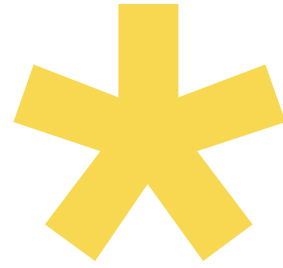


A million reasons to **shine**



CitiPower and Powercor Australia are electricity distributors. We manage the poles, wires and equipment that deliver power to homes and businesses in greater Melbourne and through central and western Victoria.

In 2008, we reached the important milestone of one million customer connections across our distribution networks.

Each and every one of our connected customers gives us another reason to shine, and by putting our customers first, we deliver benefits for our shareholders, communities and employees.

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Results snapshot

CitiPower and Powercor Australia's business goal is to deliver improved services and associated returns to our four key stakeholder groups – customers, the community, our employees and shareholders.

Customers

Profile

Our business's electricity networks service residential, commercial and large industrial customers spanning more than half the state of Victoria. CitiPower supplies power to around 301,000 customers in Melbourne's central business district and surrounds. The Powercor network delivers power to more than 683,000 customers in central and western Victoria, and to Melbourne's western suburbs. The balance of our one million strong customer base is comprised of non-metered premises supplied by both networks.

Highlights

- Received five awards at the Customer Service Institute of Australia's national Service Excellence awards, including Australian Customer Charter of the Year
- Achieved highest customer satisfaction survey result in five years, with an 81 per cent positive customer satisfaction rating
- Realised a 17 per cent decrease from the previous year in enquiries and complaints lodged against our business with the Energy and Water Ombudsman of Victoria
- Achieved among the best ever reliability results for Powercor and CitiPower networks

Community

Profile

Our business is committed to making real contributions in all the communities where we operate, and to minimising the impact of our operations on the natural environment. Our networks serve a mix of urban, suburban, regional and rural communities, each unique in their composition. From marvellous Melbourne city, to the towns along the southern coast, regional Victorian centres and Murray River Shires, our communities are diverse in their geography, people, history and experiences.

Highlights

- Sponsored more than 20 regional and city based business awards programs across Victoria, which promote skills sharing and contribute to economic prosperity
- Awarded an international emergency recovery award from the Edison Electric Institute in Washington DC for our efforts during the April 2008 Victorian wind storm
- Established a climate change policy that recognises the climate change impacts on our networks and operations, and guides our business response



Employees

Profile

CitiPower and Powercor's 1,750 employees comprise field based, technical and support staff working in an industry that is essential to the lives of all Victorians. With a focus on safety, customer service, innovation and sustainability, our employees work together to achieve the best outcomes for customers. We work to ensure the long-term health of the business and the industry through a leading apprentice and trainee intake program and a wide range of employee development opportunities for our workforce.

Highlights

- Welcomed 31 new apprentice and trainee recruits, surpassing the milestone of 100 currently in training with our business
- Reduced manual handling injuries by 35 per cent and received a commendation at the National Workplace Safety awards for Best Communication of a Safety Message
- Recorded an Employee Satisfaction Index of 72 per cent, through our highest ever survey response rate of 79 per cent



Shareholders

Profile

Cheung Kong Infrastructure Holdings Limited (CKI) and Hongkong Electric Holdings Limited (HEI) together own 51 per cent of CitiPower and Powercor. CKI and HEI are members of the Cheung Kong Group, which includes eight listed companies with a combined market capitalisation of HK\$512 billion as at 31 December 2008. The Group operates in 56 countries and employs about 260,000 people worldwide. The remaining 49 per cent of the business is owned by Spark Infrastructure, a specialist infrastructure group listed on the Australian Stock Exchange, whose objective is to invest in regulated utility infrastructure in Australia and overseas.

Highlights

- Achieved strong financial results, exceeding forecast returns for the third successive year
- Provided significant transitional and back office support to the Cheung Kong Group in their acquisition of a New Zealand-based distribution network

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



Chairman's report



In increasingly challenging circumstances, the Group was able to maintain its performance and deliver a significantly improved result for 2008 in the major aspects of its operations: financial performance, network reliability and customer service. It is satisfying to note CitiPower and Powercor Australia's achievements in supporting each of our main stakeholder groups – shareholders, customers, employees and the community – during the year.

Financial Results

Net profit after tax for the CHEDHA Holdings group of companies (the 'Group') grew by more than 60 per cent on the previous year to A\$89.5 million. The Group's operational performance as measured by earnings before interest, tax, depreciation and amortisation (EBITDA), improved by 2.4 per cent on 2007.

This result exceeded our target, driven by better than planned customer contributions, distribution revenue which increased as a result of higher consumption, particularly in the first half of the year and growth in unregulated revenue. The major components of this latter stream were Powercor Network Services' construction and maintenance contracts, our IT contracts with Westnet in Western Australia, and the provision of services to the Wellington electricity distribution business in New Zealand, which was acquired by our major shareholder during the year. Unregulated revenue continues to comprise a growing proportion of our total revenue.

Our net capital expenditure of \$281.1 million was higher than in 2007, partly due to investment in Advanced Metering Infrastructure (AMI), but still within budget for the year.

Cash operating expenses increased in line with expectations during the year.

The request from our major shareholder to assist with the acquisition and then transitional management of the electricity distribution network in New Zealand's capital city was commercially productive for us. It was also a satisfying recognition of our capabilities and of our reputation within the global Cheung Kong Group.

