average 2001-2005
Minimum	5.06%
Lower quartile	7.85%
Average	11.59%
Median	9.00%
Upper quartile	16.81%
Maximum	19.23%

Financial Analysis Results – Ancillary Services

Business service companies performing mainly lower value ('3') data management services are used to benchmark the margin for Customer Response, Special Reading, Data Management, Revenue Management & Reporting.

Figure D.7 Comparable company cost plus ratio results

Comparable Company	2005	2004	2003	2002	2001	Weighted Average 2001-2005
Outsource Aust Pty Ltd	3.36%	6.20%	5.42%		-0.16%	4.32%
Programmed Maintenance Services Ltd	13.93%	14.03%	14.33%	14.66%	14.57%	14.26%
Salmat Limited	12.24%	12.14%	10.94%	5.72%	5.57%	9.73%
Servcorp Ltd	21.25%	14.26%	4.70%	-0.65%	18.32%	11.09%

Range	Weighted Average 2001-2005
Minimum	4.32%
Lower quartile	8.38%
Average	9.85%
Median	10.41%
Upper quartile	11.88%
Maximum	14.26%

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 Customer Services (Excluding Metering) include:

- ABS Data: ANZSIC L78 – Business Services
- ATO Statistics: ANZSIC L784 – Accounting Services
- ATO Statistics: ANZSIC L784 - Legal Services
- ATO Statistics: ANZSIC L785 - Marketing and Business Management 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

Data items	Large		Weighted Average
	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	
EBIT	1,830	2,710	4,540
OE	26,888	31,881	58,769
EBIT/OE	6.80%	8.50%	7.72%

