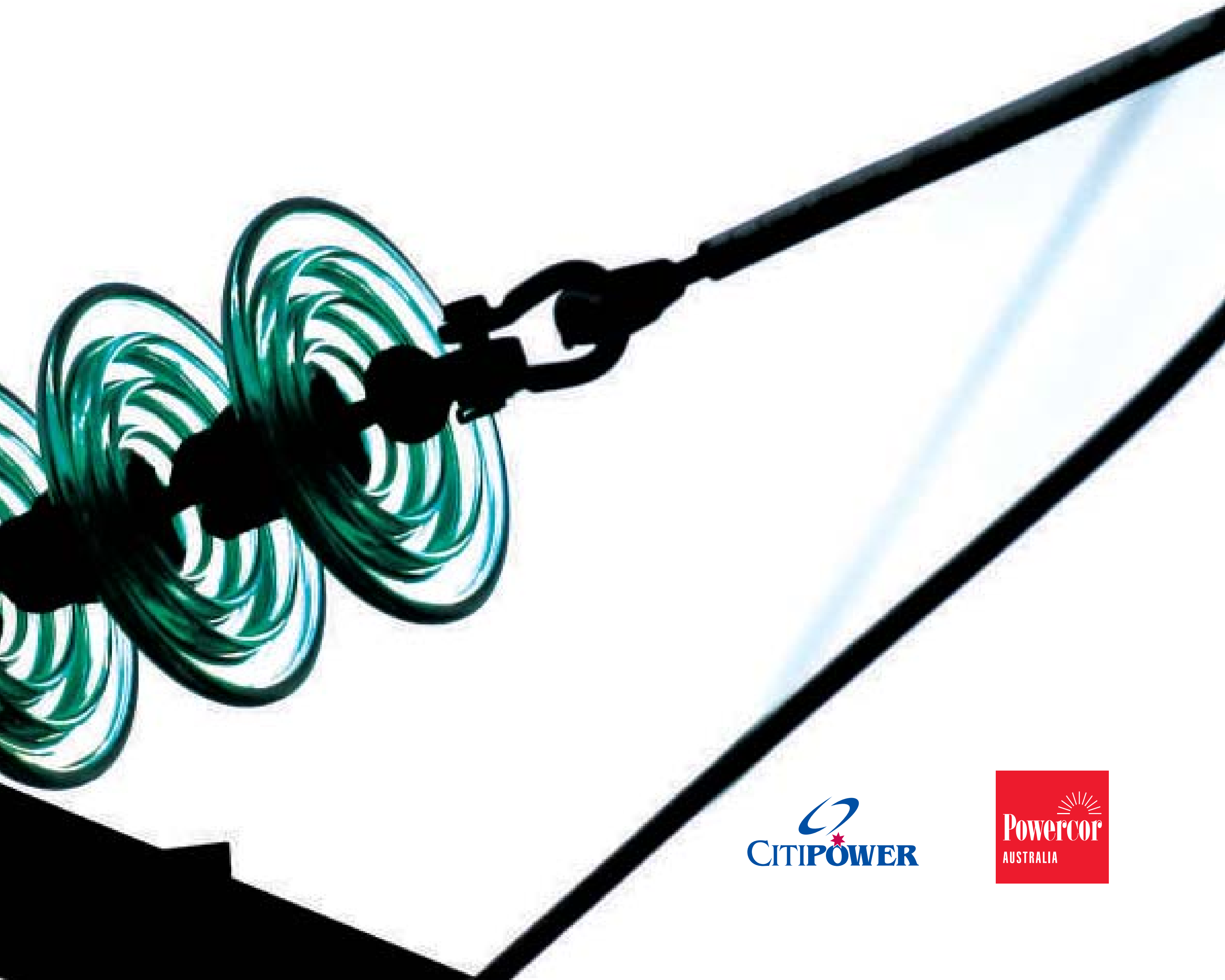
CHALLENGE RESPONSE RESULT

CitiPower and Powercor Annual Report 2006



VISION STATEMENT

To profitably grow our business, as a key member of the Cheung Kong Group and Spark Infrastructure, such that we are a leading infrastructure and related services business.

To ensure deliverability of the vision, the CHEDHA Holdings Group strives to excel in:

> Financial Performance

> Supply Reliability and Quality

> Engaged Workforce

> Customer Service

> Environmental Management

> Health and Safety

> Business Growth

Contents

SUMMARY OF 2006

> Delivered higher than forecast earnings

> Grew non-regulated revenue, with almost $35 million generated from national and transmission-based projects by our Network Services business

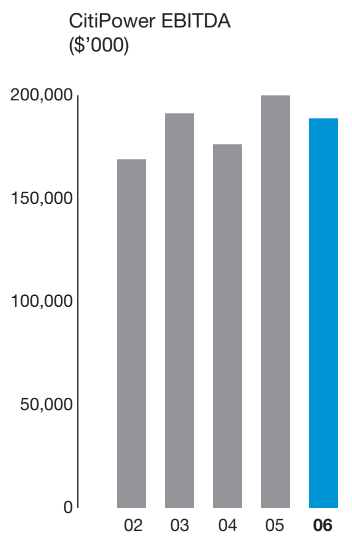
> Upgraded our business's asset management platform (SAP) and commenced a project to merge our Outage Management and Geographic Information Systems

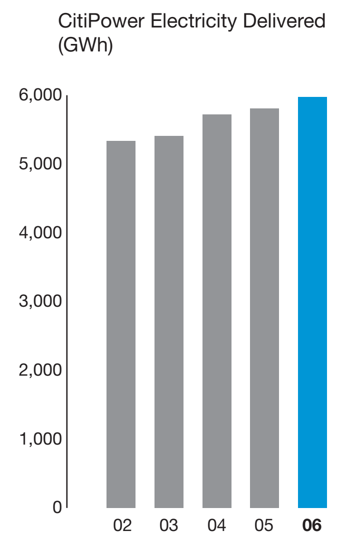
> Relocated and consolidated the former Sunshine and Werribee depots to a purpose-built facility in Ardeer, responding to significant growth along Melbourne's western corridor

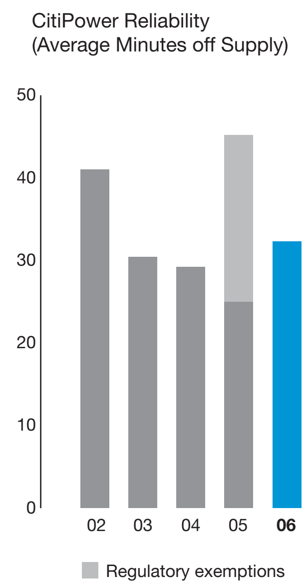
> Reached a significant employee health and safety milestone, with Echuca depot reaching 10 years without a lost time injury

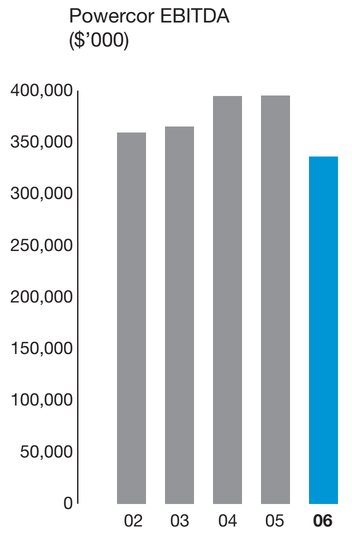
> Developed and distributed a comprehensive Customer Charter, clearly outlining customers' rights, responsibilities and obligations, to more than 900,000 homes and businesses

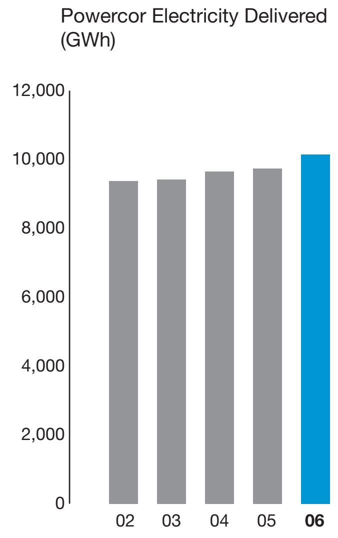
> Delivered an increased electrical supply to the sporting and cultural venues hosting the XVIII Commonwealth Games, without a single power interruption during the events

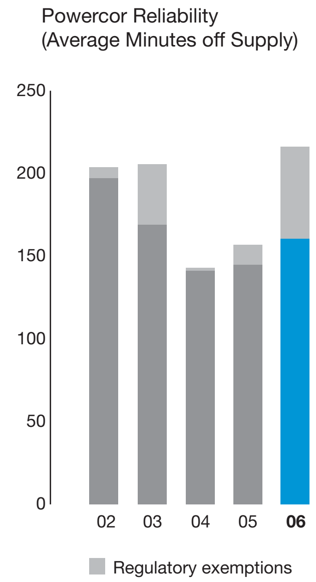












CHALLENGE RESPONSE RESULT

CitiPower and Powercor Australia faced multiple challenges in 2006. As a forward-looking organisation completing the first year of its current five-year regulatory cycle, our response to these challenges has produced immediate results and has sown the seeds for future benefits for our shareholders, customers, communities and employees.

Some of these challenges were foreseen and steeped in sound planning and execution, such as meeting the electricity requirements for the 2006 Commonwealth Games, the largest sporting and cultural event to be held in Victoria since the 1956 Olympic Games. Other challenges, including the effects of bushfires and storms on our electrical assets, were not entirely unexpected given the nature of our core electricity distribution business, but nonetheless fierce in their intensity, and far-reaching in their impact on our business and to our customers.

Our networks adapted well to ongoing changes to the regulatory framework under which we operate. Our non-regulated businesses met and exceeded growth and revenue targets, and our business as a whole delivered on our customer service promise, strengthening the relationship with communities we serve.

The legacy of our response to a challenging 2006 includes improved processes, more effective outage response mechanisms, and a preparedness to address and overcome the challenges of 2007 and beyond.

With advance expectations of a challenging 2006, CitiPower and Powercor Australia have responded extremely well during the year, reflecting the underlying strength of the businesses, and the quality of their management.

The combined Group of companies ('CHEDHA Holdings') delivered a net profit after tax of A$37.8 million for the 12 months to 31 December 2006 for our shareholders, the Cheung Kong Group and Spark Infrastructure.

Our foremost challenge was of course the reduction in regulated revenue prescribed through the Electricity Distribution Price Review process in 2005 of 17.3 per cent for Powercor and 8.7 per cent for CitiPower. While this ruling has driven some of our corporate indicators down, the business has actually produced significantly better results for 2006 than projected at the start of the year.

Revenue was favourable to budget on all fronts. Electricity distribution revenue was strengthened by an increase in customer numbers in both distribution networks of 1.9 per cent, while electricity consumption grew by more than 3.7 per cent during the year.

Unregulated revenue was also favourable to projections, and well in excess of 2005. Our Network Services business led the way by securing several large customer contracts, and increasing its revenue by 101 per cent. As a whole, unregulated revenues contributed a significantly larger share of our total revenue for the year, which met one of our main strategic objectives.

Total operating costs grew by six per cent. While some factors, such as the impact of our Enterprise Bargaining Agreement, were predicted, we were also affected by storms and bushfires in the early part of the year which required significantly more external works and maintenance than expected.

Capital expenditure was at record levels in 2006, driven by strong customer demand for new or upgraded connections, and later by a one-off property purchase as we consolidated our operations in Melbourne's western suburbs. Consolidated gross capital expenditure was $269 million for the year compared with the equivalent figure of $216 million in 2005.

The result of these factors was that earnings before interest, tax, depreciation and amortisation ('EBITDA'), the best indicator of operating performance, fell by 13 per cent to $535 million.

Importantly, the business met its forecast returns to shareholders for 2006. And because of the good operating result for the year, cash flows to shareholders in 2007 will be higher than originally projected.

Having absorbed the large 'up front' regulated revenue and tariff cut at the start of the five-year regulatory period 2006-2010, the business is now able to move forward with certainty for the next four years, with the expectation of renewed revenue growth.

At the same time, the strategy of pursuing growth opportunities through new and unregulated business streams will continue unabated, and we are confident that both revenues and returns from these enterprises will further increase in the coming years.

Our shareholders have flagged that they regard our good reputation as the providers of an essential service to the communities we serve as an integral element of business success.

I am pleased that our reputation as operators of two of the most reliable electricity networks in the country has endured, despite some stormy weather during the year. At the same time, we have continued to enhance the levels of customer service we provide, and to implement initiatives in the social and environmental arenas which meet our obligations and reflect our standing as a good corporate citizen.

The shareholders remain united in their vision for the Group, and in their confidence about its future.

In closing, I would like to recognise the significant role in the evolution of the business over several years played by Eric Kwan, who retired from the Board in December. It is also fitting to acknowledge the contribution of Danny Latham, who retired as a Director during the year.

My thanks go to the other Directors, the executives and the employees of the Group, whose hard work, professionalism and dedication have helped to ensure that our prospects remain bright.

Peter Tulloch
Chairman

Overview

2006 was our first full year under the joint ownership of the Cheung Kong Group and locally listed Spark Infrastructure.

It was also a year in which we faced more challenges than usual – both planned and unplanned. I am pleased to report that on several fronts the evidence is that the business was able to meet these challenges and surpass expectations.

The start of the new five-year Price Review period resulted in CitiPower and Powercor networks having significant revenue cuts of 8.7 per cent and 17.3 per cent respectively. Few businesses could wear such revenue reductions without some impact on operational performance but, setting aside uncontrollable events, we largely sustained our standards in 2006 by focusing on efficiency.

We also pursued our ongoing strategy of developing new business opportunities in unregulated areas. Competing in new markets and sectors carries different kinds of challenges for us, but our hard work throughout the year received rewards in the form of significant new contracts for our network construction and management services later in 2006.

We continued to seek to identify and create opportunities for synergies with other associated businesses, either in the form of cost efficiencies, or new business opportunities. We have enjoyed strong synergies with our sister company, South Australia-based ETSA Utilities, in the area of joint procurement opportunities. The two businesses are also continuing to explore joint ventures in network construction and maintenance.

Operational highlights

Health and safety

As a demonstration of our commitment to the wellbeing of employees, customers and contractors, health and safety is prioritised as the first agenda item at all our major internal meetings, from meetings of the Board of Directors down. Embracing formal policies, procedures, and review processes, as well as cultural programs which provide opportunities for dialogue across the business our strategy ensures a strengthened commitment throughout the organisation. While we did not meet our ambitious targets for lost time and medical treatment injuries, our performance and practices remain among the best in our industry.

Customer service

Customer service is a cornerstone of our business. We undertook a significant review of our Customer Service Strategy during the year, which reaffirmed that our core objective of 'Powerful Customer Service' has not shifted. It also highlighted that we can further improve by more effectively integrating our technical, strategic and communications initiatives to meet customer needs.

Underlying many of these developments are our information technology applications, and the year saw successful upgrades to core administrative and customer management systems. We began a major project to combine our Outage Management and Geographic Information Systems, which will form the platform for significant advances in asset management in future years. When combined with the advanced interval meter management project that was also initiated in 2006, these systems will have the capacity to revolutionise energy supply and network management in the next decade.

Property and facilities

We achieved some notable milestones during the year in upgrading our property and facilities to allow us to meet the demands of current work and projected business growth. By year's end we had consolidated our operations in Melbourne's western suburbs onto a single site at Ardeer, offering much larger and vastly improved facilities for the business.

People

We have invested heavily in our employees during the year. While long-term recruitment and professional development programs will partially protect us from the growing skills shortage, we are not immune to increasing competition for good people.

Existing employees recognise the business as a very good employer, reflecting the progressive retention strategies we are putting in place. Employees are also one of the most effective sources of referrals for new recruits – a process that will be greatly facilitated by the online database for potential employees at all levels of the business set up in 2006, which will become a core tool for the majority of our recruitment over the next five years.

Network reliability

For the second year in a row, storms early in the year, and a range of third-party incidents later in 2006, caused significant damage to the network and disruption to customers. In all cases, our first response has been to keep customers as informed as possible, while we work to identify the fault and implement measures such as network switching that mitigate the impact of these events.

While subsequent regulatory reviews of the industry's response to the January 2006 storms actually commended our performance, we did not wait for this outcome, but immediately established a high-level internal taskforce to identify and implement ways to respond better to large-scale network events.

The taskforce has led to initiatives including improved field communications during escalations by using employees from across the business, enhanced customer call flow management in our contact centre, and greater use of the mass media to inform customers of the situation.

These and other initiatives noticeably improved our fault response and communications as the year progressed, and helped us recover considerable ground in meeting our network reliability targets.