Performance

If our shareholders look to financial results as the core measure of our performance, then our customers' primary focus is undoubtedly network reliability. Both networks recorded significant improvements in this regard in the year under report. It is worth noting that these positive results were sustained even after including the result of storms and other extreme weather events that are excluded under the terms of our regulatory incentive scheme.

We are widely recognised as an industry leader in managing such events, and this reputation stems equally from our provision of information to customers through our Customer Contact Centres. Both our grade of service and our customer satisfaction levels improved in 2008, and we are working to continue this trend in coming years.

Prospects

While the record shows that we have achieved a great deal during 2008, we remain acutely aware of the need to take steps to ensure ongoing success, particularly in a climate of economic uncertainty.

A sustained focus throughout the year on our own planning for the 'smart meter' rollout, assisted by a clarification of the government mandate, leaves us well placed for the commencement of the rollout in late 2009. We are confident that the project will deliver long-term environmental and efficiency benefits to the community, and assist us to pursue our business objectives.

Similarly, the adoption by the Board of our climate change policy in 2008 will also be a springboard for future initiatives in response to the challenges we face, both to our operating environment and our business overall.

In closing, I would like to acknowledge the valuable contributions of retiring Director Peter St George, and also former Spark Infrastructure CEO and CHEDHA Director Bob Stobbe, who had a long career with the Group and our sister business, ETSA Utilities, at an executive level.

Finally, my thanks go to the other directors, to the executive team and to the employees of the Group, who have consistently brought skill, dedication and enthusiasm to our business over the past year. With their ongoing support, we can be confident that the Group will continue to shine.

Peter Tulloch
Chairman

From the Chief Executive Officer



CitiPower and Powercor Australia overcame most challenges and performed well in 2008, recording excellent results in the areas of financial performance, safety, reliability, customer service and growth. This is particularly pleasing, as we achieved this result in an increasingly difficult economic environment.

We made steady progress with projects relating to the Advanced Metering Infrastructure (AMI) implementation and the continued consolidation of the management of our two electricity networks. We also reached a significant milestone in connecting our one millionth customer. In difficult economic conditions, we remained focused on the job of delivering a safe and reliable power supply to our customers, and recorded a solid improvement by significantly reducing the average minutes customers were off supply. We maintained our credit rating and, for the second successive year, the Powercor network received a complete 'green light' health rating from the regulator – the only Victorian distribution business to do so.

Business Growth

Advanced Metering Infrastructure

The Victorian Government's Advanced Metering Infrastructure (AMI) project is one of the biggest reforms to the electricity sector in this State, and we are well down the track with our planning and preparation for the meter rollout, expected to commence in late 2009. The new remotely controlled AMI meters, which will replace existing

mechanical meters, will transform energy management for consumers and all sections of the electricity supply chain. In 2008, the business made good progress planning and preparing for the rollout of over one million 'smart meters' across our networks over the next four years.

Electricity networks

We continued to consolidate the management of the CitiPower and Powercor electricity networks for greater efficiency and effectiveness in servicing our customers. In 2008, we co-located both operational control centres to our Melbourne headquarters and established a back-up Disaster Recovery Centre at another location. This has enabled a standardised and 'single point of contact' approach to managing major system events across one or both electricity networks.

Powercor Network Services

Powercor Network Services provides design, construction and maintenance services to CitiPower and Powercor and to other utility businesses in Australia. In 2008, the business completed several large projects in the transmission and other infrastructure segments and exceeded revenue targets for the year.

Operational Highlights

Health and safety

The welfare of our employees, contractors and the public is of paramount importance. We set challenging safety targets for our employees as we strive for an injury-free workplace, and I am pleased to report positive performance this year. In 2008, two Lost Time Injuries (LTIs) were recorded – matching last year's good result. Over the same time period, there was an increase in the number of health and safety engagement related reports generated by our employees. This demonstrates the positive commitment of our workforce to further improve our health and safety performance. Initiatives to improve contractor safety also continued during the year.

Environment

Managing our own environmental impacts, as well as the impacts of the environment on our business, has been at the forefront of our thinking for some time. In 2008, the Board endorsed a Climate Change Policy for the CitiPower and Powercor business. The policy was developed following an internal study and consultation process. As a result, specific initiatives aimed at minimising climate change impacts will be introduced in the business units in 2009. These initiatives will be in addition to the recycling and waste minimisation programs already in place across the business.

Network reliability

While we cannot guarantee power supply, we are committed to delivering a reliable supply to our customers, and reducing the number and impact of power outages that originate within our distribution networks. In 2008, after allowing for events excluded by the Essential Services Commission, both the CitiPower and Powercor networks had among their best ever years for total minutes off supply, in terms of average minutes off supply per customer. CitiPower also retained its status as the most reliable urban based distribution network in Australia. Reliability improvement strategies, extensive maintenance works, improved fault response, new technology, and vegetation and wildlife management programs all contributed to improving our performance.

Customer service

Everything we do in our business, whether it is vegetation or asset management or dealing with customers directly, is about improving the customer experience. We measure customer satisfaction through surveys, the number of complaints to the Energy and Water Ombudsman of Victoria (EWOV) and ourselves – and compliments as well. In 2008, customer satisfaction levels improved, as did the number of compliments from customers, and the number of official complaints to the EWOV decreased. We were the only distribution business to experience a reduction in EWOV complaints compared to the previous year. We were the proud winners of five Australian Service Excellence awards from the Customer Service Institute of Australia (CSIA).