ATO Statistics

Accounting, auditing & bookkeeping

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	Weighted Average
Income Statement										
Gross PPS income	504 196	1 450 523	919 091	779 027	2 768 443					
Gross RPS income	5 470	538 586	383	19 531	616 895					
Other sales of goods & services	467 417 407	509 020 805	582 159 277	631 112 895	809 193 047	1,095,971,542	1,151,719,328	1,842,834,993	1,277,255,319	929 631 624
Distribution from partnerships	11 886 982	4 574 025	4 888 941	3 021 295	6 200 192	8,781,806	12,944,833	12,872,767	9,342,780	8 279 291
Distribution from trusts		8 425 751	9 021 146	11 197 776	11 766 033	14,912,947	18,594,539	13,727,429	18,699,834	13 293 182
Gross interest	135 178 190	11 197 783	10 299 796	7 039 665	6 038 587	29,702,791	15,155,972	11,626,575	12,341,960	26 509 035
Gross rents, leasing & hiring	8 009 269	12 918 274	8 075 915	4 019 897	6 699 522	8,457,926	42,213,922	10,698,933	11,392,137	12 498 422
Gross dividends	9 909 357	2 060 666	1 041 974	2 096 788	2 887 772	4,661,038	14,550,180	4,781,118	4,874,955	5 207 094
Fringe benefit employee contributions			2 299 337	2 574 255	3 324 762	3,326,292	3,736,268	4,174,481	4,382,758	3 402 593
Assessable government industry payment		436 037	456 725	839 182	2 165 495	1,054,229	6,941,186	1,715,003	3,145,473	2 094 166
Other gross income	779 658 632	706 029 145	747 876 600	772 408 063	916 200 847	1,038,191,743	1,067,075,005	832,803,089	1,160,685,501	891 214 292
Total income	1 412 059 832	1 256 651 607	1 367 039 185	1 435 108 422	1 767 861 597	2,206,386,737	2,333,529,807	2,735,892,200	2,502,122,067	1 890 739 050
Cost of sales	26 562 559	26 138 958	39 983 311	47 543 146	101 393 771	85,814,328	78,873,349	65,242,773	93,399,170	62 772 374
External labour costs	107 206 384	44 107 029	56 782 423	64 371 851	61 477 978	68,727,111	63,518,733	71,035,731	89,743,545	69 663 421
Superannuation	62 704 168	56 683 253	59 590 366	64 187 150	80 181 110	106,789,112	111,157,641	128,408,643	123,791,469	88 165 879
Bad debts	6 735 310	7 261 062	6 734 095	7 440 462	7 721 664	7,551,095	16,361,311	9,315,168	9,999,167	8 791 037
Lease expenses - Australia	15 099 677	10 896 415	11 038 196	11 527 808	10 786 963	12,599,442	10,189,963	26,392,387	11,610,756	13 349 067
Lease expenses - Overseas	24 811	42 341	66 156	108 689	156 406	12,706,365	10,473,261	26,912,373	11,743,047	6 914 828
Rent expenses	49 672 328	54 845 046	58 598 775	57 225 204	66 670 495	76,000,633	94,336,221	81,606,845	94,064,710	70 335 584
Interest expenses - Australia	169 573 179	32 410 087	29 368 389	23 468 443	30 765 083	45,370,968	53,959,982	54,394,071	38,741,112	53 116 813
Interest expenses - Overseas	175 358	371 122	222 061	258 994	230 281	418,010	766,752	1,543,481	417,282	489 260
Royalty expenses - Australia	5 413 650	6 012 435	6 460 508	6 266 861	7 084 063					6 247 503
Royalty expenses - Overseas	108 203	9 024	64 234	374 603	517 109					214 635
Depreciation expenses	34 767 604	30 378 408	29 621 420	27 993 541	36 286 993	41,602,162	53,845,300	55,766,603	39,974,956	38 915 221
Motor vehicle expenses	18 616 708	17 547 538	18 865 642	19 626 512	19 887 683	22,634,494	28,015,810	29,594,901	28,121,533	22 545 647
Repairs and maintenance	5 803 243	5 698 978	5 985 074	6 535 330	8 287 382	7,740,752	9,171,429	12,902,348	10,285,206	8 045 527
All other expenses	869 570 748	898 044 167	997 896 143	1 027 756 062	1 213 886 293	1,596,108,216	1,714,115,583	1,985,043,262	1,718,773,061	1 335 688 171
Total expenses	1 372 033 925	1 190 445 947	1 321 276 124	1 364 684 636	1 645 333 311	2,079,625,643	2,243,016,207	2,530,162,119	2,268,332,167	1 779 434 453
Operating profit/loss	39 049 231	66 205 611	45 759 418	70 423 760	122 528 324	126,761,025	90,513,600	205,730,081	233,789,900	111 195 661
Extraordinary items	- 593 346	- 848 248	662 561	252 512	277 476	-1,135,547		-1,422,003	-1,422,003	- 400 942
Total profit or loss	39 608 297	65 357 402	46 499 730	70 676 299	122 805 882	125,625,498	90,079,813	205,837,416	232,367,897	110 984 248
Balance Sheet										
Opening stock	4 594 090	5 489 119	8 191 534	6 470 788	6 123 673	5,686,214	8,247,451	7,554,974	10,693,111	7 005 662
Closing stock	4 958 312	5 988 072	7 920 548	6 270 637	5 737 952	8,006,283	8,937,204	5,796,398	14,119,534	7 526 104
Trade debtors	120 752 330	120 659 750	130 491 662	136 748 515	180 281 078	244,793,246	246,036,930	269,170,194	295,165,860	193 788 841
Current assets	2 801 334 302	480 538 337	419 579 504	480 371 459	846 963 892	1,153,148,939	1,269,367,345	1,373,873,021	834,112,875	1 073 254 408
Total assets	5 151 927 594	961 958 311	933 902 050	1 012 920 425	1 419 317 246	3,820,515,938	2,216,411,196	2,272,411,297	1,787,562,351	2 175 214 045
Trade creditors	91 131 316	94 727 828	105 917 864	34 802 308	44 687 877	67,988,144	52,867,825	53,355,801	88,432,862	70 434 647
Current liabilities	3 269 073 020	470 189 797	443 798 173	482 767 856	823 401 050	1,200,147,012	1,441,405,858	1,310,458,841	642,135,226	1 120 375 204
Total liabilities	5 015 522 826	754 672 079	698 347 643	760 032 244	1 140 450 703	6,887,695,387	1,837,744,096	1,713,842,800	1,100,360,267	2 212 074 227
Shareholders' funds	136 126 665	207 272 710	235 554 405	252 888 181	278 738 317	-3,067,178,716	378,667,100	558,568,497	687,202,084	- 36 906 751
Ratio Analysis										
EBIT	73,619,578	87,789,037	65,050,072	87,111,532	147,485,101	142,847,212	130,084,362	250,041,058	260,606,334	1,244,634,286
OE	1,202,285,393	1,157,664,654	1,291,686,343	1,340,957,219	1,614,337,910	2,038,273,710	2,190,058,601	2,492,221,034	2,231,506,620	15,558,991,484
EBIT/OE	6.12%	7.58%	5.04%	6.50%	9.14%	7.01%	5.94%	10.03%	11.68%	8.00%