Community support

We understand that the community has expectations of our business beyond core service delivery. We believe that good business practices and support for the communities in which we operate help to create an enduring business reputation.

Pleasingly, our annual Community Reputation Survey reflected a higher profile in the community for our businesses, and again identified Powercor as the leading company in its class in south-eastern Australia.

Our sponsorship portfolio provides support for economic development through business awards, community and cultural programs such as regional touring for the Melbourne Symphony Orchestra and community festivals, as well as our long-term support for the Powercor Children's Helicopter.

We encourage our employees to be active participants in the communities in which they live and work, and support them in a wide range of fitness and charitable pursuits.

The way ahead

Our aim is to expand our business activities in non-regulated areas, to create a greater diversity of income streams and develop our business. We will continue to work with our shareholders and associates to explore growth opportunities in core and related business areas.

One major priority in 2007 is to complete preparations for the rollout of advanced interval meters – not just the massive task of installing one at all premises within four years and then maintaining them, but also to ensure that the potential benefits to consumers provided by these meters are harnessed in a constructive and commercial way.

Many changes are being sought from our business and our industry – technology, regulation, the environment, and social values all require new strategies to meet today's challenges and expectations and we need respond in both the short and long term in a commercially sustainable way.

In building our response to the environmental challenges that have taken centre stage in national and international affairs, we have made considerable progress measuring our environmental footprint and analysing the issues, but we recognise that much work needs to be done to develop effective global strategies, and to define our role as a business within them.

We have been closely involved in the development of the new national regulatory model, which should be largely finalised in the year ahead. A consistent framework which encourages innovative and sustainable business practices will create many opportunities to add value.

We will continue to seek to provide leadership in the infrastructure and related services business, building on our strengths and responding to challenges.

With the ongoing support of the Board, senior management and employees, I am confident that we can meet our objectives and add further value to our business, our shareholders and to the communities we serve.

Shane Breheny
Chief Executive Officer

How electricity is delivered

The Victorian electricity market is interconnected, and relies on four distinct functions to supply power to homes and businesses. Electricity generators produce electricity at power stations, and compete to sell their product in a national electricity market that covers Victoria, New South Wales, Queensland, ACT, South Australia and Tasmania. From power stations, transmission networks, owned and operated by private transmission companies, transport the electricity to major distribution points across the State.

It is from these distribution points, called terminal stations, that CitiPower and Powercor Australia transport electricity, at a lower voltage, to business and residential customers along separate, fixed networks of underground and overhead poles and wires. Regional and rural electricity distribution networks in Victoria are often distinguishable by predominantly overhead assets, with wooden poles and wires spanning long distances. A large proportion of urban distribution networks are built underground, as customers tend to be more concentrated in these areas. Regardless of the constitution of our networks, CitiPower and Powercor are responsible for the quality and reliability of the electricity supply from terminal stations up to and including customers' individual points of connection.

While a portion of the electricity bill customers receive from their retailers contains a fee for delivering electricity, distributors do not bill customers directly for this service. Consumers select their retailer of choice in contracting the supply of electricity to homes and businesses.

CitiPower and Powercor are predominantly regulated businesses, with distribution network operations under the regulatory authority of Victoria's Essential Services Commission, which sets revenue levels for electricity distribution in five-year cycles, and sets guaranteed service levels for supply quality, reliability, connections and customer service.

JOINT MANAGEMENT TEAM

Garry Audley
General Manager, CitiPower Network

Garry Audley has 25 years' electricity industry experience in Australia and has been instrumental in reliability and performance initiatives that have established CitiPower as Australia's most reliable urban electricity network. Garry has been General Manager of CitiPower's network business since 1998. He holds a Bachelor of Electrical Engineering degree (with Distinction), is a member of the Institute of Electrical Engineers, a Chartered Professional Engineer and a Leadership Victoria Williamson Fellow. Garry is a member of the Utilities Infrastructure Reference Panel, a ministerial Committee with reference to implementation of the Roads Management Act.

Peter Bryant
General Manager, Customer Services

Peter Bryant has over 20 years' experience in the electricity distribution industry, having operated in asset management roles, including design, construction, maintenance and development of distribution assets and implementing advanced metering infrastructure and systems. Peter has extensive experience in customer service management, strategy, customer issue resolution and relationship and contractor management. He has held several roles within the business, where his significant electricity business knowledge and longstanding industry relationships have contributed to successful outcomes. Peter is an elected member to the Information Exchange and Retail Market Executive Committees.

Richard Gross
General Manager, Regulation

Richard Gross has broad experience in business and economic regulation, having worked for Melbourne Water, the Prices Surveillance Authority (now the Australian Competition and Consumer Commission) and the Department of Agriculture. He holds a Bachelor of Agriculture Science degree, a Graduate Diploma in Agricultural Economics and a Master of Commerce. He is also a representative on the Board of the Energy and Water Ombudsman (Victoria) Ltd.

Simon Lucas
Company Secretary and
General Manager, Legal Services

Simon Lucas has 20 years' electricity industry experience in the areas of treasury, finance, corporate governance, human resources and risk management. Prior to joining the electricity industry, he was an Assistant Director with the Australian Government's then companies and securities market regulator, the National Companies and Securities Commission. He holds a Bachelor of Economics degree, is a Certified Practicing Accountant and is a member of the Australian Institute of Company Directors. He is also a Director and Chairman of the Investment Committee of Equipsuper, a major Australian industry superannuation fund.

Glen McLean
General Manager,
Information Technology

Glen McLean has 25 years' experience in information technology related roles and business change management, having served as a senior manager with Andersen Consulting, and in a variety of consulting roles with Bond Consulting, Deloitte Haskins & Sells and Computer Manufacture & Design. He holds a Bachelor of Applied Science in Computing.

Bryan Quinn
General Manager,
Powercor Australia Network

Bryan Quinn has over 30 years' experience in engineering and strategic asset management, acquired through senior management roles within a variety of industries. In 23 years with ESSO Australia Ltd, Bryan was involved in managing offshore and onshore oil and gas production facilities. Bryan then joined Rio Tinto as their General Manager of Asset Strategies. In 1999, Bryan joined Powercor, where he has led a high performing team delivering strong results for both customers and shareholders. Bryan holds a Bachelor of Science Chemical Engineering degree.

Mark Sturgess
General Manager,
Network Services

Mark Sturgess has 35 years' experience leading a diverse range of functions within the energy utilities and public sectors, including national growth and marketing, supply chain management, customer service, innovation, and open space design and management. He holds a Bachelor of Business degree and is a member of the Swinburne University of Technology Australian Graduate School of Entrepreneurship Advisory Board, the Network Services Advisory Board, and is an Associate Fellow of the Australian Institute of Management.

Brian Sullivan
General Manager,
Human Resources and
Corporate Affairs

Brian Sullivan has extensive experience in human resources and corporate affairs management, moving from BHP into senior management roles with Adelaide Festival Trust, St John Council for South Australia Inc, and Elders Ltd. He holds Bachelor of Commerce and Master of Business Administration degrees, is a Fellow of the Australian Human Resources Institute, and a Graduate of the Australian Institute of Company Directors. Brian is a Director of LifeFlight Pty Ltd, a not-for-profit organisation that operates the Powercor Children's Helicopter, and a Director of the Leadership Consortium, an organisation focused on delivering high quality leadership training for member companies.

Julie Williams
Chief Financial Officer

Julie Williams has 16 years' experience in the electricity industry in finance, treasury and risk management roles. She was CitiPower's inaugural Treasurer in 1994 and was appointed Treasurer of Powercor in 2002. Prior to joining the electricity industry she worked in the banking and finance industry in a number of broking and securities trading roles. She holds Bachelor of Business and Master of Applied Finance degrees.

CitiPower

Australia's Most Reliable Urban Distribution Network

The most concentrated of Victoria's five distribution networks, CitiPower is home to the State's political, economic, sporting and cultural nerve centre, supplying power to Parliament House, the Australian Stock Exchange, the Arts Centre and its famous spire, the MCG and Melbourne Park. The expectations for a reliable electricity supply in this area are high. Widespread or long-lasting interruptions in the central business district in particular represent more than an inconvenience, they could cripple the State.

Severe storms in January and abnormal third-party events throughout the year prevented the CitiPower network from improving upon its enviable reliability record, which it had bettered each year since 1994. We did, however, retain our position as owners and operators of the most reliable urban distribution network in Australia, cementing our reputation in this area by employing sound asset management practices, incorporating new technology, and investing in substantial network upgrades designed to cater to current and future growth in Melbourne's CBD and surrounds.

The most significant of CitiPower's network augmentation projects in 2006 was the commencement of a $33 million redevelopment of the electrical infrastructure that supplies Melbourne's Southbank district and the adjacent suburbs of South Melbourne, Port Melbourne and Docklands, where substantial commercial and residential growth is driving an increase in electricity demand.

The project involves demolishing and rebuilding the South Melbourne Zone Substation, to increase its ultimate capacity by over 90 MVA, and is proposed to be commissioned in December 2009 largely without interrupting supply to customers.

CitiPower also completed significant electricity works as part of a multi-million dollar upgrade of Melbourne's Station Pier. The heritage-listed Pier services the lucrative cruise ship industry and houses the Spirit of Tasmania's mainland terminal. The upgrade included installing a new substation enclosure on the pier and doubling the capacity of the on-site transformer. Each cruise ship that visits Melbourne contributes $1 million to the Victorian economy.

Installing an interval meter in Melbourne's inner suburbs

Supplies more than

295,000

customers

> Serviced by 39 zone substations
> Over 60,000 poles
> 46% of wires are underground

Services

157

square kilometres

Network availability is

99.99%

Powercor Australia

Australia's Most Reliable Rural Distribution Network

Powercor Australia's electricity network can best be defined as expansive. Stretching from Melbourne's suburbs through central and western Victoria, to the New South Wales and South Australian borders, the network is exposed to a range of environmental conditions, including rugged topography, challenging soil conditions, unpredictable weather patterns, extreme temperatures and bushfire risks, depending on where the electrical assets deliver power.

Our network asset management strategy, which is geographically based and employs the latest inspection and maintenance technology, responds to these local environmental conditions. In 2006, Powercor moved into the position of Australia's most reliable rural distributor, based in no small part on the ability of our regionally-based assets to perform well in harsh conditions.

Recent partnerships with private plantation companies to widen vegetation easements along coastal areas have reduced faults caused by falling trees and limbs during high winds. In 2006, the network also undertook a robust vegetation management program, ensuring trees and vegetation were kept well clear of power lines to reduce the risk of power outages and bushfires in the summer months.

The replacement of wooden cross arms with steel versions in areas susceptible to pole fires, and the trialling of new power pole types in areas with high soil salinity, were other features of our asset maintenance program, which helped the network deliver high supply reliability.

Network augmentation projects positioned the Powercor network to bolster this supply reliability and meet growth in regional and rural Victoria. A $4.5 million 66kV power line running 17 kilometres from Stanhope to Kyabram was completed early and under budget in 2006. Construction of a new $1.5 million power line south of Geelong, designed to cater to strong residential and commercial growth in areas including Torquay, Jan Juc, Bellbrae, Anglesea and Lorne, also commenced in 2006.

The projects are part of a broader strategy to improve the security and reliability of supply in regional Victoria, and gives Powercor greater flexibility to rectify power outages when they occur by diverting customers onto alternate feeder lines.

Monitoring the environmental impact
of our substation assets near Horsham

Supplies more than
662,000
customers

> Serviced by 69 zone substations
> Over 520,000 poles
> 82,550km total line length

Network availability is
99.97%

Services
150,000
square kilometres

Commonwealth Games

For 12 days in March, Melbourne became the centre of the sporting world, with athletes from 71 nations competing at multiple venues within the CitiPower and Powercor network areas. Cultural activities also captured the imagination of millions of Victorians and some 90,000 visitors from interstate and overseas. From an electricity supply point of view, it was comparable to having the AFL Grand Final, the Formula 1 Grand Prix and the Australian Open Tennis all running at the same time, continuously for two weeks.

All eyes were on the Games' spectacular opening ceremony

CHALLENGE

The Games were the first time that all major Melbourne venues would be operating at full capacity at the same time, and would be coupled with a major cultural open space program at various sites. This represented not only a strain on our electricity networks, but also presented challenges related to site access, maintenance scheduling and coordination with multiple stakeholders. Any unplanned interruption to supply during the Games, especially during the opening and closing ceremonies, would constitute a reputation risk for our business.

Planning commenced 18 months before the Games' first event

RESPONSE

Some 18 months before the first event, a proactive risk management plan was developed, involving network augmentation projects, asset inspections and the implementation of contingency protocols and procedures. Standby and alternative supplies were installed at several Games venues, and two kiosk substations were constructed along the Yarra River to support additional facilities. In all, 16 MVA of additional capacity and over 10 MVA of portable on-site generation were installed.

For security purposes, all Games venues were locked down a month before the opening ceremony. Our business's response required a well-planned, efficient and coordinated effort, involving technical staff, field crews and contractors, Games officials, government and other stakeholders.

RESULT

Each of the sporting, entertainment and cultural events of the Commonwealth Games proceeded without a single interruption to supply. The CitiPower and Powercor networks successfully met the huge electricity demand imposed by Games activities, and our business's efforts took place largely behind the scenes, ensuring the focus remained on the Games events, and not the power supply which supported them.

Compared to the same period in 2005, the increased demand for electricity was substantial, with an additional 13,000 megawatts consumed per hour.

The legacy of CitiPower and Powercor's performance and network augmentation works is an increased electricity capacity in the Melbourne CBD and surrounds, which will help Victoria attract and retain large-scale international sporting events in the future.

New policies related to the aesthetics of our electrical assets, including removing graffiti on power poles, streetlights and kiosk substations, will help keep Melbourne beautiful and help enhance its reputation as an international tourist destination. The mutually beneficial partnerships developed with Games officials, civic leaders, councils and other government bodies will continue to serve our business in the future.

Melbourne's electricity infrastructure is better prepared to host future events

Employee engagement

CitiPower and Powercor Australia continued to take a proactive approach to recruiting, training and retaining skilled employees in 2006, and made positive strides in cementing a strong health and safety culture across the business. The business recorded an employee satisfaction index rating of 73 per cent in 2006, bettering last year's result by two per cent. The satisfaction result is five per cent above the Australian national norm, and is a testament to our robust employee development programs, service and performance recognition initiatives and channels designed for employee feedback and business response.

Taking personal responsibility for health and safety

Apprenticeship, trainee and graduate recruitment

Addressing the national skills shortage is critical for our business, with an injection of young skilled employees ensuring not only the diversity, but also the long-term viability of our workforce. A highly visible and targeted recruitment campaign in mid 2006 resulted in our business's largest ever intake of apprentices and trainees, with 34 field-based employees joining the company. These apprentices are supervised by dedicated mentors, who assist with the development of skills and qualifications and help our new starters to foster long-term careers within the electrical trades industry. Now in its tenth year, the apprentice and trainee recruitment efforts are starting to pay dividends, with the average age of field workers now 39, compared to 45 at its inception. CitiPower and Powercor also operate a graduate intake and development program, which has led to permanent employment for 18 engineering graduates in the past five years.

Health and safety

Within all business units, comprising both field and office-based employees, it is understood that we will never compromise health and safety to get a job done. While working with electricity presents inherent risks, the company Safety Management System ensures hazards associated with all work-related activities are appropriately managed. A significant focus was placed in 2006 on managing forklift traffic, operating in confined spaces, working with treated timber and assessing workshop plant risks. The frequency rate of lost time injuries for CitiPower and Powercor employees has steadily declined over the past 10 years, and 2006 saw the lowest number of employee injuries reported since 2001. Powercor's Echuca depot reached an impressive milestone during the year, achieving 10 continuous years without a lost time injury. The goal for our business is zero injuries during any given year.

Growth and innovation

CitiPower and Powercor Australia's core business is electricity distribution, and our commitment to delivering a safe and reliable power supply to our residential and business customers is unwavering. External growth vehicles, however, are a key part of the overall composition of our business; our engineering, customer service and information technology businesses have external market facing activities, which contribute to the Group's results, and enrich the reputation of our entire business in local, national and international markets.

CHALLENGE

Our growth challenges are twofold. In the first place, CitiPower and Powercor must meet the organic growth within our electricity distribution networks. This includes more customer connections, an increasing demand for electrical capacity, and our support of major industrial, commercial and government projects that require network augmentation and extension works. Quite separately, our response to external growth opportunities for our non-regulated businesses involves demonstrating the scope of our capabilities to new markets and cultivating a reputation as a preferred provider for a range of electricity market services.