People

We are committed to creating a work environment that challenges and engages our people. Our graduate, trainee and apprentice programs, involving more than 100 people, are instrumental in creating that culture, and hopefully will enhance our ability to retain our quality staff. In 2008, for the second consecutive year, we won a Commonwealth Government Award for our apprenticeship program, and one of our apprentices was a finalist for a State Government Apprentice of the Year award.

I would like to praise the performance of our people in the April 2008 wind storm, which caused widespread damage across Victoria. Our job was to reinstate the power supply. Fortunately for all concerned, our system of escalation enabled us to quickly address issues with our own customers and then move on to assist energy providers in other parts of the State with bringing their customers back on line.

Community

We have deep links in the community, with offices and depots spread across regional Victoria. We believe the community benefits from our business doing well and, in turn, we benefit from the community doing well. Our employees work and participate in a number of community initiatives, as well as contributing their skills to well deserving organisations. We are a major sponsor of the Melbourne Symphony Orchestra regional tour and more than twenty regional and city based business awards programs.

The Way Ahead

The external environment

At the start of 2009, we moved into a new national regulatory environment under the supervision of the Australian Energy Regulator. While this is new territory for our industry as a whole, we were active participants in the development of the rules and policies of the national framework. Over time, we anticipate that this move will provide greater certainty for the business.

We continue to have our say in national policy development on the environment through our industry associations – the Energy Supply Association of Australia and Energy Networks Association. Internally, we will retain our focus on minimising the impacts of climate change on our business, as well as reducing our operations' contribution to climate change.

Business outlook

We operate in a largely regulated market, and this gives our business a measure of security. We will, however, remain mindful of the impact of the problems in the global financial market on our stakeholders.

In 2009, we begin the rollout of the AMI 'smart meters'. The AMI project is expected to take four years to complete, and at its peak we will be installing 1,500 meters a day.

The five yearly price review on the cost of maintaining our networks and the two yearly metering price review coincide in 2009. The outcome of these reviews sets prices for implementation in 2011, and we will focus our efforts on achieving a balance between our customer and community expectations and shareholder returns.

In closing, I would like to thank my fellow directors for their support during the year. I would also like to acknowledge the commitment, professionalism and hard work of senior management and indeed all employees to our business over the past year.

Shane Breheny

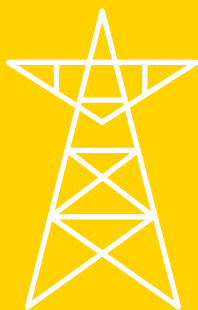
Chief Executive Officer

Our Industry at a glance



Generation

Generation companies produce electricity and compete to sell it in the wholesale National Electricity Market (NEM). The market is overseen by the National Electricity Market Management Company (NEMMCO), through the co-ordination of the interconnected electricity systems of Victoria, New South Wales, South Australia, Queensland and the Australian Capital Territory.



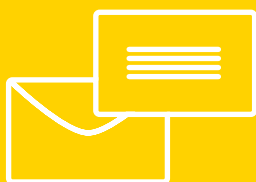
Transmission

The transmission sector transports electricity from generators at extra high voltage across to five Victorian distributors. Victoria's transmission network also connects with the grids of New South Wales and South Australia, and is owned and managed by SP AusNet.



Distribution

Distributors convert electricity from the transmission network into high and low voltages, and deliver it to Victorian homes and businesses. Distributors also own and manage customers' electricity meters. The major focus of distribution companies is developing and maintaining their networks to ensure the quality and reliability of the electricity supply that passes through them.



Retail

The retail sector of the electricity market sells electricity and manages customer accounts. Retail companies issue customers' electricity bills, a portion of which includes tariffs payable to transmission and distribution companies for transporting electricity along their respective networks.

CitiPower

The CitiPower distribution network services customers in Melbourne's central business district and inner suburbs, and supplies world-class cultural and sporting facilities such as Federation Square, the Melbourne Cricket Ground, the Victorian Arts Centre and Melbourne Park. Almost half of CitiPower's electricity infrastructure is located underground, and multiple back up and rerouting options exist should a fault occur somewhere on the network. CitiPower customers enjoy network availability of 99.99 per cent.



Powercor Australia

The Powercor distribution network services central and western Victoria and Melbourne's outer western suburbs. It is the largest of Victoria's five electricity distribution networks, and supplies key regional centres from Mildura and Shepparton through Bendigo and Ballarat to Warrnambool and Geelong. The majority of Powercor's electricity infrastructure is overhead, with more than 528,000 poles carrying 82,000 kilometres of power line over a total network area of 150,000 square kilometres.