ATO Statistics

Legal services

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	Weighted Average
Income Statement										
Gross PPS income	192 456	438 998	136 500	79 851	90 607					
Gross RPS income	0	265 710	0	0	0					
Other sales of goods & services	101 115 900	122 219 601	141 252 631	169 795 270	197 163 241	251,772,368	345,271,249	413,558,572	428,033,985	241 131 424
Distribution from partnerships	5 776 291	5 251 432	4 768 576	8 423 444	12 198 693	20,341,376	12,860,718	16,019,784	18,141,642	11 531 328
Distribution from trusts		2 440 240	3 445 292	6 005 693	6 189 239	5,254,367	7,338,248	9,265,119	5,623,772	5 695 246
Gross interest	2 576 271	2 746 270	1 983 006	1 648 927	3 149 130	4,690,224	5,022,631	7,130,495	6,818,886	3 973 982
Gross rents, leasing & hiring	5 778 568	5 150 327	5 709 849	5 695 770	4 539 389	5,345,082	6,682,860	7,573,129	9,067,136	6 171 346
Gross dividends	100 522	523 119	51 220	201 162	401 772	818,997	5,972,666	1,804,332	2,455,584	1 369 930
Fringe benefit employee contributions			405 915	534 007	567 378	873,657	931,636	1,042,191	1,151,274	786 580
Assessable government industry payment		15 886	16 497	246 808	319 300	32,415	11,680	20,406	1,004,530	208 440
Other gross income	140 023 772	149 577 403	165 984 816	168 635 169	203 743 277	188,255,326	255,093,317	330,064,557	470,577,176	230 217 201
Total income	255 371 333	288 628 986	323 754 302	361 266 059	428 362 026	477,495,525	639,310,137	786,517,570	942,873,985	500 397 769
Cost of sales	5 735 607	9 919 708	7 317 832	9 489 186	14 394 623	12,381,843	19,574,358	23,240,691	35,106,944	15 240 088
External labour costs	15 787 654	9 799 434	9 738 480	10 694 432	9 337 592	14,688,951	15,634,789	11,156,026	14,578,507	12 177 318
Superannuation	12 571 167	12 410 667	15 727 810	18 640 318	21 715 032	25,628,703	28,444,010	33,803,791	38,697,410	23 070 990
Bad debts	1 792 028	1 961 394	2 384 097	2 198 999	3 369 502	3,746,965	5,849,863	5,467,810	6,776,814	3 727 497
Lease expenses - Australia	2 103 634	1 885 689	1 843 608	2 189 151	2 347 519	2,274,869	2,339,143	2,752,489	3,607,826	2 371 548
Lease expenses - Overseas	0	0	32 687	10 308	8 754	2,282,574	2,384,670	2,829,364	3,623,532	1 241 321
Rent expenses	16 135 235	16 892 310	17 118 283	19 995 687	19 239 880	25,144,554	32,065,932	35,071,004	41,901,126	24 840 446
Interest expenses - Australia	5 740 614	6 300 919	4 982 365	4 159 558	5 398 045	6,521,347	7,581,664	10,098,082	9,622,195	6 711 643
Interest expenses - Overseas	93 975	175 467	73 507	232 400	9 026	68,384	110,529	193,122	152,413	123 203
Royalty expenses - Australia	3 571	253	532	1 520	42 230					9 621
Royalty expenses - Overseas	0	0	0	0	0					0
Depreciation expenses	3 715 641	3 872 957	4 055 393	4 337 386	5 012 940	6,327,983	7,842,886	8,535,020	11,032,590	6 081 422
Motor vehicle expenses	2 465 118	2 700 882	2 497 930	2 830 656	3 468 685	3,706,086	4,719,014	4,693,770	5,860,133	3 660 253
Repairs and maintenance	1 436 732	1 591 110	1 703 952	1 764 594	1 934 196	2,504,600	2,996,934	2,885,516	3,747,570	2 285 023
All other expenses	167 009 506	196 200 976	226 054 081	249 131 147	296 871 517	332,223,578	429,566,864	528,517,198	622,693,364	338 696 470
Total expenses	234 590 463	261 890 287	293 530 646	325 675 342	383 149 540	435,225,733	556,775,497	666,491,394	793,889,422	439 024 258
Operating profit/loss	20 620 162	26 738 699	30 223 951	35 590 718	45 212 485	42,269,792	82,534,640	120,026,176	148,984,563	61 355 687
Extraordinary items	- 116 175	- 3 194	- 7 445 115	-154 708	- 27 081	22,752			-236,218	- 1 137 106
Total profit or loss	20 664 694	26 735 505	22 778 836	35 436 009	45 185 403	42,292,544	82,352,420	119,610,181	148,748,345	60 422 660
Balance Sheet										
Opening stock	253 281	589 050	800 471	488 538	552 736	436,331	525,971	690,927	857,626	577 215
Closing stock	627 928	574 238	810 430	337 024	829 364	573,220	767,704	581,526	783,885	653 924
Trade debtors	21 987 596	25 750 623	27 947 105	32 937 943	41 706 495	55,346,700	72,587,572	87,130,311	126,292,363	54 631 856
Current assets	103 371 867	114 186 706	112 297 138	128 446 934	167 493 505	215,225,489	339,259,888	402,751,935	483,489,011	229 613 608
Total assets	200 017 754	203 525 635	202 393 591	235 807 156	296 915 471	375,611,724	550,771,301	660,860,957	729,277,135	383 908 969
Trade creditors	10 171 871	9 235 747	11 650 481	10 767 714	12 324 258	20,832,883	25,421,479	32,787,244	31,696,638	18 320 924
Current liabilities	90 773 068	91 159 486	87 368 802	107 075 094	121 206 883	164,254,713	235,397,153	250,771,865	290,208,790	159 801 762
Total liabilities	150 058 964	132 297 721	136 206 494	154 681 630	192 057 971	250,111,564	367,930,188	422,530,280	405,935,298	245 756 679
Shareholders' funds	49 797 055	71 227 968	66 187 097	81 125 526	104 857 500	125,500,160	182,841,113	238,330,677	323,341,837	138 134 326
Ratio Analysis										
EBIT	23,878,480	30,468,815	33,296,817	38,333,749	47,470,426	44,169,299	85,204,202	123,186,885	151,940,285	577,948,958
OE	228,755,893	255,415,380	288,474,685	321,283,384	377,742,470	430,910,706	551,418,463	658,952,679	787,625,816	3,900,579,476
EBIT/OE	10.44%	11.93%	11.54%	11.93%	12.57%	10.25%	15.45%	18.69%	19.29%	14.82%