The Ardeer Business Centre is our new home in the west

RESPONSE

Expanding our network to support new residential development

Responding to network growth, CitiPower and Powercor purchased a former gas distribution office and depot in Melbourne's western suburbs. In 2006, the new Ardeer site was upgraded to support the consolidation and relocation of network operations and administration functions from the former Werribee and Sunshine depots. Our engineering design and construction business, Network Services, commenced work on numerous projects for the electricity transmission company SP AusNet during the year. Works involved the rebuilding or refurbishment of electrical infrastructure within key facilities, including Malvern, Rowville, Brunswick and Ballarat Terminal Stations. The business as a whole also continued to cultivate and seek commercial opportunities for new products and systems as part of the *eighthgate* growth venture program in 2006.

RESULT

The Ardeer depot opened ahead of schedule in early 2007. The depot is well positioned to meet the growing electricity demands of Melbourne's western suburbs and will improve fault response and restoration times through better access to arterial roads. More than 7,000 square metres of administration, warehouse and workshop facilities at the depot creates a strong presence in Melbourne's western suburbs and renews our commitment to our core business in these areas.

Network Services generated almost $35 million in non-regulated revenue in 2006, representing an increase of over 100 per cent from 2005. This result showcases the scope of Network Services' talents, and has established the business as a leader in the provision of electricity market solutions. Network Services now operates in most of Australia, and in 2006 delivered project services in the UK and Sri Lanka.

The *eighthgate* innovation program yielded impressive results in 2006, with 42 new products undergoing business case analysis and 13 new products and services brought to the implementation stage or to the external market. The winner of the 2006 Business Innovation Cup, an event held annually to recognise excellence in innovation, was a methodology and strategy to dramatically reduce the amount of time customers are off supply while underground cable faults are repaired.

eighthgate brings innovative products and services to market

Community engagement

CitiPower and Powercor Australia promote economic prosperity in all the communities we serve, and help remote communities within our network areas access health services and facilitate community building. We have been long time supporters of more than 20 business awards, which contribute to business skills sharing and economic growth. As the Foundation Sponsor of the Powercor Children's Helicopter, we help to rapidly deliver the services of the Newborn Emergency Transport Service (NETS) throughout Victoria. Regional orchestra tours, local arts events and support for community programs round out our sponsorship program, delivering tangible benefits to our customers.

Explaining the connection process

Customer Charter

In 2006, we developed and distributed new Customer Charters to almost 930,000 CitiPower and Powercor customers. While the provision of a Charter to all customers every five years is a regulatory obligation, we elected to consult customer groups, audit customer interactions, and produce a clear and comprehensive guide that far exceeded the minimum information requirements. The Customer Charters not only contained information about rights, entitlements and obligations under the Victorian Distribution Code, but also included practical guidelines on managing electricity supplies, safety information and tips on when to contact our business and what information to have on hand. The Charter packs also contained a glow-in-the-dark fridge magnet for customers to record service identifier numbers, helping us respond to their enquiries more quickly and accurately when they call during an outage.

Customer Consultative Committee

The CitiPower and Powercor Customer Consultative Committee provides a forum for customers and individuals representing customer groups to contribute to our business's decision-making process and discuss issues and concerns regarding our electricity distribution supply and services. Operating since 2000, the Committee helps our business understand the effect of our operations on the communities we serve by providing customer feedback directly to our senior management team. The Committee met four times in 2006, and dealt with issues including interval metering, bushfire mitigation, our business's contact centre operations and tariff considerations. The Committee remains a valuable contributor to our business's policy development process.

Power outage response

Extreme weather during the weekend of 20–22 January 2006 caused widespread power outages particularly within the Powercor network area. Lightning and wind from storms in central Victoria, coupled with damage from burning bushfires in the southern portion of the State, and even mini tornadoes near Bendigo contributed to a loss of electricity supply to almost 140,000 customers, and the highest call volumes our contact centre had ever experienced over three days.

Drought affected trees can snap or be uprooted in high winds

CHALLENGE

The majority of our networks' electrical assets are exposed to events and conditions including storms and bushfires, which are outside our reasonable control. Safely and quickly restoring supply after such events is a process we have refined over recent years, and will remain a top priority for our business. The challenge for 2006 was related more to our ability to communicate timely and accurate information to customers during large outages or emergency situations, with an independent inquiry into our contact centre performance after the January storms.

RESPONSE

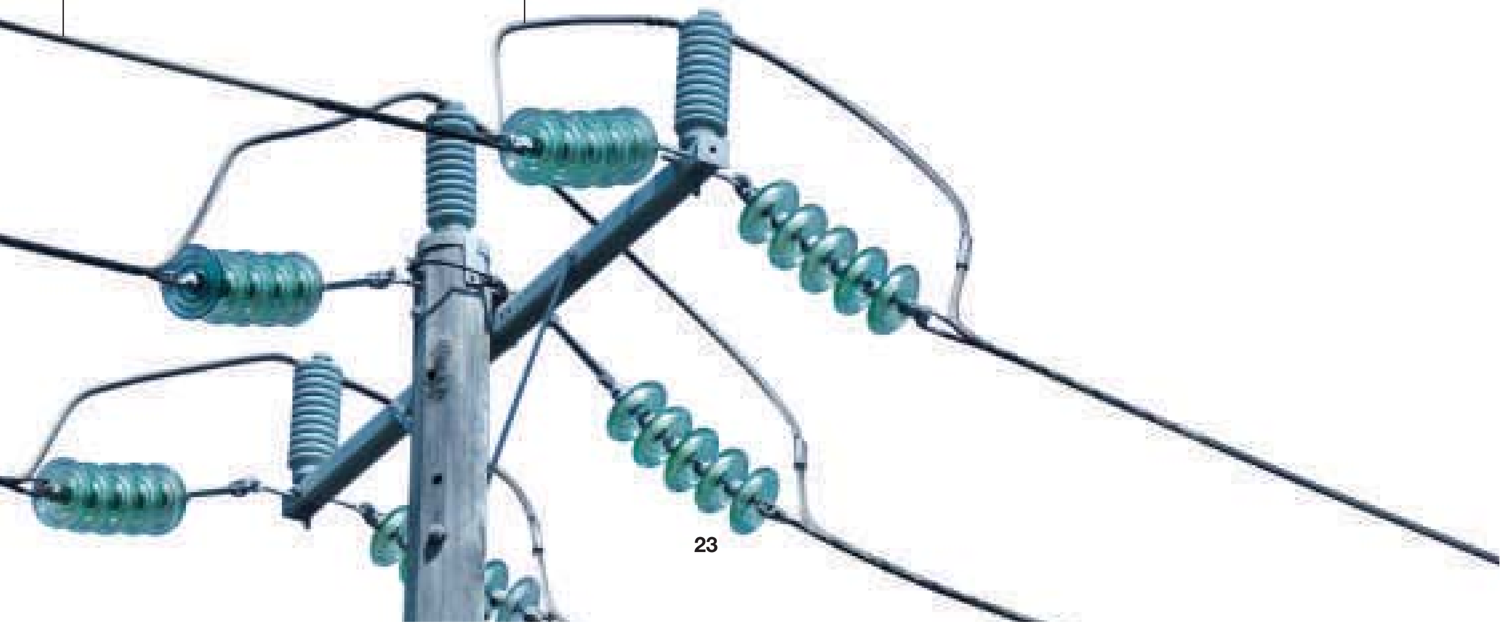
Front-line communication during widespread power outages

In addition to our participation in the inquiry, the business created a dedicated taskforce to assess our storm response capabilities and identify areas for improvement. This Outage Management Response Taskforce audited our communications channels and processes, consulted with other Australian electricity distributors, investigated technology upgrades and developed a number of recommendations designed to relay accurate power outage information to our customers as quickly as practicable, in a number of ways. The taskforce focused specifically on how our business manages internal communication flows, handles large customer call volumes, works with the media and disseminates messages.

RESULT

CitiPower and Powercor's storm response protocols, contact centre technology, and media partnerships and processes have all been revamped, and significant improvements have been realised in the way we roster support staff and ensure field and technical employees are available when they are most needed. The upgrading and continuous updating of our business's Outage Management System, the core application during widespread events, will allow multiple business groups to access accurate information quickly, and transmit that data via media, our contact centre, established partners and between business groups themselves. Our business also worked in 2006 to formalise emergency broadcast arrangements with ABC radio, which has proven an invaluable channel in reaching large audiences during emergencies, bushfires and other State-wide events. In our contact centre, new Interactive Voice Recording (IVR) technology was incorporated to provide automated, real-time messaging for major network incidents affecting more than 200 customers. The processes we use to escalate weather-related or other outage situations within the business, triggering the availability of standby or active employees, has also been improved and incorporated into our business systems. CitiPower and Powercor have renewed our commitment to customer and stakeholder communications, and have developed a total business response to storms or emergencies that cause a large-scale loss of supply.

Situation room briefing with multidisciplinary team



Changing environment

Electricity distribution in its own right is not considered to have a high environmental impact. Nonetheless, our business's corporate social responsibility involves minimising the environmental footprint of our activities and promoting sustainable practices wherever possible. Australia in general and Victoria in particular, are being increasingly shaped by the negative effects of drought and climate change, and face a yearly battle against bushfires. Our business endeavours to lead the development and uptake of solutions to these challenges, both now and into the future.

Ensuring trees are not growing too close to power lines

Bushfire mitigation

Bushfires in the Powercor network area represent a significant annual risk to lives and property, and our comprehensive bushfire mitigation programs work to minimise that risk, especially as it pertains to our electrical assets. We work in partnership with both Country Fire Authority and Energy Safe Victoria officials to ensure trees and vegetation do not grow too close to our power lines, or to private lines owned by customers in our network area. This involves a major ground and aerial-based vegetation audit and clearance program, and includes keeping our almost 30,000 owners of private lines informed about how they can safely meet their bushfire obligations.

Sustainability

CitiPower and Powercor's commitment to sound environmental management is illustrated through our strategies, our corporate culture, our signing of the Energy Supply Association of Australia's (esaa) Code of Sustainable Practice and the certification of our environmental management system to ISO 14001. This commitment is best captured, however, in the development of our annual Sustainability Report. The report details our performance across the key areas of sustainability – corporate governance, stakeholder management, and economic, environmental and social performance, and was awarded the esaa Sustainability Report Award 2006. The report was also included in an external benchmarking program and ranked third out of 25 reports from across all Australian industries.

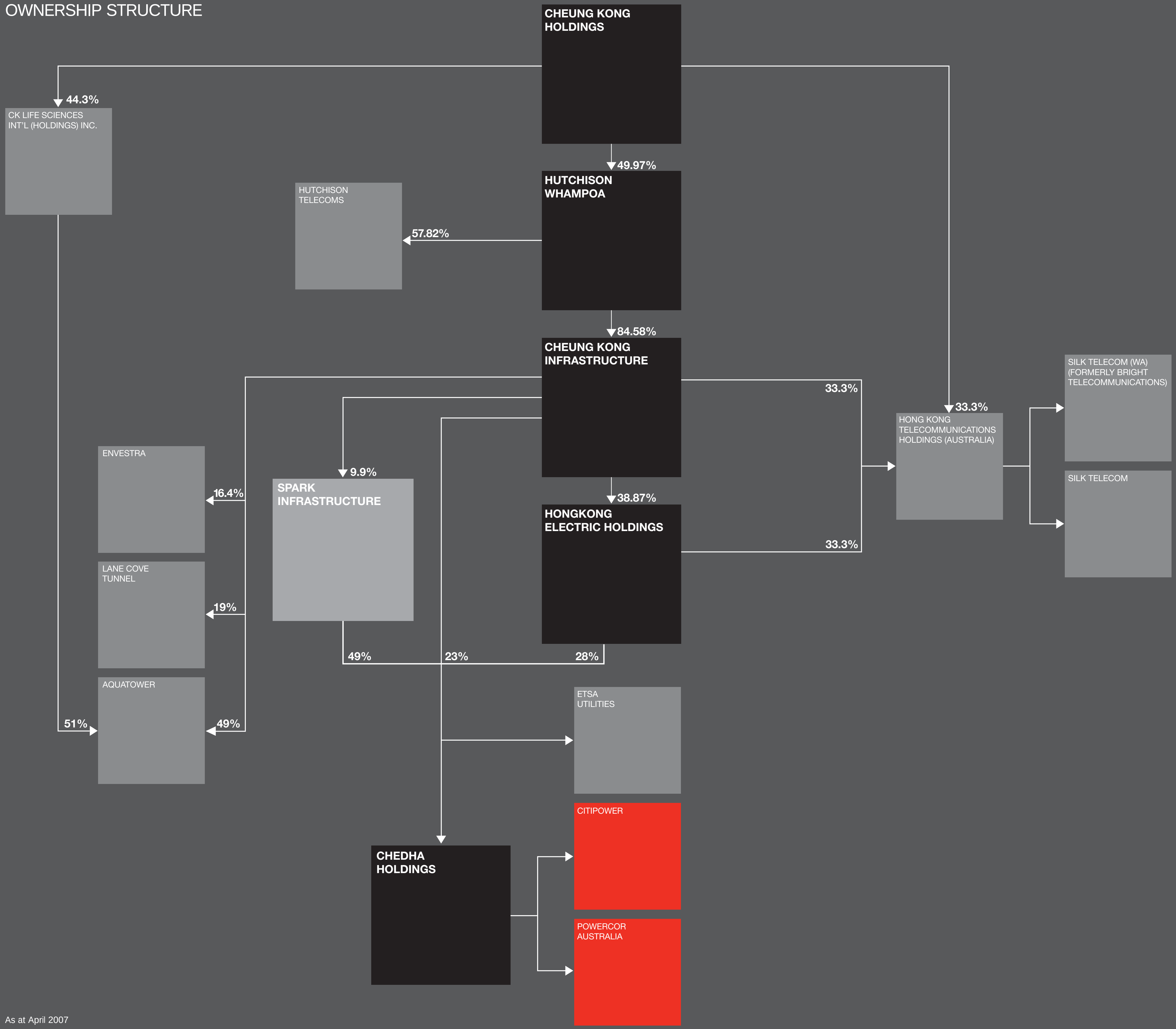
Drought

Now in the tenth year of a widespread drought, Victoria's focus on water conservation was sharpened in 2006. Several of our offices and depots are located in areas where significant water restrictions are in place, which not only affects our operations, but also compels our business to develop innovative water use and reuse solutions. In 2006 CitiPower continued its partnership with Barry Brothers and the City of Port Phillip to collect and treat wastewater captured in electrical pits to water parkland. At CitiPower's Rooney Street depot and in some Powercor network depots, rainwater tanks have been installed. Where appropriate we also reuse water from truck washing – an integral part of our award-winning weed containment programs. A program was begun to place flow restrictors on taps and showers, and employees were encouraged to reduce water consumption, through a highly visible internal communications campaign.

Emissions

As a member of the Greenhouse Challenge, our business reports greenhouse emissions annually. In 2006 Powercor's original Greenhouse Challenge Agreement and annual emissions reporting and data capture process underwent a stringent external audit with favourable results. CitiPower will be audited in 2007. The majority of our network's greenhouse emissions are caused by losses related to transporting electricity over long distances. Other sources of greenhouse emissions include fuel use for transport, energy consumption in offices and depots and waste disposal. In 2006, our business's partnership with Landcare managed the offset of our light fleet emissions, and we raised the number of electric/hybrid vehicles in our fleet to five. The business also designed and implemented a home energy audit program for our almost 1,600 employees and made this information available on our websites. The development and upcoming installation of interval meters to our network customers from 2008 will be a significant undertaking for our business, and will drive emission reductions by providing consumers with more information. Interval metering technology allows for smart applications and demand management through real-time pricing displays.

OWNERSHIP STRUCTURE



As at April 2007

Cheung Kong Group

Cheung Kong Infrastructure Holdings Limited and Hongkong Electric Holdings Limited are members of the Cheung Kong Group, the leading Hong Kong based multinational conglomerate. In Hong Kong alone, members of the Cheung Kong Group include nine listed companies with a combined market capitalisation of HK$809 billion as at 31 December 2006.

The Group operates in 56 countries and employs about 240,000 people.

Spark Infrastructure

Spark Infrastructure is a specialist infrastructure group listed on the Australian Stock Exchange. Its objective is to invest in regulated utility infrastructure in Australia and overseas. This includes electricity and gas distribution and transmission and regulated water and sewerage assets which offer relatively low risk and stable cash flows, facilitate the payment of relatively predictable distributions to investors and offer the potential for long-term capital growth.