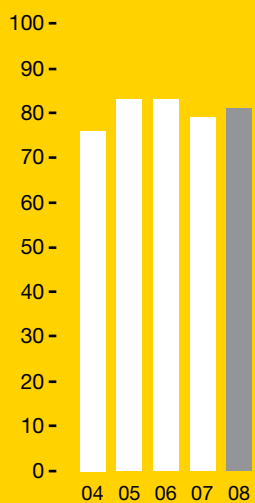


- Powercor Australia distribution area
- * Powercor locations
- Powercor local service agent offices

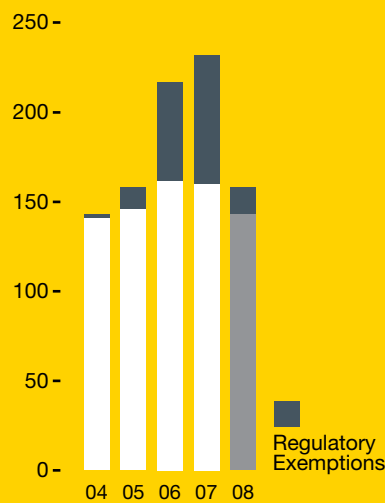
A million reasons to shine

A strong focus on asset maintenance and network management helped CitiPower and Powercor deliver exceptional 2008 supply reliability results for customers. We also exceeded satisfaction targets for customer, retailer and major customers in 2008, which were achieved following successful implementation of focused plans aimed at improving satisfaction levels for each customer segment.

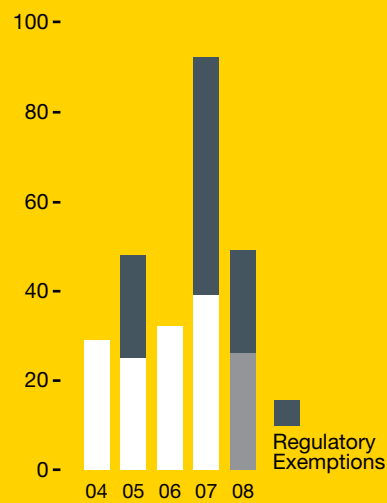
Business – Customer Satisfaction (%)



Powercor – Reliability – Average minutes off supply*



CitiPower – Reliability – Average minutes off supply*



* Includes planned and unplanned events.



We serve our one million customers by listening to and understanding their needs, and then working to deliver over and above what is required from us. We strive to deliver a high grade of service across all business interactions, and take ownership of issues to resolve them in the first instance. We endeavour to have a completely satisfied customer at the end of each transaction.

Customers



Reliability results

Powercor achieved among its best ever reliability performance by reducing the average amount of time customers were without electricity to 142.6 minutes notwithstanding major storms or other events excluded by the Essential Services Commission. This represents a reduction of 19 minutes compared with 2007, and is a notable achievement, given Powercor is predominately an overhead 'poles and wires' network, exposed to extreme conditions, animals or third party interference. CitiPower also achieved an exemplary reliability result in 2008, with an average of 26 minutes off supply per customer, minus exclusions. This is a 14 minute improvement over the previous year, and a testament to the business's improvement initiatives in this area.

Customer initiatives

Customer feedback is critical in our efforts to improve the quality of our services, and helps us better understand the emerging needs of our one million customers. Regular feedback is obtained via customer surveys in the areas of contact centre performance, public lighting, planned and unplanned outages, vegetation management and customer projects, and outcomes are reviewed with our service people. In 2008, customer feedback demonstrated satisfaction level increases across the CitiPower and Powercor networks. Moreover, CitiPower and Powercor was the only distribution business to experience a decline in complaints made to the Energy and Water Ombudsman of Victoria (EWOV) in 2007–2008. The 17 per cent decrease continues a four-year downward trend, and is reflective of our focused efforts on resolving customer issues and improving customer feedback channels.

Customer service recognition

Our commitment to exceptional customer service has been acknowledged in the industry. CitiPower and Powercor was the proud winner of five 2008 Customer Service Institute of Australia (CSIA) Australian Service Excellence awards. CitiPower and Powercor won the Victorian and national awards for Best Customer Charter, and Brendan Bloore, General Manager Customer Services, won the Victorian and national awards for Best Customer Service Executive. In addition, we won the Victorian award for Best Customer Service – Large Business category. The CSIA is Australia's peak customer service body, dedicated to the professional development of organisations and individuals in customer service.

Our customer charter offers practical information to help our one million customers better understand and manage their power supplies. It presents information over and above the minimum requirements prescribed by the Essential Services Commission, and in 2008 was awarded the best Customer Charter in Australia from the Customer Service Institute of Australia.

The CitiPower and Powercor electricity network supplies more than just homes and businesses in Melbourne, central and western Victoria. Our provision of a safe and reliable power supply supports critical transportation infrastructure, enables the smooth operation of the marketplace and government, and helps emergency services respond around the clock.

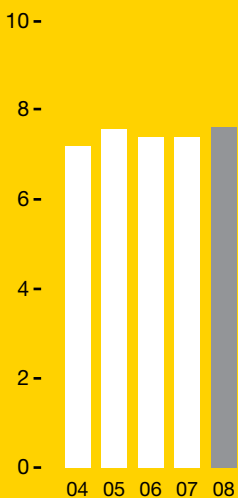


Helping our communities shine

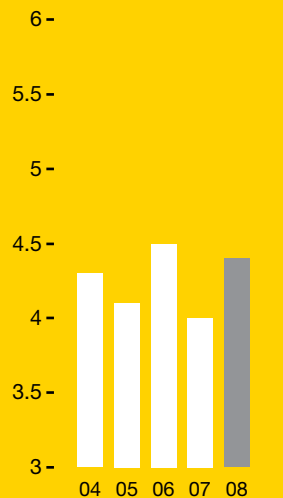
We're committed to maintaining a high level of involvement in the communities we serve while reducing the environmental impact of our operations. CitiPower has recorded a significant increase in its community involvement rating in 2008 and Powercor continues to rate the highest of all Victorian distribution businesses in this area.