ATO Statistics

Marketing & business management services

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	Weighted Average
Income Statement										
Gross PPS income	15 847 020	39 202 239	32 905 599	33 040 750	222 511 356					
Gross RPS income	1 168 071	3 892 325	1 231 681	1 072 801	3 612 149					
Other sales of goods & services	5 536 922 936	6 445 351 077	7 873 846 658	9 600 737 298	11 633 987 399	8,321,973,300	12,588,771,746	10,911,699,282	10,509,928,292	9 269 246 443
Distribution from partnerships	148 895 850	29 182 348	19 923 477	34 955 855	77 847 375	40,413,105	54,059,918	43,598,505	31,929,679	53 422 901
Distribution from trusts		131 942 376	131 621 013	155 061 041	212 450 795	122,572,504	175,991,164	152,165,053	200,363,366	160 270 914
Gross interest	275 884 280	215 383 008	193 512 851	168 100 481	242 998 614	158,706,612	248,244,370	186,573,080	156,004,163	205 045 273
Gross rents, leasing & hiring	120 881 789	119 668 129	111 592 634	141 137 626	166 763 245	89,517,882	124,689,621	155,930,248	95,413,549	125 066 080
Gross dividends	219 825 959	674 877 373	409 403 326	265 070 572	283 167 576	349,154,206	275,387,795	144,540,132	306,154,437	325 286 820
Fringe benefit employee contributions			12 425 794	16 157 262	17 168 795	10,989,914	12,675,135	14,342,341	15,427,080	14 169 474
Assessable government industry payment		5 911 591	9 902 572	3 138 632	8 989 533	2,304,526	8,997,693	11,442,724	12,678,541	7 920 727
Other gross income	4 946 703 930	4 259 845 688	4 782 401 249	4 884 711 789	5 489 583 334	4,195,474,213	5,300,528,219	5,098,549,496	5,439,776,121	4 933 063 782
Total income	11 248 867 895	11 925 256 134	13 578 766 854	15 303 184 156	18 359 076 026	13,293,077,731	18,801,458,511	16,721,524,503	16,769,544,660	15 111 195 163
Cost of sales	3 024 717 996	2 788 785 343	3 336 462 500	3 788 374 978	4 401 717 526	3,547,632,840	4,352,496,465	3,720,900,564	4,188,070,610	3 683 239 869
External labour costs	683 080 678	448 410 200	564 556 819	721 018 327	774 462 457	437,896,201	707,350,096	769,913,969	737,669,120	649 373 096
Superannuation	333 180 811	321 816 515	355 905 606	428 500 178	480 302 230	360,539,123	485,130,117	526,884,649	522,432,363	423 854 621
Bad debts	20 104 412	18 032 634	29 623 364	36 881 957	54 193 924	40,277,140	58,209,070	51,246,253	29,746,421	37 590 575
Lease expenses - Australia	85 243 231	87 357 920	102 675 286	85 711 644	87 881 340	81,102,914	92,461,055	83,593,043	74,615,254	86 737 965
Lease expenses - Overseas	414 615	1 090 988	950 029	1 024 836	1 178 195	81,811,745	93,206,167	84,052,556	75,798,409	37 725 282
Rent expenses	269 454 263	265 675 146	305 905 474	353 185 113	407 723 619	303,073,692	514,521,519	453,961,352	406,358,497	364 428 742
Interest expenses - Australia	268 768 544	195 698 692	172 572 492	167 482 947	212 165 384	138,376,579	211,933,011	170,306,682	137,490,002	186 088 259
Interest expenses - Overseas	21 802 914	9 787 084	8 869 732	14 099 653	94 926 314	63,694,806	94,230,066	77,337,717	38,880,889	47 069 908
Royalty expenses - Australia	3 581 887	9 403 289	6 320 571	8 988 805	14 540 576					8 567 026