Spark Infrastructure is 50 per cent jointly managed by Cheung Kong Infrastructure (CKI) and RREEF Infrastructure (RREEF). RREEF is the infrastructure investment arm of Deutsche Asset Management, the asset management business of Deutsche Bank AG. Deutsche Asset Management has $900 billion of funds under management in Australia and overseas.

CHEDHA HOLDINGS DIRECTORS

Peter Tulloch

Mr Tulloch was appointed Chairman of CHEDHA Holdings in December 2005. He is also Chairman of its subsidiaries, including the CitiPower and Powercor Group companies, and Chairman of ETSA Utilities. He is a Non-executive Director of CK Life Sciences Int'l., (Holdings) Inc. and Connector Motorways Pty Ltd. Mr Tulloch was educated in Scotland is a Fellow of the Institute of Canadian Bankers and spent over 30 years in banking in Asia prior to moving to Australia in late 2002.

H L Kam

Mr Kam is a Director of CHEDHA Holdings and its major subsidiary companies. He is also President and Chief Executive Officer of CK Life Sciences Int'l., (Holdings) Inc., the Deputy Managing Director of Cheung Kong (Holdings) Limited, an Executive Director of Hutchison Whampoa Limited, Group Managing Director of Cheung Kong Infrastructure Holdings Limited and a Non-executive Director of Spark Infrastructure Group. Mr Kam is also a Director of Hyford Limited, Interman Development Inc., Monitor Equities S.A., Univest Equity S.A., Venniton Development Inc. and Hutchison International Limited. He holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration.

K S Tso

Mr Tso is a Director of CHEDHA Holdings and its major subsidiary companies. He is also Group Managing Director of Hongkong Electric Holdings Limited. Mr Tso worked with the Hongkong Electric Group from 1966 to 1981, holding positions of Chief Project Engineer of the Hongkong Electric Company Limited and Executive Director of Associated Technical Services Limited. He is also an Executive Director of Cheung Kong Infrastructure Holdings Limited. He has extensive experience in the power industry and property development. He holds a Bachelor of Science degree in Engineering and is also a Chartered Engineer.

2006 Alternates:
Dominic Chan
Neil McGee
Charles Tsai
Andrew Elliot

2006 Retiring Directors:
Eric Kwan
Danny Latham
S Mays

Andrew Hunter

Mr Hunter is a Director of CHEDHA Holdings and its subsidiary companies. He is also Chief Financial Officer of Cheung Kong (Holdings) Limited and an Executive Director and Chief Operational Officer of Cheung Kong Infrastructure Holdings Limited. Mr Hunter holds Master of Arts and Master of Business Administration degrees and is a member of the Institute of Chartered Accountants of Scotland.

C T Wan

Mr Wan is a Director of CHEDHA Holdings and its subsidiary companies. Mr Wan worked with the Hongkong Electric Group from 1978, holding positions of Chief Electrical Engineer of the Hongkong Electric Company, Limited and Deputy General Manager of Associated Technical Services Limited. He served as Chief Executive Officer of CitiPower and Powercor Australia from September 2000 to June 2003. He then took up the position of General Manager (Corporate Development) in July 2003. Mr Wan holds a Bachelor of Science degree in Electrical Engineering and is also a Chartered Engineer. He is a Fellow of the Institute of Electrical Engineers in the United Kingdom and a Fellow of the Hong Kong Institution of Engineers.

Peter St George

Mr St George is a Director of CHEDHA Holdings and its major subsidiary companies. He is also a Director of First Quantum Minerals Ltd (listed on the Toronto Stock Exchange) and Spark Infrastructure Group (ASX listed) and Chairman of the Accounting and Financial Services firm, Walter Turnbull. He was a Director of SFE Corporation from 2000 until its merger with ASX Limited in 2006. He was Chief Executive Officer/ Co-Chief Executive Officer of Salomon Smith Barney Australia, a member of Citigroup, and NatWest Markets Australia from 1995 to 2001. Mr St George had more than 20 years' experience in senior corporate advisory roles with NatWest Markets and Hill Samuel & Co Limited in London. He qualified as a Chartered Accountant in South Africa and received an MBA from the University of Cape Town.

John Dorrian

Mr Dorrian is a Director of CHEDHA Holdings and its subsidiary companies. He is also a Director of Spark Infrastructure Management Limited, ETSA Utilities and its related entities and St George Community Housing Co-operative Limited, the largest, not-for-profit community housing group in New South Wales. Mr Dorrian is a Managing Director of Deutsche Bank AG and Head of Infrastructure Investments for RREEF Asia Pacific. He was Spark Infrastructure's Chief Financial Officer until October 2006. A Fellow of the Institute of Chartered Accountants and a member of the Australian Institute of Company Directors, he holds a Bachelor of Arts degree from Macquarie University.

Bob Stobbe

Mr Stobbe is a Director of CHEDHA Holdings and its major subsidiary companies, and is the Chief Executive Officer of Spark Infrastructure. Mr Stobbe has over 30 years' experience in utilities infrastructure, having held key senior management positions in the electricity, water, gas and telecommunications sectors. He has significant knowledge of Spark Infrastructure's three asset companies, having previously held the position of Chief Financial Officer at ETSA Utilities, CitiPower and Powercor Australia. Prior to commencing with Spark Infrastructure, he was Interim Head and Finance Director of Northern Gas Networks. Mr Stobbe holds a Bachelor of Business (Accounting) degree, is a Fellow of CPA Australia and is a member of the Australian Institute of Company Directors.

Shane Breheny

Mr Breheny is a Director and Chief Executive Officer of CHEDHA Holdings and its subsidiaries. He has held the positions of Chief Executive Officer of Electricity Services Victoria, Managing Director of CitiPower, Chief Financial Officer and Executive Director Finance for Powercor Australia . He commenced as Chief Executive Officer and Managing Director of both CitiPower and Powercor in July 2003. Mr Breheny has a Bachelor of Business (Accounting) degree from RMIT and is a Fellow of CPA Australia and the Australian Institute of Management. He is a Director of the Energy Supply Association of Australia. He is also a Board member of the Committee for Geelong, a Director of LifeFlight Pty Ltd and Chairman of AquaTower Pty Ltd.

51 per cent of the CitiPower and Powercor Australia businesses is owned by Cheung Kong Infrastructure and Hongkong Electric, both publicly listed Hong Kong companies.

49 per cent of the CitiPower and Powercor businesses is owned by Spark Infrastructure which is listed on the Australian Stock Exchange.

The head entity of the CitiPower/Powercor businesses is CHEDHA Holdings Pty Ltd.

The CHEDHA Holdings Group companies (the 'Group') and their Boards remain committed to Group companies continuing to demonstrate the highest standards of corporate governance.

Although CitiPower and Powercor are not publicly listed entities, the companies benchmark their corporate governance framework against current best practice pronouncements applicable to publicly listed companies including the applicable provisions of:

- the Australian Stock Exchange Corporate Governance Council, Principles of Good Corporate Governance and Best Practice Recommendations, March 2003; and
- Standards Australia, Good Governance Principles, AS 8000-2003.

During 2006 an independent review was commissioned to consider the effectiveness of the corporate governance framework for the Group and to identify improvement opportunities.

The independent reviewers did not find any substantive issues or systemic deficiencies in the corporate governance framework or Board practices during the course of their review.

Enhancements to the corporate governance framework implemented during the course of 2006 included:

- updating of various Board Committee Charters;
- reviewing Committee membership;
- enhancing the Directors' Questionnaire processes; and
- commencing the process for International Customer Service Standard (ICSS) accreditation.

Additional information on these matters is included in the relevant sections below.

During 2007 further corporate governance performance improvement opportunities identified in the 2006 review will be pursued.

The role of the Boards

The Group companies' Boards have overall responsibility for corporate governance. The four key objectives of each Board are:

- to protect and reinforce the rights and interests of the various stakeholders;
- to ensure that it properly fulfils its primary responsibility to direct strategy and monitor the performance of the organisation;
- to ensure that management controls and reporting procedures are satisfactory and reliable; and
- to ensure that its performance is appropriate.

The Directors are responsible to the shareholders for the performance of the companies in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of the shareholders and other key stakeholders and to ensure the Group is properly managed.

Delegations

Day to day management of the companies' affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Boards to the Chief Executive Officer and senior management, as set out in the companies' various delegations policies. These delegations are reviewed on an annual basis.

Responsibilities of Boards of Directors

The responsibilities of the Boards include:

- contributing to the development and approval of the corporate strategy;
- reviewing and approving business plans, the annual budget and financial plans, including available resources and major capital expenditure initiatives;
- overseeing and monitoring:
  - organisational performance and the achievement of the Group's strategic goals and objectives;
  - compliance with the company's Code of Conduct;
  - progress of major capital expenditures and other significant corporate projects, including any acquisitions or divestments.
- monitoring financial performance, including approval of the companies' financial reports and liaison with the companies' auditors;
- appointment, performance assessment and, if necessary, removal of the Chief Executive Officer;
- ratifying the appointment and/or removal and contributing to the performance assessment of the members of the senior management team including the Chief Financial Officer and the Company Secretary;
- ensuring effective management processes are in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the organisation;
- ensuring the significant risks facing the Group, including those associated with its legal compliance obligations, have been identified, and that appropriate and adequate control, monitoring, accountability and reporting mechanisms are in place.

Board Committees

The CHEDHA Holdings Board has established a number of Committees to assist in the execution of its duties and to allow detailed consideration of more complex issues in the areas of Audit, Risk Management and Compliance, and Remuneration. Minutes of Committee meetings are tabled at Board meetings.

The Committee structures have been replicated at the operating subsidiary company level – i.e. for CitiPower Pty, Powercor Australia Ltd and CKI/HEI Electricity Distribution (Services) Pty Ltd ('CHED Services').

The Committee structures and Charters are reviewed on an annual basis.

Audit Committees

The Audit Committees assist the Boards with their responsibilities for financial reporting, maintaining an efficient system of internal control and internal and external audit processes.

Risk Management and Compliance Committees

The Risk Management and Compliance Committees oversee and make recommendations to the Boards on the risk profile of the businesses, and ensure that appropriate policies and procedures are adopted for timely and accurate identification and reporting, as well as the effective management of significant risks to the business. They also assist the Boards with their responsibility for overseeing compliance with obligations determined by statute, legislation, regulation, contract or agreement.

Remuneration Committees

The Remuneration Committees review and make recommendations to the Boards on remuneration policy and remuneration arrangements for senior executives and employees.

Company ethical standards

The Directors of Group companies acknowledge the need for the highest standard of corporate governance practices and ethical conduct by all employees and have established a Code of Conduct.

Securities trading policy – Spark Infrastructure

Given the high proportion of Spark Infrastructure that is represented by its ownership of the CitiPower and Powercor businesses, the businesses have issued a Securities Trading Policy that, in general terms, reiterates to employees the general legal principles prohibiting the use of inside information, and identifies additional obligations to apply to Directors and designated employees of CitiPower and Powercor, such as when they may buy or sell Spark Infrastructure securities.

In addition to the overriding prohibition on dealing when a person is in possession of inside information, the policy provides that Directors and senior management and their associated parties may only deal in Spark Infrastructure securities in the time outside specified blackout periods.

Directors and senior management are prohibited from short-term trading (i.e. a purchase and sale of the same securities within a six-month period).

Directors and senior management have the personal responsibility to ensure that their 'associated parties' (being immediate family (including a spouse (or equivalent) or dependent), family company or trust) comply with the same restrictions.

Integrity of financial reporting

CHEDHA Holdings and its operating companies' Boards require annual formal statements from the Chief Executive Officer and Chief Financial Officer in relation to the financial reports, risk management and internal compliance systems of the organisation, as part of the formal process for signing-off the annual financial statements.

An annual Directors' Questionnaire of Management is completed by senior management to provide additional assurances to Directors as part of the annual financial statements review process.

To ensure audit independence, the companies have developed a formal policy in relation to relationships with external auditors. The policy addresses various issues including:

- the nature of services that can be undertaken by the external auditor;
- the employment of audit personnel in senior management positions; and
- dealing with barred auditors.

The Audit Committees perform a regular review of the services provided by the external auditor.

Internal audit

As an integral part of the corporate governance framework, the operating companies have an internal audit function (Audit Services) undertaken under a co-source arrangement with KPMG. Internal audit conducts independent appraisals and provides assurance on the adequacy and effectiveness of business controls.

All internal audit work is undertaken in accordance with the international standards for the Professional Practice of Internal Auditing provided by the Institute of Internal Auditors.

Risk management and insurance

The businesses have a formal Risk Management Framework that is consistent with the Australian and New Zealand Standard for Risk Management (AS/NZ 4360:2004) and which includes an annual review of the business risk exposures and regular reporting to the Boards via the Risk Management and Compliance Committee detailing the risk position.

The companies participate in comprehensive and prudent programmes of insurance and self-insurance provisions are maintained within the Group to meet claims that arise from retained risks.

Compliance programmes

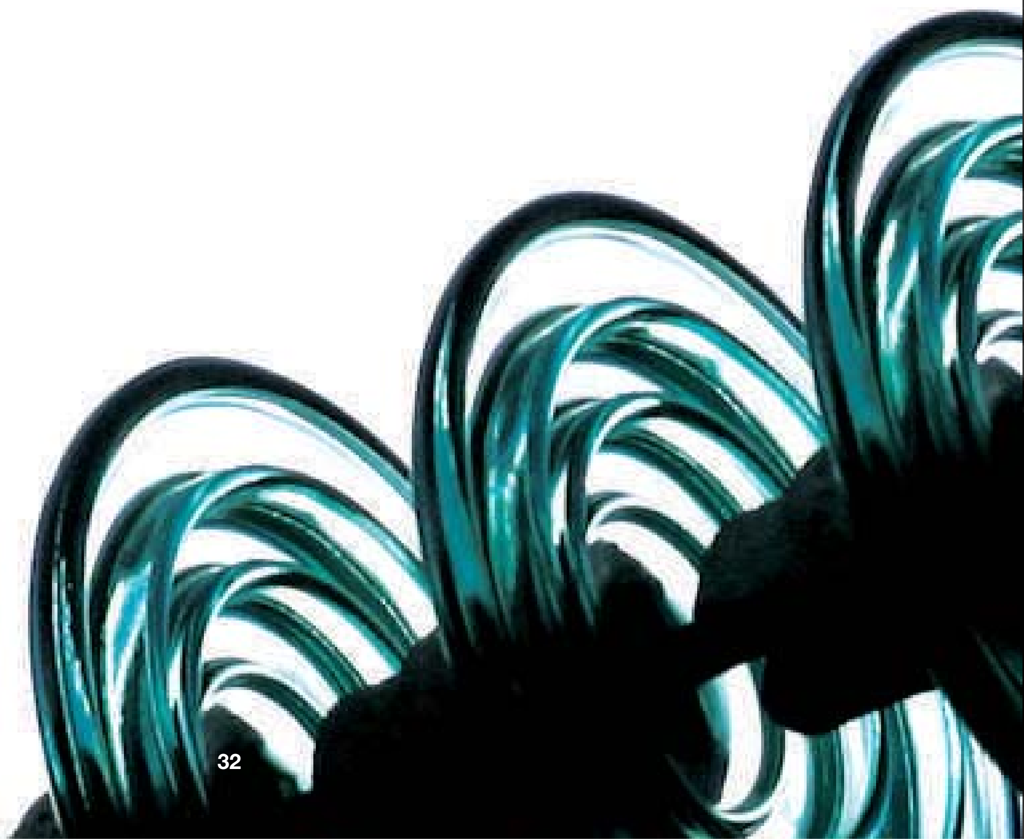
In relation to the companies' legislative and regulatory commitments, an annual compliance questionnaire is distributed to relevant operating companies' managers. The results of the questionnaire are reported to the Risk Management and Compliance Committee and action plans are developed and monitored for any instances of non-compliance.

In relation to borrowing commitments, a questionnaire process similar to the above is conducted covering representations and warranty obligations and compliance certificate and notification obligations.

Questionnaires are subject to internal audit review.

The companies maintain external certification and accreditations in the areas of Health and Safety (SafetyMAP – Advanced), Environmental Management Systems (ISO 14001) and its Quality Management System (ISO 9001).

Regular external surveillance and certification audits are conducted to confirm that the companies' systems continue to meet these standards.



CHEDHA Holdings Pty Limited

ABN 37 116 940 820

Financial statements for the year ended 31 December 2006

Contents

DIRECTORS' REPORT
31 December 2006

The Directors of CHEDHA Holdings Pty Limited ('CHEDHA Holdings') submit herewith their report on the Company and for the Consolidated Entity for the financial year ended 31 December 2006. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

Directors

The following persons were Directors of CHEDHA Holdings during or since the end of the financial year:

P P Tulloch
H L Kam
K S Tso
S A Breheny
R Stobbe
P B St George

E B S Kwan was a Director from the beginning of the financial year until his resignation on 1 December 2006.