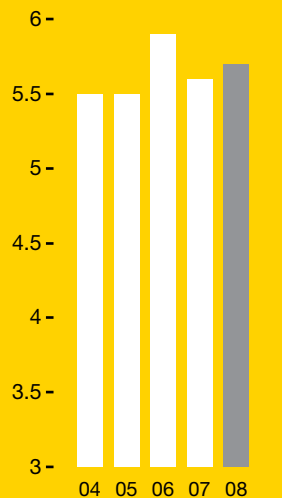
**Business –
Scope One Emissions**
(CO₂ tonnes) '000



**CitiPower –
Community Involvement
Rating**



**Powercor –
Community Involvement
Rating**





Our focus on customers brings wider benefits to the communities where they live and work. By ensuring our customers' reliability of supply, we promote business growth, local employment and economic prosperity. Our efforts to restore supply quickly and safely after bushfires and major storms is a contributor to community resilience and a meaningful part of our role as an essential service provider.



A new *Guide to Planting Trees Near Power Lines* was made available to customers, nurseries, councils and garden associations during the year. It identifies native trees and shrubs that are suitable for planting in the vicinity of power lines in all our network area regions.

Advanced interval metering

CitiPower and Powercor is leading the way for the implementation of the Victorian Government's smart metering electricity initiative due to start in the second half of 2009. In addition to 'business as usual' maintenance and upgrades of assets, we will install over one million new remotely controlled advanced meters to replace existing mechanical meters during the four-year rollout.

The new Advanced Metering Infrastructure (AMI) will change the way people think about electricity, and it will change many aspects of the way we run our business. The new AMI meters will measure electricity consumption in 30 minute intervals, can connect and disconnect supply and be read remotely.

As such, the new meters will record significant amounts of electricity consumption data for the benefit of customers, retailers and distributors. The new meters will allow for in-home display functionality, from which customers can monitor and manage their own electricity usage patterns. This is in stark contrast to the current system where residential customers' meters are read four times a year.

In 2008, the business focused on planning and preparation for the rollout of the AMI meters. This involved employees from a range of disciplines such as IT, Customer Services, Powercor Network

Services and the new AMI Services business unit sharing their expertise to bring benefits to the meter rollout and beyond. In addition to organising the physical rollout of the meters, over 50 internal projects have been identified around aspects such as a new billing system, metering data management, process re-engineering and enabling technology. An AMI program of work has been established to ensure a coordinated approach for the successful delivery of multiple projects.

Asset upgrades and initiatives

Investment in network infrastructure upgrades and other improvements continued throughout the year to cater for increased electricity demand and customer growth across the CitiPower and Powercor networks. Significant network initiatives were completed in regional Victoria and Melbourne to cater for customer growth and community infrastructure projects. Improvement initiatives were also progressed that included a transformer cooling project at Waurm Ponds to improve transformer capacity and a LIDAR (light detection and ranging) technology trial aimed at enhancing the audit of vegetation in the vicinity of power lines. In 2008, Board approval was given for a range of customer and augmentation projects, including one to provide a higher level of security to the electricity supply for the Melbourne central business district.

April storm

Recent improvements to our business escalation and event response processes were put to the test on 2 April 2008, when fierce winds, reaching speeds up to 130 kilometres an hour, dust storms and rain caused widespread destruction across Victoria and commuter chaos in Melbourne. At the height of the storm, the SES emergency response service took distress calls at the rate of one every seven seconds. Described by some as the most severe wind storm on record in Victoria, more than 128,789 of our customers (CitiPower 50,433 and Powercor 78,356) lost power. Fortunately, our customer contact centres continued to operate effectively throughout the event, and our emergency contingency planning ensured that service crews were quickly deployed to restore power to customers. CitiPower and Powercor also provided 94 field workers to assist another affected electricity distributor restore power to their customers. For our efforts during the wind storms, the business received a prestigious international Emergency Recovery award from the Edison Electric Institute in Washington DC.





Environment and climate change

In 2008, the Board endorsed our Climate Change Policy, paving the way for the introduction of appropriate strategies and actions to reduce the impacts of climate change on our operations and reduce our contribution to climate change. The policy was developed in conjunction with our sister company, ETSA Utilities in South Australia, which is also a member of the Cheung Kong Group of Companies.

The business has been measuring and reporting its greenhouse emissions for a number of years as a member of the Australian Greenhouse Office's Greenhouse Challenge. We look for ways to reduce our greenhouse impact, such as reducing our own electricity consumption, purchasing 10 per cent of our electricity from the green power scheme, and reducing waste and encouraging recycling. We have also been offsetting the emissions from our light vehicle fleet for a number of years. In 2008, we began a process of reviewing our entire heavy and light fleet to understand the efficiency and carbon emissions of each vehicle. The data will be used to develop policies aimed at minimising emissions.

Other initiatives aimed at reducing our environmental footprint include significant recycling programs across the business for paper, metal, glass and other waste. Our focus on water use reductions across our operations has led to the installation of water tanks and energy efficient showerheads and flow restrictors on taps. We continue to be involved in the Victorian Government's Travel Smart and Waste Wise programs.