Royalty expenses - Overseas	12 804 078	11 290 352	18 357 483	15 278 447	18 137 152					15 173 502
Depreciation expenses	180 276 421	226 471 009	245 415 345	277 492 232	326 422 864	242,586,142	364,482,892	312,806,972	294,543,708	274 499 732
Motor vehicle expenses	117 102 414	123 122 408	136 510 920	148 040 528	161 105 089	111,188,911	132,612,237	137,164,192	136,865,553	133 745 806
Repairs and maintenance	61 311 685	63 944 212	76 250 412	97 983 702	114 767 513	62,678,475	95,446,858	69,490,067	96,807,148	82 075 564
All other expenses	5 464 561 634	5 977 479 709	6 562 925 795	7 940 045 717	9 422 872 300	7,394,315,546	10,579,680,222	9,609,875,788	8,603,265,326	7 950 558 004
Total expenses	10 546 621 737	10 548 275 556	11 923 271 968	14 084 109 102	16 572 382 614	12,833,057,261	17,735,143,693	16,041,462,104	15,331,642,587	13 957 329 625
Operating profit/loss	699 877 860	1 377 093 301	1 653 266 884	1 219 075 190	1 786 693 346	460,020,469	1,066,314,819	680,062,399	1,437,902,073	1 153 367 371
Extraordinary items	10 628 112	- 5 359 089	93 706 560	7 310 023	- 5 971 700	-8,504,102			38,206,508	18 573 759
Total profit or loss	690 002 908	1 371 621 501	1 749 655 458	1 226 385 150	1 780 721 656	451,516,347	999,477,271	612,628,920	1,476,108,581	1 150 901 977
Balance Sheet										
Opening stock	141 550 529	185 859 835	121 081 854	201 548 281	214 839 466	115,992,103	134,338,925	174,761,387	191,246,328	164 579 856
Closing stock	172 384 720	191 123 643	147 592 154	182 686 154	186 606 975	133,365,237	187,457,241	177,245,500	227,510,795	178 441 380
Trade debtors	1 243 763 500	1 329 219 698	1 433 609 022	1 491 603 859	2 181 553 135	1,870,776,456	3,198,676,129	2,068,659,289	2,186,062,479	1 889 324 841
Current assets	4 649 836 105	5 502 984 666	5 704 176 882	6 313 913 155	9 197 504 036	7,881,507,932	10,687,162,799	7,439,581,265	7,325,028,440	7 189 077 253
Total assets	13 395 753 627	12 749 415 725	13 951 519 880	14 624 912 469	19 411 900 126	20,664,226,775	24,868,887,969	18,645,282,966	13,444,047,309	16 861 771 872
Trade creditors	1 181 943 371	1 301 348 806	1 284 775 945	1 431 571 263	1 739 574 024	1,475,306,863	2,283,525,365	1,637,647,053	1,829,221,849	1 573 879 393
Current liabilities	4 995 554 647	4 931 107 960	5 204 892 699	6 001 577 174	7 521 392 837	10,052,635,523	12,306,105,573	9,403,929,964	5,556,672,154	7 330 429 837
Total liabilities	10 114 125 843	8 387 507 106	9 391 755 253	10 279 455 876	12 694 485 340	17,687,335,911	19,201,092,102	13,859,974,562	8,896,364,849	12 279 121 871
Shareholders' funds	3 281 253 889	4 361 343 010	4 559 764 652	4 345 456 593	6 717 415 538	2,977,061,741	5,667,795,867	4,785,308,404	4,547,682,460	4 582 564 684
Ratio Analysis										
EBIT	714,565,038	1,367,196,069	1,641,196,257	1,232,557,309	1,850,786,430	503,385,242	1,124,233,526	741,133,718	1,458,268,801	10,633,322,390
OE	10,255,834,125	10,342,879,725	11,741,859,604	13,902,526,464	16,265,304,785	12,663,102,729	17,475,596,698	15,819,889,405	15,166,172,409	123,633,165,944
EBIT/OE	6.97%	13.22%	13.98%	8.87%	11.38%	3.98%	6.43%	4.68%	9.62%	8.60%