J D Dorrian was appointed a Director on 10 November 2006 and continues in office at the date of this report.

C T Wan was appointed a Director on 1 June 2006 and continues in office at the date of this report.

S Mays was a Director from the beginning of the financial year until his resignation on 25 January 2006.

A J Hunter was a Director until his resignation on 1 June 2006. He was reappointed on 1 December 2006 and continues in office at the date of this report.

D V Latham was appointed a Director on 25 January 2006 until his resignation on 10 November 2006.

Principal activities

CHEDHA Holdings holds the investments in the Powercor Group and the CitiPower Group. The principal activities of the Consolidated Entity during the year were the management and operation of the electricity distribution and sub-transmission networks. The primary activity of the distribution businesses is the receipt of electricity from Victoria's high-voltage transmission system and the distribution of electricity to customers in the Powercor and CitiPower distribution service areas. Almost all customers within both the Powercor and CitiPower distribution service areas are connected to the relevant distribution network, regardless of which retailer supplies the electricity.

Review of operations

The Consolidated Entity's operating profit before tax for the financial year was $25,460 thousand (2005: $159,365 thousand profit).

Dividends

No dividends were paid or declared since the beginning of the financial period. The Directors do not recommend the payment of a dividend in respect of the financial period.

Significant changes in the state of affairs

During the financial year there was no significant change in the state of affairs of the Consolidated Entity.

Matters subsequent to the end of the financial year

There has not been any matter or circumstance, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

Likely developments and expected results of operations

Disclosure of information regarding likely developments in the operations of the Consolidated Entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Consolidated Entity. Accordingly, this information has not been included in this report.

Environmental regulation

The Consolidated Entity is subject to all environmental legislation as per the Environmental Protection Act. During the period ended 31 December 2006 the Consolidated Entity adhered to all environmental regulation set under the law of the Commonwealth and the State and any other environmental regulator.

Indemnification of officers and auditors

During the financial year, a premium was paid in respect of a contract to insure the Directors of the Consolidated Entity, the secretary and all officers of the Consolidated Entity against certain liabilities. The contract of insurance prohibits disclosure of the nature of the cover, its limits and the amount of the premium.

The Consolidated Entity has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Consolidated Entity or of any related body corporate against a liability incurred as such an officer or auditor.

Rounding of amounts

The Consolidated Entity is of a kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in this Directors' report and the accounts, except where indicated, have been rounded off to the nearest thousand dollars.

Auditors' independence declaration

The auditors' independence declaration is included on page 35.

Signed in accordance with a resolution of Directors made pursuant to s.298(2) of the Corporations Act, 2001.

S A Breheny
Director

Melbourne
27 March 2007

AUDITORS' INDEPENDENCE DECLARATION

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of CHEDHA Holdings Pty Limited.

As lead audit partner for the audit of the financial statements of CHEDHA Holdings Pty Limited for the financial year ended 31 December 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

DELOITTE TOUCHE TOHMATSU

CCA Mottershead
Partner
Chartered Accountants

Melbourne, 27 March 2007

INCOME STATEMENT
For the period ended 31 December 2006

		Consolidated		Company	
	Notes	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue from continuing operations	4	888,718	940,565	148,270	4,453
Other income	5	5,432	18,352	265,619	–
Expenses from ordinary activities	6	(518,611)	(491,881)	–	–
Finance costs	6	(350,079)	(307,671)	(199,388)	(5,958)
Profit (loss) before income tax		25,460	159,365	214,501	(1,505)
Income tax benefit/(expense)	7	12,349	338,470	(23,560)	390
Profit (loss) from continuing operations		37,809	497,835	190,941	(1,115)
Profit (loss) attributable to members of the parent entity		37,809	497,835	190,941	(1,115)

The above income statement should be read in conjunction with the accompanying notes.

BALANCE SHEET
As at 31 December 2006

		Consolidated		Company	
	Notes	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Assets					
Current assets					
Cash and cash equivalents	8	93,614	298,264	–	–
Trade and other receivables	9	25,521	27,195	–	–
Inventories	10	24,653	20,259	–	–
Other	11	108,051	113,572	16,751	4,453
		251,839	459,290	16,751	4,453
Non-current assets classified as held for sale	12	4,112	–	–	–
Total current assets		255,951	459,290	16,751	4,453
Non-current assets					
Trade and other receivables	13	25,327	25,343	112,704	38,214
Other financial assets	14	–	–	868,953	775,703
Property, plant and equipment	15	3,801,732	3,651,100	–	–
Intangible assets	16	875,214	880,374	–	–
Other	17	96,104	22,521	1,361,885	1,361,885
Deferred tax assets	7	–	–	167,011	164,173
Total non-current assets		4,798,377	4,579,338	2,510,553	2,339,975
Total assets		5,054,328	5,038,628	2,527,304	2,344,428
Liabilities					
Current liabilities					
Trade and other payables	18	189,289	150,322	33,840	5,958
Borrowings	19	679,385	172,503	–	–
Provisions	20	19,873	45,538	–	–
Other	21	14,074	4,242	–	–
Total current liabilities		902,621	372,605	33,840	5,958
Non-current liabilities					
Trade and other payables	22	–	–	132,803	201,997
Borrowings	23	3,324,890	3,975,974	1,855,336	1,822,089
Deferred tax liabilities	7	7,146	–	–	–
Provisions	24	43,716	29,263	–	–
Other	25	136,361	104,488	–	–
Total non-current liabilities		3,512,113	4,109,725	1,988,139	2,024,086
Total liabilities		4,414,734	4,482,330	2,021,979	2,030,044
Net assets		639,594	556,298	505,325	314,384
Equity					
Issued capital	26	279,499	279,499	315,499	315,499
Reserves	27(a)	(419,869)	(451,159)	–	–
Retained earnings	27(b)	779,964	727,958	189,826	(1,115)
Total equity		639,594	556,298	505,325	314,384

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the period ended 31 December 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Gain/(loss) on cash flow hedges taken to equity	27a	44,700	25,297	–	–
Actuarial gain/(loss) on defined benefit plans	36d	20,282	2,159	–	–
Income tax on items taken directly to equity	7c	(19,495)	(8,237)	–	–
Net income recognised directly in equity		45,487	19,219	–	–
Profit for the year		37,809	497,835	190,941	(1,115)
Total recognised income and expense for the year		83,296	517,054	190,941	(1,115)

The above statement of recognised income and expense should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

For the period ended 31 December 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Cash flows from operating activities					
Receipts from customers		932,333	987,413	–	–
Payments to suppliers and employees		(455,086)	(435,957)	–	–
Interest received		8,440	815	–	–
Net repayment of trust monies		(886)	(1,211)	–	–
Interest paid		(318,898)	(300,791)	–	–
Net cash provided by operating activities	34a	165,903	250,269	–	–
Cash flows from investing activities					
Payments for property, plant and equipment		(291,792)	(261,139)	–	–
Receipts from customers for capital works		33,386	34,874	–	–
Payments for intangible assets		(1,043)	(13)	–	–
Proceeds from sale of property, plant and equipment		5,537	7,267	–	–
Net cash (used in) investing activities		(253,912)	(219,011)	–	–
Cash flows from financing activities					
Proceeds from borrowings – external		79,400	205,500	–	–
Proceeds from borrowings – related parties		–	50,000	–	–
Repayment of borrowings – external		(170,000)	–	–	–
Repayment of borrowings – related parties		(23,538)	(2,575)	–	–
Net cash (used in) financing activities		(114,138)	252,925	–	–
Net increase (decrease) in cash and cash equivalents		(202,147)	284,183	–	–
Cash and cash equivalents at the beginning of the financial year		295,761	11,578	–	–
Cash and cash equivalents at end of year	34b	93,614	295,761	–	–

The above cash flow statement should be read in conjunction with the accompanying notes.

1. General information

CHEDHA Holdings is a proprietary company, incorporated and operating in Australia.

Registered office and principal place of business

Level 9
40 Market Street
MELBOURNE VIC 3000

2. Summary of significant accounting policies

Australian Accounting Standards issued but not yet effective

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

AASB	Title	Operative date
AASB 7	Financial instruments: Disclosures	1 January 2007
AASB 101	Presentation of Financial Statements	1 January 2007
2005-10	Amendments to Australian Accounting Standard [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]	1 January 2007
Interpretation 7	Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies	1 March 2006
Interpretation 8	Scope of AASB 2	1 May 2006
Interpretation 9	Reassessment of Embedded Derivatives	1 June 2006
Interpretation 10	Interim Financial Reporting and Impairment	1 November 2006

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Consolidated Entity.

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Australian Accounting Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The financial report includes the separate financial statements of the Company and the financial statement of the consolidated entity. Compliance with A-IFRS ensures that the consolidated financial statements and notes of the Consolidated Entity comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the Consolidated Entity.

The financial statements were authorised for issue by the Directors on 27 March 2007.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for the assets.

The Consolidated Entity is of a kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in this Directors' report and the accounts, except where indicated, have been rounded off to the nearest thousand dollars.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Acquisition of assets

Cost method

The purchase method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Construction work in progress

Construction work in progress is stated at cost plus attributable overheads. Cost includes all costs directly related to specific projects and an allocation of overhead expenses.

Capitalisation of overheads

Services provided by the corporate units of the Consolidated Entity are charged to the operating units. That portion of those costs that is attributable to the function of preparing an asset ready for use is included in the cost base of the asset.

(b) Borrowing costs

Bank loans and other loans are recorded initially at fair value, net of transaction costs. Borrowing costs are recognised as expenses in the year in which they are incurred and include interest on short-term and long-term borrowings and the increase to reflect the changing money values over time of certain provisions recognised at the net present value of future cash flows.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at bank and deposits at call with financial institutions. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(d) Construction contracts

Construction contract revenue and expenses are recognised by applying the stage of completion method where the outcome can be estimated reliably. Contract costs that relate to future activity of a contract are recognised as an asset where it is probable that the contract costs will be recovered.

(e) Contributions for capital works

It is commercial practice to secure contributions from customers towards the cost of constructing augmentation assets. These contributions may be in the form of cash or non-current assets. Cash contributions are accounted for as revenue in the income statement by applying the stage of completion method where the outcome can be estimated reliably. Non-current assets, which have been contributed as part of a customer contribution scheme, are recognised at fair value with a corresponding increase in revenue.

The 'Network Connections' policy also incorporates Regulatory requirements in relation to developers of subdivisions and large customers (based on demand). Contributions must be refunded if specified contract requirements are met. Monies received are placed in a trust fund. This trust fund is split between current and non-current depending on when the contributions are anticipated to be refunded and is reviewed on a regular basis. Deposits are brought to account as revenue when the customer is no longer eligible to the refund of the deposit.

(f) Creditors and accruals

Trade creditors and accruals are recognised when there is an obligation to make future payments resulting from the purchase of goods and services.

(g) Derivative financial instruments

The Consolidated Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risk, including foreign currency contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in note 37 to the financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which case, the timing of the recognition in the income statement depends on the nature of the hedge relationship. The Consolidated Entity designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or current liability if the remaining maturity of the hedge relationship is less than 12 months.

Derivatives not designated into an effective hedge relationship are classified as a current asset or current liability.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement from that date.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts deferred in equity are recycled in the income statement in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gain or loss previously deferred in equity is transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the income statement.

(h) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Consolidated Entity in respect of the services provided by the employees up to the reporting date.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Defined contribution plans

Contributions made to defined contribution superannuation plans are expensed when incurred.

(iv) Defined benefit plans

For defined benefit superannuation plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised in full, directly in retained earnings, in the period in which they occur, and are presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The defined benefit asset recognised in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognised past service cost, net of the fair value of plan assets. Any asset resulting from this calculation is limited to the past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(i) Financial instruments

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments.

2. Summary of significant accounting policies continued

(j) Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated using the exchange rate at that date.

Exchange rate differences are brought to account in the income statement in the period in which they arise except that:

(i) exchange differences which related to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; and

(ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer note 1(g)).

(k) Goods and Services Tax

Revenues, expenses, and assets are recognised net of the amount of Goods and Services Tax ('GST'), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(l) Impairment of other tangible and intangible assets

At each reporting date, the Consolidated Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets which have indefinite useful lives, are tested for impairment at each reporting date and whenever there is an indication that the assets may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately, unless the asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(m) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income or accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation legislation

CHEDHA Holdings and its wholly owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. CHEDHA Holdings is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of members of the tax-consolidated group are recognised in the separate financial statement of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by CHEDHA Holdings (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 7 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(n) Intangible assets

(i) Distribution Licence

Distribution Licence is recorded at cost of acquisition. The Distribution Licence is considered to have an indefinite life as it was issued in perpetuity and as such, there is no requirement for it to be amortised. Impairment is reviewed at each reporting date and whenever there is an indication that the Distribution Licence may be impaired.

(ii) Intellectual property and other intangible assets

Intellectual property is amortised on a straight-line basis over periods not exceeding 30 years, during which the benefits are expected to arise. Impairment is reviewed at each reporting date and whenever there is an indication that the asset may be impaired.

(o) Inventories

Inventories are valued at the lower of cost or net realisable value. Costs are assigned to inventory on hand on the basis of weighted average costs and where appropriate specific identification.

(p) Investments

Investments in subsidiaries are recorded at cost. Dividend revenue is recognised on declaration by the subsidiary.

(q) Leased assets

Leased assets are classified as finance leases whenever the terms of the lease transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due under finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which the economic benefits of the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(r) Maintenance and repairs

Maintenance and repair costs and minor renewals are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated.

(s) Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for such a sale and the sale is highly probable. The sale of the asset must be expected to be completed within one year from the date of classification, except in the circumstances where sale is delayed by events or circumstances outside the Consolidated Entity's control and the Consolidated Entity remains committed to a sale.

(t) Principles of consolidation

The consolidated financial statements have been prepared by combining the financial statements of all the entities that comprise the Consolidated Entity, being the Company (CHEDHA Holdings Pty Ltd) and its subsidiaries as defined in accounting standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in note 33 to the financial statements. Consistent accounting policies have been employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of the acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to the income statement in the period of the acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits and losses arising within the Consolidated Entity are eliminated in full.

(u) Property, plant and equipment

Land and buildings are stated as cost less accumulated depreciation and impairment (if any). Cost includes expenditure that is directly attributable to the acquisition of the item.

Plant and equipment are stated as cost less accumulated depreciation and impairment (if any). Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. The following estimated useful lives are used in the calculation of depreciation:

Category	Useful life
Buildings	40 years
Plant and equipment	5–15 years
Distribution system	35–50 years

(v) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

2. Summary of significant accounting policies continued

Transmission fees
Provisions for transmission fees are recognised as the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required for transmission costs not collected as part of current electricity tariffs.

Vegetation management
Provisions for vegetation management are recognised as the present value of the best estimate of the future sacrifice of economic benefits that will be required in order to achieve compliance with the Electricity Safety Regulations where such expenditure is not provided for by the 2006–10 Electricity Distribution Price Review.

Uninsured Losses
The provision for uninsured losses represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to settle public liability and personal injury claims received which are not covered by the insurance policies of the Consolidated Entity.

Environment
The provision for environment represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to complete necessary environmental works on distribution assets.

(w) Receivables
Trade receivables, loans and other receivables are recorded at the amounts receivable less any provision for doubtful debts.

(x) Refundable contributions and advances for capital works
Where customers are required to lodge security deposits for electricity connection works, the deposits will be refunded with interest over the period specified in each individual contract. All balances held in this category are included in the balance sheet item 'Trust funds and deposits'.

(y) Reporting by segments
Details of segment reporting have not been disclosed separately as the Consolidated Entity operates predominantly in the one business segment and the one geographic area. The majority of the Consolidated Entity's revenue is generated through the distribution of electricity within Victoria.

(z) Revenue recognition
Network revenue is recognised at the point of consumption. Network revenue comprises accounts rendered and a net accrual for unbilled and unread revenue. Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. Revenue from customer contributions is recognised in accordance with the accounting policy outlined in note (e).

(aa) Security arrangements on contracts
Cash retentions and security deposits from contractors are withheld to ensure some control over non-performance. Retentions and deposits are recognised as liabilities until works have been completed to a satisfactory standard. Where retentions and deposits are not returned to the contractor then the liability is recognised as revenue for the period.