Environmental partnerships

CitiPower and Powercor partners with the community to encourage environmental responsibility and support community environment projects. Our most significant environmental partnership is with Landcare Australia. As a silver level partner, we provide \$100,000 per year for Landcare projects. In 2008, our support included land rehabilitation and nature conservation projects, environmental awards and education programs within the CitiPower and Powercor distribution areas.

Business awards

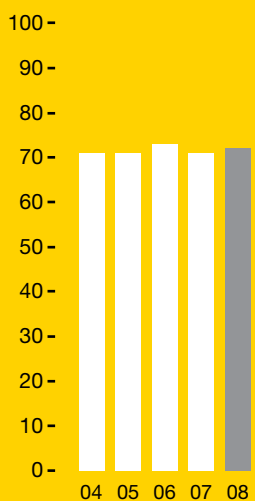
CitiPower and Powercor is committed to supporting business in our distribution network areas through the sponsorship of 22 regional Business Excellence Awards in 2008. The award programs are run in conjunction with local municipality and business development associations, and are specifically designed to ensure the growth and development of business communities through skills sharing and recognition of best practice.

A million ways for our employees to shine

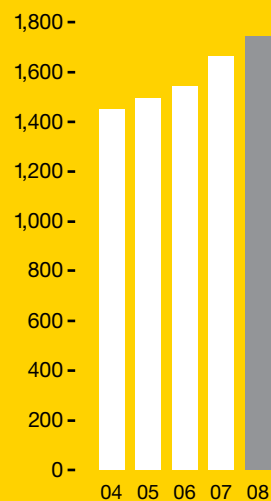
CitiPower and Powercor consistently produces not only high employee satisfaction results, but our annual survey participation rates are well above the national norm. These outcomes are a testament to the benefits and rewards on offer, our attitudes to safety and training, and to the challenges and opportunities available to our workforce.



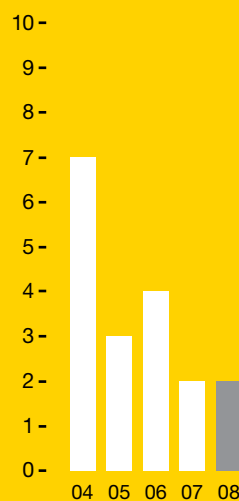
Business – Employee Satisfaction (%)

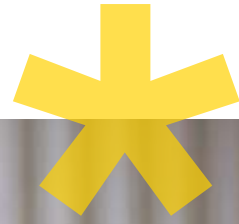


Business – Employee Numbers



Business – Lost time injuries (Number)





Our workforce is comprised of field based, technical and support staff, operating in urban, suburban, regional and rural settings, with a range of talents and backgrounds. Working together to achieve the best outcome for customers gives our employees unity of purpose, and is a major component of our shared business culture.

Employees



Resourcing for the future

We put a significant business focus on attracting and developing apprentices, trainees and graduates. In 2008, more than 100 apprentices and trainees were 'in training', with the majority of selected candidates coming from regional Victoria. Six engineering graduates were also recruited.

Our aim is to provide employees with the necessary skills and knowledge so they can grow and develop in their roles, and contribute to our business and the strength and viability of the electricity industry. For the second consecutive year, our apprenticeship program was recognised at the Minister's awards for Excellence for Employers of Australian Apprentices, this time for our efforts in the Geelong region. The awards acknowledge employers from across Australia for commitment, innovation and outstanding achievement in training Australian apprentices.

Health and safety

The stated aim of the CitiPower and Powercor Health and Safety Policy is to never compromise health and safety to get the job done. We set challenging benchmarks for Lost Time Injuries (LTIs) and Medical Treatment Injuries (MTIs) to assist us in striving for an injury-free workplace. In 2008, two LTIs were recorded, and 21 MTIs were recorded against a benchmark of 28, which is a significant reduction against the 2007 result of 34. The recording of only two LTIs matched last year's strong result in this area. In 2008, the business launched a program aimed at reducing injuries in our large contractor workforce. An employee educational initiative aimed at reducing manual handling injuries was also highly commended in the 2008 NSCA/SKILLED Group National Safety Awards of Excellence.

Innovation

Through our *eighthgate* innovation program, employees are encouraged to use innovation to add value to the business. This is best illustrated in the Business Innovation Cup, where employees work in teams to build ideas into business opportunities and compete for a \$20,000 prize pool. In 2008, the Cup was won by a team of three that developed a way to reduce the number of power outages caused by the incorrect placement of test leads. Such outage incidents had the potential to compromise worker safety and incur regulatory penalties for the business. The improvement is now being used across the business.

The business's 'LIFT with your brain' campaign included a DVD featuring our employees speaking about the effects of manual handling injuries on their work and personal lives. It received a commendation for Best Communication of a Safety Message at the 2008 NSCA/SKILLED Group National Safety Awards of Excellence; more importantly, manual handling injuries dropped 35 per cent since the campaign's introduction.

The nature of our business means that contact with our customers may be infrequent, but is nonetheless important. Our customer contact centre representatives are at the front line of these customer transactions, and value the opportunity to assist, either in wide scale emergency situations or with day-to-day supply issues. Our customer contact centres enjoy a staff turnover rate of around two per cent, which is far below that of comparative call centres in Victoria.