ATO Statistics

Other business services

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	Weighted Average
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	12 796 016 221
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	27 281 866
Distribution from trusts		79 028 968	68 834 488	75 665 527	98 246 848			255,166,426	270,269,046	169 039 721
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	200 206 035
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	160 980 434
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	201 935 208
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	10 951 426
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	10 740 512
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	5 076 705 857
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	18 711 223 949
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	5 012 738 241
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	1 327 579 354
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	529 898 295
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	25 519 659
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	90 516 814
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	48 702 360
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	260 524 050
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	223 474 615
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	18 732 179
Royalty expenses - Australia	41 318 548	8 666 212	7 749 262	8 401 715	7 482 481					14 723 644
Royalty expenses - Overseas	26 197 242	16 258 363	7 638 515	18 348 144	43 146 309					22 317 715
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	296 686 115
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	163 999 497
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	88 497 314
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	9 750 425 181
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	17 832 733 812
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	878 074 973
Extraordinary items	32 303 593	- 2 825 418	- 4 851 367	- 3 776 531	61 561 613	-24,160,605			-15,856,076	6 863 721
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	882 615 952
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	206 362 834
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	231 308 393
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	1 685 403 185
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	6 503 312 256
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	14 418 973 330
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	1 026 924 720
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	5 815 181 781
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	9 870 659 950
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	4 548 155 028
Ratio Analysis										
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	8,280,681,596
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	158,540,988,711
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