3. Critical accounting estimates and judgements

In the application of A-IFRS management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. Revenue

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
From continuing operations				
Distribution Revenue	730,974	795,665	–	–
	730,974	795,665	–	–
Other operating revenue				
Customer contributions for capital works	40,543	48,101	–	–
Meter data/public lighting	28,890	26,668	–	–
Customer transfers and connections	9,388	4,953	–	–
Reserve capacity	917	5,058	–	–
Service level agreement revenue	12,000	11,434	–	–
Property rentals	1,410	1,342	–	–
Interest revenue – other entities	7,945	1,509	–	–
Interest revenue – related party	–	–	148,270	4,453
Secondment revenue – other related parties	2,280	–	–	–
Other revenue	54,371	45,835	–	–
	157,744	144,900	148,270	4,453
	888,718	940,565	148,270	4,453

5. Other income

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
From continuing operations				
Gain/(loss) on disposal of property, plant and equipment	171	(182)	–	–
Gain on disposal of investments	–	7,433	–	–
Foreign exchange (losses)/gains	(2,128)	906	–	–
Hedging gains	7,389	10,195	–	–
Gain on discounting of intercompany loans	–	–	265,619	–
	5,432	18,352	265,619	–

6. Expenses

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Expenses, excluding finance costs, included in the income statement classified by nature				
Transmission fees	138,509	163,665	–	–
Materials expense	23,990	15,584	–	–
Personnel expense	150,710	138,431	–	–
Depreciation and amortisation expense	159,581	151,777	–	–
External services	196,529	171,899	–	–
Operating lease rentals – minimum lease payments	6,360	5,711	–	–
Taxes, fees and charges	11,022	7,793	–	–
Capitalised expenses*	(188,306)	(159,020)	–	–
Bad debts written off	180	1,212	–	–
Doubtful debts provided for	(168)	(2,970)	–	–
Other expenses	20,204	(2,201)	–	–
	518,611	491,881	–	–
Profit before income tax includes the following specific expenses:				
Depreciation				
Buildings	3,538	3,077	–	–
Distribution assets	124,114	119,250	–	–
Plant and equipment	25,726	23,822	–	–
Total depreciation	153,378	146,149	–	–
Amortisation				
Intellectual property	6,203	5,628	–	–
Total amortisation	6,203	5,628	–	–
Finance costs				
Interest and finance charges paid/payable	153,484	160,363	2,793	–
Other related parties	196,595	147,308	196,595	5,958
Total finance costs	350,079	307,671	199,388	5,958
Employee benefit expense				
Defined contribution plans	5,058	4,571	–	–
Defined benefit plans	769	1,234	–	–
Total employee benefits	5,827	5,805	–	–

*Capitalised expenses include a combination of external services, materials expense and personnel expense.

7. Income tax expense

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(a) Income tax expense (benefit) recognised in profit				
Current tax (income) comprises:				
Deferred tax (benefit) expense relating to the origination and reversal of temporary differences	(12,349)	(338,470)	23,560	(390)
Total tax (benefit)/expense	(12,349)	(338,470)	23,560	(390)
Attributable to:				
Continuing operations	(12,349)	(338,470)	23,560	(390)
	(12,349)	(338,470)	23,560	(390)
(b) Numerical reconciliation of income tax expense to prima facie income tax (benefit)*				
Profit (loss) from continuing operations before income tax expense	25,460	159,365	214,501	(1,505)
Profit (loss) from operations	25,460	159,365	214,501	(1,505)
Tax at the Australian tax rate of 30%	7,638	47,809	64,351	(452)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non-deductible interest expense	6,271	3,051	3,538	62
Non-deductible expenses	170	135	–	–
Tax losses brought to account not previously recognised	(27,050)	(62,718)	–	–
Impact of tax consolidation on deferred tax balances	–	(18,347)	–	–
Impact of tax reconsolidation on deferred tax balances	–	(306,171)	–	–
Sundry items	622	(2,229)	(44,329)	–
Total income tax (benefit)/expense	(12,349)	(338,470)	23,560	(390)
(c) Income tax recognised directly in equity				
The following current and deferred amounts were charged directly to equity during the period				
Deferred tax: (note 27)	–	–	–	–
Revaluations of financial instruments treated as cash flow hedges	(13,410)	(7,589)	–	–
Actuarial movements in defined benefit plans	(6,085)	(647)	–	–
Adjustments to opening retained earnings associated with changes in accounting policies for financial instruments	–	3,595	–	–
Adjustments to opening reserves associated with changes in accounting policies for financial instruments	–	3,716	–	–
	(19,495)	(925)	–	–

*The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared to the previous reporting period.

Tax consolidation

The Company and its wholly owned Australian resident entities have formed a tax-consolidated group with effect from 22 December 2005 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is CHEDHA Holdings Pty Ltd. The members of the tax-consolidated group are identified at note 33.

Entities within the tax-consolidated group have entered into a tax funding arrangement with the head entity. Under the terms of the tax funding arrangement, CHEDHA Holdings Pty Ltd and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

7. Income tax expense continued

2006	Consolidated Opening balance $'000	Charged to income $'000	Charged to equity $'000	Adoption of AASB 139 $'000	Closing balance $'000
(d) Taxable and deductible temporary differences					
Taxable and deductible temporary differences arise from the following:					
Temporary differences					
Property, plant and equipment	(84,048)	(25,097)	–	–	(109,145)
Intangible assets	(96,775)	–	–	–	(96,775)
Provisions	22,531	(2,118)	–	–	20,413
Doubtful debts and impairment losses	1,032	(51)	–	–	981
Defined benefit superannuation asset	(2,471)	(909)	(6,085)	–	(9,465)
Cash flow hedges	(3,873)	–	(13,410)	–	(17,283)
Fair value hedges	(678)	872	–	–	194
Unallocated derivatives	109	(2,222)	–	–	(2,113)
Deferred tax (liability)/asset	(164,173)	(29,525)	(19,495)	–	(213,193)

2005	Consolidated Opening balance $'000	Charged to income $'000	Charged to equity $'000	Adoption of AASB 139 $'000	Closing balance $'000
Temporary differences					
Property, plant and equipment	(405,145)	321,097	–	–	(84,048)
Intangible assets	(59,865)	(36,910)	–	–	(96,775)
Other	(5,520)	4,666	–	854	–
Provisions	16,038	6,493	–	–	22,531
Doubtful debts and impairment losses	2,049	(1,017)	–	–	1,032
Defined benefit superannuation asset	–	(1,824)	(647)	–	(2,471)
Cash flow hedges	–	–	(7,589)	3,716	(3,873)
Fair value hedges	–	(518)	–	(160)	(678)
Unallocated derivatives	–	(2,793)	–	2,902	109
Deferred tax (liability)/asset	(452,443)	289,194	(8,236)	7,312	(164,173)

2006	Company Opening balance $'000	Charged to income $'000	Charged to equity $'000	Adoption of AASB 139 $'000	Closing balance $'000
Gross deferred tax liabilities					
Discounting of intercompany loans	–	(39,036)	–	–	(39,036)
	–	(39,036)	–	–	(39,036)

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(e) Deferred tax assets and liabilities				
Deferred tax (assets) comprise:				
Tax losses – revenue	(206,047)	(164,173)	(206,047)	(164,173)
Temporary differences	(21,588)	(19,121)	–	–
	(227,635)	(183,294)	(206,047)	(164,173)
Deferred tax liabilities comprise:				
Temporary differences	234,781	183,294	39,036	–
	234,781	183,294	39,036	–
Net deferred tax (asset) liability	7,146	–	(167,011)	(164,173)
Unrecognised deferred tax balances				
Tax losses – revenue	–	27,050	–	–
	–	27,050	–	–

All recognised and unrecognised tax losses were incurred by Australian entities.

8. Current assets – Cash and cash equivalents

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Cash at bank and in hand	4,364	5,064	–	–
Deposits at call	89,250	293,200	–	–
	93,614	298,264	–	–

9. Current assets – Trade and other receivables

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Trade receivables	4,267	4,059	–	–
Provision for doubtful receivables	(2,465)	(1,829)	–	–
	1,802	2,230	–	–
Non-trade receivables	24,525	26,575	–	–
Provision for doubtful receivables	(806)	(1,610)	–	–
	23,719	24,965	–	–
	25,521	27,195	–	–

10. Current assets – Inventories

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Raw materials – construction, general purpose and maintenance stocks – at cost	24,653	20,259	–	–
	24,653	20,259	–	–

11. Current assets – Other assets

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Other related parties	495	91	16,751	4,453
Accrued revenue	102,486	108,161	–	–
Prepayments	5,066	5,320	–	–
Foreign currency contract receivable – at fair value	4	–	–	–
	108,051	113,572	16,751	4,453

12. Current assets – Non-current assets classified as held for sale

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Land and buildings classified as held for sale	4,112	–	–	–
	4,112	–	–	–

The Consolidated Entity intends to dispose of a property comprising land and buildings which it no longer utilises. A buyer has been found and settlement will occur in 2007. No impairment loss was recognised on reclassification of the land and buildings as held for sale on or at reporting date as the value on sale will be greater than the carrying value.

13. Non-current assets – Trade and other receivables

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Receivable from subsidiaries	–	–	112,704	38,214
Finance lease receivable	25,029	25,034	–	–
Deferred receivables	298	309	–	–
	25,327	25,343	112,704	38,214
Finance lease receivable				
Finance lease relates to electrical plant and equipment with a lease term of 10 years.				
Not longer than 1 year	2,100	2,100	–	–
Longer than 1 year but not longer than 5 years	33,400	8,400	–	–
Longer than 5 years	–	27,100	–	–
Minimum lease payments	35,500	37,600	–	–
Less: future finance charges	(10,471)	(12,566)	–	–
Finance lease receivable	(10,471)	(12,566)	–	–
Net investment in finance leases	25,029	25,034	–	–
Non-current receivable	25,029	25,034	–	–
	25,029	25,034	–	–

14. Non-current assets – Other financial assets

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Shares in subsidiaries (note 33)	–	–	868,953	775,703
	–	–	868,953	775,703

15. Non-current assets – Property, plant and equipment

	Consolidated				
	Freehold land $'000	Freehold buildings $'000	Plant and equipment $'000	Distribution system $'000	Total $'000
At 1 January 2005					
Cost	96,038	74,746	148,125	3,518,468	3,837,377
Accumulated depreciation	–	(6,961)	(38,584)	(261,500)	(307,045)
Net book amount	96,038	67,785	109,541	3,256,968	3,530,332
Year ended 31 December 2005					
Opening net book amount	96,038	67,785	109,541	3,256,968	3,530,332
Additions	153	6,721	33,306	234,186	274,366
Disposals	(20)	–	(13,380)	(192)	(13,592)
Disposals – accumulated depreciation	–	–	6,143	–	6,143
Transfers to assets held for sale	–	–	–	–	–
Depreciation charge	–	(3,077)	(23,822)	(119,250)	(146,149)
Closing net book amount	96,171	71,429	111,788	3,371,712	3,651,100
At 31 December 2005					
Cost	96,171	81,467	168,051	3,752,462	4,098,151
Accumulated depreciation	–	(10,038)	(56,263)	(380,750)	(447,051)
Net book amount	96,171	71,429	111,788	3,371,712	3,651,100

15. Non-current assets – Property, plant and equipment continued

	Consolidated				
	Freehold land $'000	Freehold buildings $'000	Plant and equipment $'000	Distribution system $'000	Total $'000
Year ended 31 December 2006					
Opening net book amount	96,171	71,429	111,788	3,371,712	3,651,100
Additions	9,250	5,918	26,721	271,857	313,746
Disposals	(53)	–	(17,536)	(333)	(17,922)
Disposals – accumulated depreciation	–	–	12,285	13	12,298
Transfers to assets held for sale – cost	(579)	(5,181)	–	–	(5,760)
Transfers to assets held for sale – accumulated depreciation	–	1,648	–	–	1,648
Depreciation charge	–	(3,538)	(25,726)	(124,114)	(153,378)
Closing net book amount	104,789	70,276	107,532	3,519,135	3,801,732
At 31 December 2006					
Cost	104,789	82,204	177,233	4,023,986	4,388,212
Accumulated depreciation	–	(11,928)	(69,701)	(504,851)	(586,480)
Net book amount	104,789	70,276	107,532	3,519,135	3,801,732

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in note 6 to the financial statements.

16. Non-current assets – Intangible assets

	Consolidated		
	Licences $'000	Intellectual property $'000	Total $'000
At 1 January 2005			
Cost	773,122	140,597	913,719
Accumulated amortisation	–	(27,730)	(27,730)
Net book amount	773,122	112,867	885,989
Year ended 31 December 2005			
Opening net book amount	773,122	112,867	885,989
Additions	–	13	13
Amortisation expense	–	(5,628)	(5,628)
Closing net book amount	773,122	107,252	880,374
At 31 December 2005			
Cost	773,122	140,610	913,732
Accumulated amortisation	–	(33,358)	(33,358)
Net book amount	773,122	107,252	880,374

16. Non-current assets – Intangible assets continued

	Consolidated		
	Licences $'000	Intellectual property $'000	Total $'000
Year ended 31 December 2006			
Opening net book amount	773,122	107,252	880,374
Additions	–	1,043	1,043
Amortisation expense	–	(6,203)	(6,203)
Closing net book amount	773,122	102,092	875,214
At 31 December 2006			
Cost	773,122	141,652	914,774
Accumulated amortisation	–	(39,560)	(39,560)
Net book amount	773,122	102,092	875,214

Aggregate amortisation allocated during the year is recognised as an expense and disclosed in note 6 to the financial statements.

Significant intangible assets

The Consolidated Entity holds intellectual property referable to its network assets and systems. The carrying amount is $102,092 thousands and will be fully amortised in 30 years.

The licences, which have been assessed as having an indefinite life, have a carrying amount of $773,122 thousands at 31 December 2006. The factors that played a significant role in determining that the licences have an indefinite life are as follows:

- the licences are exclusive licences to distribute electricity within the defined service territories, or geographic regions;
- the licences are vested in perpetuity, subject to ongoing compliance with the licence conditions; and
- there is no presently available technology which is likely to replace the method of distribution of electricity.

The basis on which these cash-generating units' recoverable amounts have been determined is their fair value less costs to sell. The key assumption on which management has based its assessment is projected maintainable earnings before interest, tax, depreciation and amortisation ('EBITDA') and a market multiple thereof. The maintainable EBITDA is based on projections for the period covered by the 2007 budget and five-year forecasts, as approved by management. Management's approach to determining the appropriate market multiple is to compare to recent 'like' transactions in the market.

17. Non-current assets – Other

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Loans advanced to subsidiaries – at amortised cost	–	–	1,361,885	1,361,885
Defined benefit superannuation asset (note 36a)	31,548	8,237	–	–
Interest rate swaps – at fair value	64,556	14,284	–	–
	96,104	22,521	1,361,885	1,361,885

18. Current liabilities – Trade and other payables

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Goods and services tax (GST) payable	1,250	1,758	–	–
Creditors and accruals	91,705	82,973	–	–
Accrued interest – other	33,904	34,499	–	–
Accrued interest – other related parties	33,846	5,958	33,840	5,958
Trust funds and deposits	25,584	22,425	–	–
Other payables	3,000	2,709	–	–
	189,289	150,322	33,840	5,958

19. Current liabilities – Borrowings

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Unsecured – at amortised cost				
Bank overdraft	–	2,503	–	–
Commercial paper	79,400	–	–	–
Bank loan	–	170,000	–	–
Floating rate note	599,985	–	–	–
	679,385	172,503	–	–

20. Current liabilities – Provisions

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Employee benefits	14,375	15,423	–	–
Vegetation management	307	15,200	–	–
Transmission fees	4,269	12,262	–	–
Uninsured losses	576	1,476	–	–
Other provisions	346	1,177	–	–
	19,873	45,538	–	–

Vegetation management

Provisions for vegetation management are recognised as the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required in order to achieve compliance with the Electricity Safety Regulations where such expenditure is not provided for by the 2006–10 Electricity Distribution Price Review.

Transmission fees

The provision for transmission fees represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required for transmission costs not collected as part of current electricity tariffs.

Uninsured losses

The provision for uninsured losses represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to settle public liability and personal injury claims received which are not covered by the insurance policies of the Consolidated Entity.

Other provisions

Other provisions represent the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required for accident compensation and environment.

Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Vegetation management $'000	Transmission fees $'000	Uninsured losses $'000	Other provisions $'000	Total $'000
Consolidated – 2006					
Current					
Balance at 1 January 2006	15,200	12,262	1,476	1,177	30,115
Additional provisions recognised	–	4,269	260	–	4,529
Reductions arising from payments/other sacrifices of future economic benefits	(15)	(12,262)	(643)	(502)	(13,422)
Reductions resulting from remeasurement or settlement without cost	–	–	(517)	(329)	(846)
Other – movement between current and non-current	(14,878)	–	–	–	(14,878)
Carrying amount at end of year	307	4,269	576	346	5,498

21. Current liabilities – Other

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Interest rate swaps – at fair value	168	372	–	–
Other related parties – at amortised cost	111	151	–	–
Deferred revenue	13,795	3,705	–	–
Foreign currency forward contracts – at fair value	–	14	–	–
	14,074	4,242	–	–

22. Non–current liabilities – Trade and other payables

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Loans from subsidiaries – at amortised cost	–	–	132,803	201,997
	–	–	132,803	201,997

23. Non-current liabilities – Borrowings

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Unsecured – at amortised cost				
Subordinated loans from related parties	1,798,937	1,822,137	1,855,336	1,822,089
Medium term notes	467,795	1,066,016	–	–
Bank loans – offshore	512,021	543,579	–	–
Floating rate notes	546,137	544,242	–	–
	3,324,890	3,975,974	1,855,336	1,822,089

24. Non-current liabilities – Provisions

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Employee benefits	30,680	28,940	–	–
Vegetation management	12,830	–	–	–
Accident compensation	–	323	–	–
Other provisions	206	–	–	–
	43,716	29,263	–	–

Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Vegetation $'000	Accident compensation $'000	Other provisions $'000	Total $'000
Consolidated – 2006				
Non-current				
Balance at 1 January 2006	–	323	–	323
Additional provisions recognised	50	–	206	256
Reductions arising from payments/other sacrifices of economic benefits	–	(63)	–	(63)
Reductions resulting from remeasurement or settlement without cost	(2,098)	(260)	–	(2,358)
Other – movement between current and non-current	14,878	–	–	14,878
Carrying amount at end of year	12,830	–	206	13,036

25. Non-current liabilities – Other

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Interest rate swaps – at fair value	–	1,563	–	–
Cross currency swaps – at fair value	120,072	86,190	–	–
Accrued expenses	633	1,271	–	–
Deferred revenue	7,929	3,692	–	–
Trust funds and deposits – at amortised cost	7,727	11,772	–	–
	136,361	104,488	–	–

26. Issued capital

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Ordinary shares				
265,498,640 fully paid ordinary shares (2005: 265,498,640)	279,499	279,499		
	279,499	279,499		
CHEDHA Holdings				
Fully paid ordinary shares			315,499	315,499
			315,499	315,499

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

Fully paid ordinary shares carry no special voting rights and carry the right to dividends.

27. Reserves and retained earnings

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(a) Reserves				
Hedging reserve – cash flow hedges	40,327	9,037	–	–
Surplus acquisition reserve	(460,196)	(460,196)	–	–
	(419,869)	(451,159)	–	–
Movements:				
Hedging reserve – cash flow hedges				
Balance at 1 January	9,037	(8,671)	–	–
Gain/(loss) recognised				
• Interest rate swaps	41,778	37,338	–	–
• Cross currency swaps	3,339	2,047	–	–
Transferred to profit or loss				
• Interest rate swaps	2,872	(10,800)	–	–
• Cross currency swaps	(3,289)	(3,288)	–	–
Deferred tax arising therefrom	(13,410)	(7,589)	–	–
Balance 31 December	40,327	9,037	–	–
Movements:				
Surplus acquisition reserve				
Balance at 1 January	(460,196)	–	–	–
Reverse acquisition	–	(460,196)	–	–
Balance 31 December	(460,196)	(460,196)	–	–

The acquisition of CHEDHA by CHEDHA Holdings has been accounted for as a reverse acquisition. The reverse acquisition balances as shown above represents the elimination of the share capital and reserves of the Company against the carrying value of the investments and represents the surplus of the investments over and above the value of the reserves.

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

27. Reserves and retained earnings continued

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(b) Retained earnings				
The balance and movements in retained earnings were as follows:				
Balance at 1 January	727,958	228,611	(1,115)	–
Actuarial gains on defined benefit plans recognised directly in retained earnings	20,282	2,159	–	–
Deferred tax recognised directly in equity	(6,085)	(647)	–	–
Net profit (loss) for the year attributable to members of CHEDHA Holdings Pty Ltd	37,809	497,835	190,941	(1,115)
Balance 31 December	779,964	727,958	189,826	(1,115)

28. Commitments for expenditure

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(a) Capital expenditure commitments				
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:				
Property, plant and equipment				
Payable:				
Not longer than one year	7,311	5,028	–	–
Longer than one year but not later than five years	–	–	–	–
Longer than five years	–	–	–	–
	7,311	5,028	–	–
(b) Operating lease commitments				
Operating leases relate to the rental of property and equipment with terms between 1 and 13 years.				
Non-cancellable operating leases payable:				
Not longer than one year	4,119	4,385	–	–
Longer than one year but not longer than five years	17,098	17,875	–	–
Longer than five years	43,459	47,745	–	–
	64,676	70,005	–	–

29. Contingencies

The Consolidated Entity does not have any contingent assets or liabilities at 31 December 2006 (2005: $725 thousand).

30. Key management personnel

(a) Directors

The following persons were Directors of CHEDHA Holdings up to the date of this report:

P P Tulloch
H L Kam
K S Tso
S A Breheny
R Stobbe
P B St George

E B S Kwan was a Director from the beginning of the financial year until his resignation on 1 December 2006.

J D Dorrian was appointed a Director on 10 November 2006 and continues in office at the date of this report.

C T Wan was appointed a Director on 1 June 2006 and continues in office at the date of this report.

S Mays was a Director from the beginning of the financial year until his resignation on 25 January 2006.

A J Hunter was a Director until his resignation on 1 June 2006, he was reappointed on 1 December 2006 and continues in office at the date of this report.

D V Latham was appointed a Director on 25 January 2006 until his resignation on 10 November 2006.

(b) Details of key management personnel remuneration

The compensation of the key management personnel (including Directors) of the Consolidated Entity is set out below:

	Primary			Post employment		
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Superannuation $	Retirement benefits $	Total $
Compensation – 2006	1,701,009	870,931	92,107	162,207	–	2,826,254
Compensation – 2005	1,811,459	518,671	102,397	291,759	–	2,724,286

31. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
(a) Assurance services				
Audit services				
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	728,329	442,000	–	–
Other audit services	–	179,800	–	–
Total remuneration for audit services	728,329	621,800	–	–
Other assurance services				
Audit of regulatory returns	95,500	90,000	–	–
IFRS accounting advice services	36,538	94,531	–	–
Total remuneration for other assurance services	132,038	184,531	–	–
Total remuneration for assurance services	860,367	806,331	–	–
(b) Taxation services				
Tax compliance services, including review of Company income tax returns	540,590	383,394	–	–
Total remuneration for taxation services	540,590	383,394	–	–
(c) Advisory services				
Provision of other advice	850,932	543,036	–	–
Total remuneration for advisory services	850,932	543,036	–	–
Total remuneration	2,251,889	1,732,761	–	–

The auditor of CHEDHA Holdings Pty Ltd is Deloitte Touche Tohmatsu.

32. Related party transactions

(a) Controlling entities

(i) The parent entity in the Consolidated Entity is CHEDHA Holdings Pty Limited ('CHEDHA Holdings').

(b) Directors' loans

There were no loans in existence at balance date made, guaranteed or secured to Directors of the Company, Director-related entities, their spouses, relatives, or relatives of spouses.

(c) Subsidiaries

Interests in subsidiaries are set out in note 33 of the financial statements.

(d) Directors' equity holdings

There were no Director equity holdings in existence at balance date.

(e) Other transactions with Directors or entities related to them

No Director or Director-related entity has declared an interest in a contract, or proposed contract, during the period ended 31 December 2006 with the Company or any entities in the Consolidated Entity, except in instances where terms are no more favourable than those expected under normal commercial arrangements, as is the case with the normal supply of electricity.

(f) Key management personnel remuneration

Details of key management personnel remuneration are disclosed in note 30 of the financial statements.

(g) Transactions with other related parties

During the year, the Consolidated Entity entered into the following transactions with other related parties on normal terms and conditions:

- Interest, arranger and agency fees were charged to the Consolidated Entity on subordinated loans.
- IT systems and support services were provided by, and to, the Consolidated Entity.

Amounts due and receivable from other related parties are disclosed in notes 11, 13 and 17 to the financial statements.

Amounts due and payable to other related parties are disclosed in notes 18, 21 and 22 to the financial statements.

33. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(t):

Name of entity	Country of incorporation	Equity holding 2006 %	2005 %
Parent entity			
CHEDHA Holdings Pty Limited	Australia	–	–
Ultimate parent entity			
CHEDHA Holdings Pty Limited	Australia	–	–
Subsidiaries			
CKI Power Distribution Limited	Australia	100	100
CKI Power Development Limited	Australia	100	100
CKI/HEI Power Holdings Limited	Australia	100	100
HEI Power Development Limited	Australia	100	100
HEI Power Distribution Limited	Australia	100	100
CKI/HEI Electricity Assignment Limited	Australia	100	100
CKI/HEI Electricity Distribution Holdings (Australia) Pty Ltd	Australia	100	100
CKI/HEI Electricity Distribution Two Pty Ltd	Australia	100	100
CKI/HEI Electricity Distribution Pty Ltd	Australia	100	100
CKI/HEI Electricity Distribution (Services) Pty Ltd	Australia	100	100
Powercor Australia Limited Liability Company	USA	100	100
Powercor Pty Ltd	Australia	100	100
Powercor Australia Holdings Pty Ltd	Australia	100	100
Powercor Australia Ltd	Australia	100	100
CitiPower I Pty Ltd	Australia	100	100
CitiPower II Pty Ltd	Australia	100	100
Australia's Energy Partnership	Australia	100	100
Marregon (No 2) Pty Ltd	Australia	100	100
Marregon Pty Ltd	Australia	100	100
CitiPower Pty	Australia	100	100
The CitiPower Trust	Australia	100	100

The above entities are members of the tax-consolidated group, of which CHEDHA Holdings Pty Ltd is the head entity.

34. Notes to the cash flow statement

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(a) Reconciliation of profit after income tax to net cash inflow from operating activities				
Profit (loss) for the year	37,809	497,835	190,941	(1,115)
Depreciation and amortisation	159,588	151,777	–	–
Customer contributions received	(40,543)	(48,101)	–	–
Superannuation adjustment	(3,029)	(6,078)	–	–
Amortised finance charges	2,895	–	–	–
Net (gain) loss on sale of non-current assets	(171)	182	–	–
Gain on disposal of investment	–	(7,433)	–	–
Hedging and foreign exchange gains	(4,269)	(11,101)	–	–
Decrease (increase) in trade receivables	1,630	(7,202)	–	–
Decrease (increase) in inventories	(4,394)	(3,994)	–	–
Decrease (increase) in prepayments	254	247	–	–
Decrease (increase) in accrued revenue	5,675	(9,414)	–	–
Increase (decrease) in trade creditors and accruals	6,367	4,105	35,536	202,387
Increase (decrease) in deferred expenses	–	4,450	(12,299)	(4,843)
Increase (decrease) in accrued interest	27,294	(246)	27,881	5,958
Increase (decrease) in deferred revenue	1,277	2,447	–	–
Increase (decrease) in income taxes payable	(12,349)	(338,470)	23,560	(164,173)
Increase (decrease) in other provisions	(11,211)	1,864	–	–
Increase (decrease) in trust funds and deposits	(886)	(1,211)	–	–
Decrease (increase) in other receivables	(34)	2,735	–	(38,214)
Decrease (increase) in other operating assets	–	17,877	–	–
Gain on discounting of intercompany loans	–	–	(265,619)	–
Net cash (outflow) inflow from operating activities	165,903	250,269	–	–
(b) Reconciliation of cash and cash equivalents				
Cash and cash equivalents (note 8)	93,614	298,264	–	–
Bank overdrafts (note 19)	–	(2,503)	–	–
	93,614	295,761	–	–
(c) Non-cash investing and financing activities				
Receipt of gifted assets	20,207	13,227	–	–
	20,207	13,227	–	–

34. Notes to the cash flow statement continued

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(d) Financing arrangements				
Unrestricted access was available at balance date to the following lines of credit:				
Credit standby arrangements				
Total facilities				
Unsecured bank overdrafts	6,000	6,000	–	–
Unsecured market rate advance	70,000	70,000	–	–
Debt bank facility supporting commercial paper	150,000	150,000	–	–
Medium-term note facility	1,625,000	1,775,000	–	–
Total	1,851,000	2,001,000	–	–
Used at balance date				
Unsecured bank overdrafts	–	2,503	–	–
Debt bank facility supporting commercial paper	79,400	20,000	–	–
Medium-term note facility	1,625,000	1,775,000	–	–
Total	1,704,400	1,797,503	–	–
Unused at balance date				
Unsecured bank overdrafts	6,000	3,497	–	–
Unsecured market rate advance	70,000	70,000	–	–
Debt bank facility supporting commercial paper	70,600	130,000	–	–
Total	146,600	203,497	–	–

Subsequent to year end, the Consolidated Entity re-financed one of its floating rate note facilities. The balance of this facility at 31 December 2006 was $600 million which is included in current liabilities – borrowings (note 19). The new facility will have an aggregate limit of $575 million and a term of 10.5 years.

35. Events occurring after the balance sheet date

There has not been any matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may significantly affect, the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs, in future financial years.

36. Defined benefit superannuation plans

The Consolidated Entity operates defined benefit superannuation plans for qualifying employees. Under the plans, the employees are entitled to retirement benefits based on their final salary at the time of retirement or resignation. No other post retirement benefits are provided to these employees.

The defined benefit superannuation plans are funded plans. The plans' actuaries have not recommended that additional contributions beyond the current contribution level be made. Funding recommendations are made by the actuaries based on their forecast of various matters, including future plan assets performance, interest rates and salary increases.

The Consolidated Entity has a legal liability to make up a deficit in the plans. Furthermore, the use of any surplus is limited to any amount above 105% of the defined benefit obligation within each plan, and this may only be realised through a reduction in future contributions, following agreement with the trustees of the scheme.

36. Defined benefit superannuation plans continued

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(a) Balance sheet amounts				
The amounts recognised in the balance sheet are determined as follows:				
Present value of the defined benefit obligation	198,973	192,488	–	–
Fair value of defined benefit plan assets	(240,470)	(210,349)	–	–
Scheme surplus	(41,497)	(17,861)	–	–
Capping adjustment on pension asset	9,949	9,624	–	–
Net (asset) in the balance sheet	(31,548)	(8,237)	–	–
(b) Categories of plan assets				
The major categories of plan assets are as follows:				
Equity instruments	151,496	132,520	–	–
Debt instruments	50,499	44,173	–	–
Property	24,047	21,035	–	–
Other assets	14,428	12,621	–	–
Fair value of plan assets	240,470	210,349	–	–
(c) Reconciliations				
Movements in the present value of the defined benefit obligations in the current period were as follows:				
Balance at the beginning of the year	192,488	181,126	–	–
Current service cost	4,870	4,718	–	–
Interest cost	10,225	9,215	–	–
Contributions by plan participants	3,271	2,754	–	–
Actuarial (gains) and losses	(3,875)	334	–	–
Benefits paid	(8,006)	(5,464)	–	–
Other	–	(195)	–	–
Closing defined benefit obligation	198,973	192,488	–	–
Movements in the present value of the plan assets in the current period were as follows:				
Balance at the beginning of the year	210,349	185,134	–	–
Expected return on plan assets	14,326	12,699	–	–
Actuarial gains and losses	16,732	8,109	–	–
Contributions from the employer	3,798	7,312	–	–
Contributions from plan participants	3,271	2,754	–	–
Benefits paid	(8,006)	(5,464)	–	–
Other	–	(195)	–	–
Closing fair value of plan assets	240,470	210,349	–	–
(d) Amounts recognised in income statement				
The amounts recognised in the income statement in respect of defined benefits plans are as follows:				
Current service cost	4,870	4,718	–	–
Interest cost	10,225	9,215	–	–
Expected return on plan assets	(14,326)	(12,699)	–	–
Total	769	1,234	–	–
Actuarial (gains) – including prior period gains not recognised	(30,231)	(11,783)	–	–
Capping adjustment on pension asset	9,949	9,624	–	–
Actuarial (gains) and losses incurred during the year and recognised in the statement of recognised income and expense	(20,282)	(2,159)	–	–
Cumulative actuarial (gains) and losses recognised in the statement of recognised income and expense	(20,282)	(2,159)	–	–

36. Defined benefit superannuation plans continued

	Consolidated 2006 %	2005 %
(e) Principal actuarial assumptions		
The principal actuarial assumptions used (expressed as weighted averages) were as follows:		
Discount rate	5.7	5.3
Expected return on plan assets	7.0	7.0
Expected rate(s) of pension increase	3.0	3.0
Future salary increases	4.0	4.0

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for correlations of the investment returns between asset classes. The expected long-term returns for each asset class are determined by investment specialists based on their long-term forecasts for each asset class. The returns used for each asset class are net of investment tax and investment fees. An allowance for administration expenses has been deducted from the expected return.