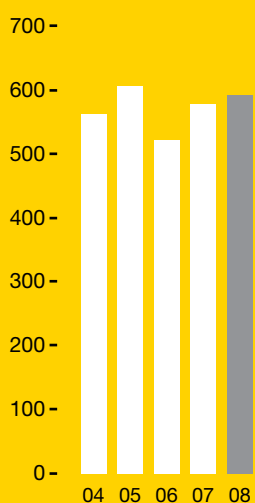


Shining for our shareholders

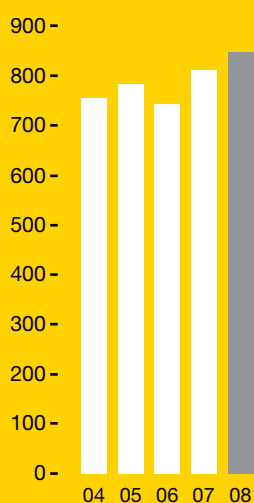
We delivered strong financial returns to our shareholders in 2008, based on organic growth in the regulated market and stable returns from our unregulated business activities. Our aim is to provide sound returns to our shareholders with minimal risk, whilst building on our reputation as a customer-focused essential service provider.



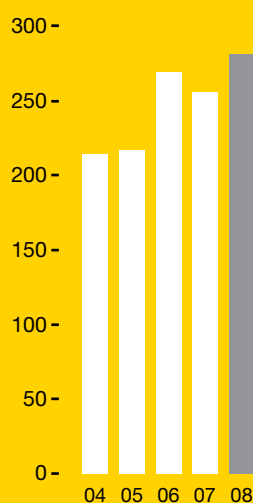
Business – EBITDA
(\$m)



Business – Revenue Total
(\$m)



Business – Net Capital Expenditure
(\$m)





Our focus on delivering exceptional customer service generates strong and stable financial returns to our shareholders. This allows for reinvestment in the maintenance and augmentation of our networks, and the provision of better programs and services to the further benefit of our customers.



Shareholders

Our business operates predominantly in regulated markets, but the extension of our management services into unregulated markets, including those on behalf of our majority owners the Cheung Kong Group, adds value for all our shareholders.

Wellington electricity acquisition

In 2008, our major shareholder, the Cheung Kong Group, acquired an electricity distribution network in Wellington, New Zealand, from Vector Ltd. The network supplies electricity to about 160,000 customers to the capital city of New Zealand and its surrounds. Our business provided significant support to the Cheung Kong Group throughout the acquisition process, and continues to assist in the ownership transition of the new business, by establishing and providing full back office corporate services, IT platforms and network planning functions. CitiPower and Powercor welcome the opportunity to expand our management services to other members of the Cheung Kong Group, as we have done previously with AquaTower in Victoria and with Northern Gas Networks (NGN) in the United Kingdom.

Endeavour Australia scholarships

The Cheung Kong Group has a proud history of supporting cross cultural education through international scholarship. The Endeavour Australia Cheung Kong Scholarship program, launched in 2004, was originally envisaged as a three-year initiative to assist undergraduate and postgraduate students from Australia and Asia study in each other's home environments. The Cheung Kong Group and Australian Government agreed in 2006 to extend the program by five years to meet the demand for placements, and this will support the participation of nearly 1,000 students.

In 2008, 45 undergraduate and postgraduate students travelled between Victoria and Asia Pacific nations in student exchanges, enhancing their own personal development and generating far reaching benefits for the participating countries.

Corporate Governance

Although CitiPower and Powercor are not publicly listed entities, the companies benchmark their corporate governance framework against current best practice guidelines applicable to publicly listed companies.

Fifty-one per cent of the CitiPower and Powercor businesses is ultimately owned by Cheung Kong Infrastructure and Hongkong Electric which are both publicly listed Hong Kong companies.

Forty-nine 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 and Powercor businesses is CHEDHA Holdings Pty Ltd.

The CHEDHA Holdings group of 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 guidelines applicable to publicly listed companies, including the applicable provisions of:

- the Australian Stock Exchange Corporate Governance Council, 'Principles of Corporate Governance Principles and Recommendations', August 2007; and
- Standards Australia, 'Good Governance Principles', AS 8000-2003.

Enhancements to the Group companies' corporate governance framework implemented during the course of 2008 included:

- review and update of Board Committee Charters;
- enhancement of the Directors' Questionnaire process;
- adoption of a revised Treasury Risk Management Policy;
- adoption of a charter for the Group's internal audit function and
- further alignment of internal audit and risk profiling reporting.

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

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

The Boards of Directors are responsible to the shareholders for the performance of the Group 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.

Appointment of Directors

Directors for Group companies are appointed upon the nomination of shareholders in accordance with the provisions of a shareholders' agreement between Cheung Kong Infrastructure, Hongkong Electric and Spark Infrastructure.

Delegations

Day-to-day management of the Group 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.

Responsibilities of Boards of Directors

The responsibilities of the Boards include:

- contributing to the development of and approving 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 Code of Conduct;
 - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestment;
- monitoring financial performance including approval of the Group companies' financial reports and liaison with the Group 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 for the members of the senior management team including the Chief Financial Officer and the Company Secretary;
- ensuring there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the Group companies; and
- 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.

Corporate Governance continued

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.

Formal charters have been established which set out the responsibility of each Board committee.