	2006 $'000	2005 $'000	2004 $'000
(f) Historic summary			
Present value of defined benefit obligation	(198,973)	(192,488)	(181,126)
Fair value of plan assets	240,470	210,349	185,134
Capping adjustment on pension asset	(9,949)	(9,624)	(4,008)
Surplus/(deficit)	31,548	8,237	–
Experience adjustments arising on plan liabilities – (gain)/loss	9	3,355	4,153
Experience adjustments arising on plan assets – (gain)/loss	(16,732)	(8,109)	(15,147)

37. Financial instruments

(i) Financial risk management objectives
The Consolidated Entity's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets and manages the financial risks relating to the operations of the Consolidated Entity. The Consolidated Entity does not enter into or trade derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Consolidated Entity's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

The Consolidated Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Consolidated Entity enters into the following derivative financial instruments to manage their exposure to interest rate and foreign currency risk:

(i) foreign currency forward contracts and options to hedge the exchange rate risk arising in respect of foreign currency payables and receivables;

(ii) interest rate swaps and options to mitigate the risk of rising interest rates; and

(iii) cross currency swaps to eliminate all foreign currency risks associated with foreign currency denominated borrowings and to determine the interest rate reference for the life of the borrowing.

(ii) Significant accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Interest rate risk management

The Consolidated Entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risks are managed by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts.

Interest rate swaps contracts

Under interest rate swap contracts, the Consolidated Entity agrees to exchange (on a quarterly basis) the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Consolidated Entity to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year. The following table details the notional principal amounts and remaining terms of interest rate swap contracts whereby the Consolidated Entity pays a fixed rate and receives a variable rate under the swap contracts outstanding as at the reporting date.

37. Financial instruments continued

Outstanding floating for fixed contracts	Average contracted fixed interest rate 2006 %	2005 %	Notional principal amount 2006 $'000	2005 $'000	Fair value 2006 $'000	2005 $'000
Senior debt						
Less than 1 year	6.80	5.93	100,000	430,000	(168)	(372)
1 to 2 years	6.11	6.80	100,000	100,000	392	(1,563)
2 to 5 years	5.54	5.54	2,015,000	1,500,000	64,164	12,717
5 years and more	–	5.66	–	615,000	–	1,567
Total			2,215,000	2,645,000	64,388	12,349

Interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated and effective as cash flow hedges.

Foreign exchange contracts

Cross currency swaps achieve two distinct outcomes under a single contract:

(i) they hedge the exchange rate for the contracted cash flows (the commencing principal exchanged, foreign currency interest commitments over the term of the underlying borrowing and the exchange of principal on maturity of the borrowing); and

(ii) they determine the interest rate reference for the life of the borrowing as BBSW + margin (excluding $50 million that is swapped to AUD fixed pay rate of 6.58%)

The following table details the cross currency swaps outstanding as at the reporting date:

Outstanding contracts	Contract value 2006 $'000	2005 $'000	Weighted average exchange rate 2006	2005	Average interest rate 2006 %	2005 %	Fair value 2006 $'000	2005 $'000
Buy US Dollars								
5 years and more	631,912	631,912	0.6330	0.6330	6.60	6.16	(120,072)	(86,190)

(iii) Foreign currency risk management
The Consolidated Entity undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising foreign currency forward contracts and currency swap agreements.

(iv) Foreign currency forward contracts and options
It is the policy of the entities in the Consolidated Entity to enter into foreign currency forward contracts or options to cover significant foreign currency payments and receipts. These entities may also enter into these contracts or options to manage the foreign currency risk associated with the anticipated transaction.

37. Financial instruments continued

The following table details the foreign currency contracts and options outstanding as at the reporting date:

Outstanding contracts	Contract value		Average exchange rate		Foreign currency		Fair value	
	2006 $'000	2005 $'000	2006	2005	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Forward contracts								
Buy British Pounds	–	–	–	–	–	–	–	–
0–3 months	–	340	–	0.4193	–	143	–	–
Buy Euro	–	–	–	–	–	–	–	–
3–6 months	142	–	0.5714	–	81	–	4	–
Options	–	–	–	–	–	–	–	–
Buy US Dollars								
0–3 months	–	52	–	0.5800	–	30	–	–
3–6 months	–	52	–	0.5800	–	30	–	–
Longer than 6 months	–	103	–	0.5800	–	60	–	–
Buy Euro								
0–3 months	–	33	–	0.5675	–	19	–	–
3–6 months	–	33	–	0.5675	–	19	–	–
Longer than 6 months	–	66	–	0.5675	–	37	–	–
Buy Japanese Yen								
0–3 months	–	91	–	67.7320	–	6,146	–	–
3–6 months	–	91	–	67.7320	–	6,146	–	–
Longer than 6 months	–	181	–	67.7320	–	12,292	–	–
Sell US Dollars								
0–3 months	–	36	–	0.8200	–	30	–	–
3–6 months	–	36	–	0.8200	–	30	–	–
Longer than 6 months	–	73	–	0.8200	–	60	–	–
Sell Japanese Yen								
0–3 months	–	61	–	78.6200	–	4,823	–	(4)
3–6 months	–	61	–	78.6200	–	4,823	–	(4)
Longer than 6 months	–	123	–	78.6200	–	9,645	–	(6)
	142	1,432					4	(14)

(v) Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss. To manage its exposure to credit risk, a policy has been adopted to deal only with creditworthy counterparties where appropriate obtaining sufficient collateral or other security as a means of mitigating the risk of financial loss from defaults. The Consolidated Entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any provision for losses, represents the Consolidated Entity's maximum exposure to credit risk in respect of financial instruments.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

	2006 $'000	2005 $'000
Financial assets and other credit exposures – maximum credit risk (not readily traded)		
Favourable interest rate swaps	64,556	14,284
	64,556	14,284

(vi) Maturity profile
The maturity profile of financial assets and financial liabilities held by the consolidated entity are detailed on the following page:

37. Financial instruments continued

	Weighted average effective interest rate %	Variable interest rate $'000	Fixed interest maturing in: 1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Over 4 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
31 December 2006										
Financial assets										
Cash and cash equivalents	6.25	93,614	–	–	–	–	–	–	–	93,614
Trade and other receivables		–	–	–	–	–	–	–	26,317	26,317
Finance lease receivable	8.80	–	6	6	6	6	6	24,999	–	25,029
Interest rate swaps		–	–	–	–	–	–	–	64,556	64,556
Foreign currency contract receivable		–	–	–	–	–	–	–	4	4
		93,614	6	6	6	6	6	24,999	90,877	209,520
Financial liabilities										
Related party payables		–	–	–	–	–	–	–	111	111
Trade and other creditors		–	–	–	–	–	–	–	164,327	164,327
Trust funds and deposits	6.00	33,311	–	–	–	–	–	–	–	33,311
Commercial paper	6.45	79,400	–	–	–	–	–	–	–	79,400
Floating rate notes	6.88	1,146,123	–	–	–	–	–	–	–	1,146,123
Medium term notes	6.64	–	293,726	–	–	174,069	–	–	–	467,795
Bank loans – offshore	6.60	–	–	512,021	–	–	–	–	–	512,021
Interest rate swaps		–	–	–	–	–	–	–	168	168
Cross currency swaps		–	–	–	–	–	–	–	120,072	120,072
Shareholder loan – related parties	10.85	–	–	–	–	–	1,798,936	–	–	1,798,936
Employee benefits		–	–	–	–	–	–	–	45,054	45,054
Other provisions		–	–	–	–	–	–	–	22,988	22,988
		1,258,834	293,726	512,021	–	174,069	1,798,936	–	352,720	4,390,306

37. Financial instruments continued

	Weighted average effective interest rate %	Variable interest rate $'000	Fixed interest maturing in: 1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Over 4 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
31 December 2005										
Financial assets										
Cash and cash equivalents	5.58	298,264	–	–	–	–	–	–	–	298,264
Trade and other receivables		–	–	–	–	–	–	–	27,595	27,595
Finance lease receivable	8.80	–	6	6	6	6	6	25,004	–	25,034
Interest rate swaps		–	–	–	–	–	–	–	14,284	14,284
		298,264	6	6	6	6	6	25,004	41,879	365,177
Financial liabilities										
Bank loans	6.03	170,000	–	–	–	–	–	–	–	170,000
Related party payables		–	–	–	–	–	–	–	151	151
Trade and other payables		–	–	–	–	–	–	–	129,168	129,168
Bank overdraft	8.75	2,503	–	–	–	–	–	–	–	2,503
Trust funds and deposits	5.33	34,197	–	–	–	–	–	–	–	34,197
Medium term notes	6.16	1,150,000	–	–	–	–	–	–	–	1,150,000
Medium term notes	6.64	–	–	285,258	–	–	175,000	–	–	460,258
Bank loans – offshore	6.11	–	–	–	543,579	–	–	–	–	543,579
Interest rate swaps		–	–	–	–	–	–	–	1,935	1,935
Cross currency swaps		–	–	–	–	–	–	–	86,190	86,190
Foreign currency forward contracts		–	–	–	–	–	–	–	14	14
Shareholder loan – parent entity/related parties	10.85	–	–	–	–	–	1,822,137	–	–	1,822,137
Employee benefits		–	–	–	–	–	–	–	44,363	44,363
Other provisions		–	–	–	–	–	–	–	30,438	30,438
		1,356,700	–	285,258	543,579	–	1,997,137	–	292,259	4,474,933

(vii) Liquidity risk management

The Consolidated Entity manages liquidity risk by maintaining adequate reserves, banking and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

In the Directors' opinion:

(a) the financial statements and notes set out on pages 36 to 67 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 31 December 2006 and of their performance, as represented by the results of their operations and their cash flows, for the period ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

S A Breheny
Director

Melbourne
27 March 2007

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF CHEDHA HOLDINGS PTY LTD

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

180 Lonsdale Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX 111
Tel: +61 (0) 3 9208 7000
Fax: +61 (0) 3 9208 7001
www.deloitte.com.au

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both CHEDHA Holdings Pty Ltd (the company) and the consolidated entity, for the financial year ended 31 December 2006 as set out on pages 36 to 67. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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

Audit Opinion

In our opinion, the financial report of CHEDHA Holdings Pty Ltd is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2006 and of their performance for the year ended on that date; and

(b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

DELOITTE TOUCHE TOHMATSU

CCA Mottershead
Partner
Chartered Accountants

Melbourne, 27 March 2007

Liability limited by a scheme approved under Professional Standards Legislation.

CORPORATE INFORMATION

CHEDHA Holdings Pty Limited
('CHEDHA Holdings')
ABN 37 116 940 820

CKI/HEI Electricity Distribution Pty Ltd
('the Powercor Group')
ABN 16 093 830 632
Subsidiaries:
- Powercor Pty Ltd
- Powercor Australia Holdings Pty Ltd
- Powercor Australia Limited Liability Company (USA)
- Powercor Australia Ltd

CKI/HEI Electricity Distribution Two Pty Ltd
('the CitiPower Group')
ABN 28 101 064 304
Subsidiaries:
- CitiPower I Pty Ltd
- CitiPower II Pty Ltd
- Australia's Energy Partnership
- Marregon (No 2) Pty Ltd
- Marregon Pty Ltd
- CitiPower Pty
- The CitiPower Trust

CKI/HEI Electricity Distribution (Services) Pty Ltd
('CHED Services')
ABN 14 112 304 622

CHEDHA Holdings and Group Companies
Registered Offices
40 Market Street
Melbourne
Victoria 3000
Australia
P (61 3) 9683 4444
F (61 3) 9683 4899

Company Secretary
Simon Lucas

Bankers
Commonwealth Bank of Australia
385 Bourke Street
Melbourne
Victoria 3000
Australia

Westpac Banking Corporation
360 Collins Street
Melbourne
Victoria 3000
Australia

Auditors
Deloitte Touche Tohmatsu
180 Lonsdale Street
Melbourne
Victoria 3000
Australia

Contact us:

CitiPower
1300 301 101
info@citipower.com.au
www.citipower.com.au

Powercor Australia
13 22 06
info@powercor.com.au
www.powercor.com.au

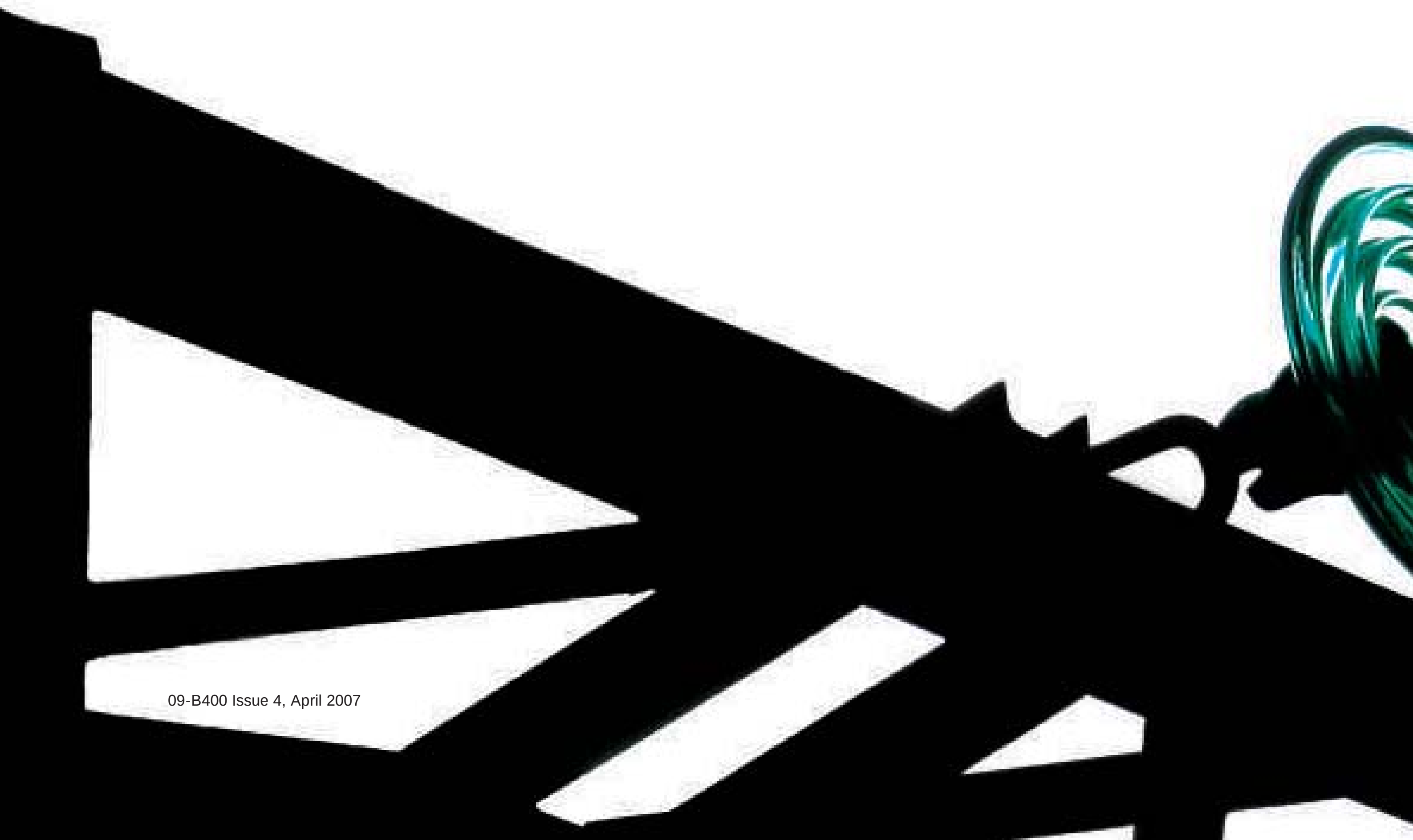
CitiPower and Powercor Corporate Affairs
(+61 3) 9683 4454

100% RECYCLED ReArt ART PAPER

Integrated Management System

Licence Nos. QAC/OHS/EMS/R61/0128
International Standards Certifications

CitiPower and Powercor Annual Report 2006



09-B400 Issue 4, April 2007