The committee structures and charters are reviewed on an annual basis.

Audit Committee

The Audit Committee assists the Board with its responsibilities for financial reporting, maintaining an efficient system of internal control and internal and external audit processes.

Risk Management and Compliance Committee

The Risk Management and Compliance Committee oversees and makes recommendations to the Board on the risk profile of the businesses and ensures that appropriate policies and procedures are adopted for the timely and accurate identification and reporting, as well as effective management of the significant risks to the businesses. It also assists the Board with its responsibilities to oversee compliance with obligations determined by statute, legislation, regulation, contract or agreement.

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration policy and remuneration arrangements for senior executives and employees. It also reviews the performance of senior executives on an annual basis.

The above committee structures have been replicated at the operating subsidiary company level – i.e. for CitiPower Pty, Powercor Australia Ltd, CHED Services Pty Ltd and Powercor Network Services Pty Ltd.

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.

The Group operates a whistle-blower hotline for employees, called 'Speak-up Anonymous'. The service is administered independently by an external provider and is an important element of the Group's governance framework. Reports on calls to this hotline are presented to the Audit Committee.

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 relating to insider trading, 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 black-out periods.

Directors and senior management are prohibited from short-term trading Spark Infrastructure securities (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 dependant), 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 organisations as part of the formal Board sign-off of the annual financial statements.

The Chief Executive Officer and Chief Financial Officer have confirmed for the 2008 year that:

- the financial statements are founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board of Directors; and
- the risk management and internal compliance and control systems of the companies relating to financial reporting, compliance and operations objectives are operating efficiently and effectively, in all material respects.

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 and value 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 Committee performs a regular review of the services provided by the external auditor.

Internal audit

The operating companies have an internal audit function (Audit Services) which conducts a diverse program of financial, operational, IT and compliance audits and forms an integral part of the Group's corporate governance framework.

The role of the internal audit unit is defined in the Internal Audit Charter, which has been endorsed by the Group's Audit Committee. The objective of the internal audit function is to provide independent assurance to the Board regarding the adequacy and effectiveness of the risk management and control framework in operation throughout the Group and to add value through recommended process improvements.

The audit plan which uses a risk based methodology (based on the AS/NZS 4360:2004 *Risk Assessment Standard*), is integrated with the Group's Enterprise Risk Management Framework. The plan provides assurance to management and the Board regarding:

- the reliability of financial and related management information;
- the effectiveness and efficiency of Group operations; and
- the level of compliance with legislative and statutory requirements.

The internal audit function assists the operating companies by providing best practice control advice and partnering with management to improve risk mitigation strategies. Achievements and outcomes in 2008 included:

- strengthened relationships with stakeholders by improving consultation with management to expedite the implementation of audit recommendations;
- improved audit reporting format to more effectively align with the Group's risk profiling activities;
- streamlined audit processes and standardised documentation to improve productivity; and
- implemented the use of automated audit software to more effectively interrogate data as part of the audit process.

The audit methodology employed by internal audit incorporates a comprehensive quality assessment process, aimed to achieve compliance with:

- the Professional Practices Framework and Code of Ethics issued by the Institute of Internal Auditors;
- where relevant, the Statement on Information Systems Auditing Standards issued by the Information Systems and Control Association;
- relevant auditing standards issued by the Auditing and Assurance Standards Board; and
- where appropriate, other relevant standards such as Australian Standards or standards issued by the International Standards Organisation.

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 on the risk position.

An on-line risk management software tool is utilised to assist with the categorisation and evaluation of risks and controls. This software tool was used as part of the CHEDHA Holdings Group's 2008 risk profiling process.

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

During the year, the Risk Management and Compliance Committee reviewed the Treasury Risk Management Policy for the Group and made recommendations on policy revisions to the Group Boards which were accepted. The Treasury Risk Policy covers the management of various risks including:

- liquidity risk;
- interest rate risk;
- foreign exchange risk; and
- treasury counterparty credit risk.

Compliance programs

In relation to the Group companies' electricity industry legislative and regulatory commitments, 2008 was the first full year in which an automated compliance system was utilised to track the status of individual obligations by their due dates throughout the year.

Compliance system results are reported to the Risk Management and Compliance Committee and action plans developed and monitored for any instances of non-compliance. This compliance system also effectively facilitates the management and reporting of any breaches under the Essential Services Commission's regulatory reporting framework and monitoring by the Risk Management and Compliance Committee.

In relation to borrowing commitments, questionnaire processes are conducted semi-annually to provide internal assurances in regard to representations and warranty obligations and compliance certificate and notification obligations.

Questionnaires are subject to internal audit review.

The Group 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).

The Group companies are also accredited to the International Customer Service Standard (ICSS) by the Customer Service Institute of Australia.

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

Other governance policies

In addition to the foregoing policies and procedures, the Group companies have adopted and work to a range of other policies and procedures relevant to good corporate governance including:

- conflicts and declarations of interest;
- director performance evaluation;
- protocols for Board and management interactions between Board meetings;
- Board meeting preparations;
- Board meeting procedures;
- establishment of a program of technical briefings for directors as part of directors' training requirements;
- formal recognition of Group companies' disclosure obligations to shareholders in order to ensure that the shareholders are able to meet their respective continuous disclosure responsibilities insofar as those matters are affected by Group activities;
- role descriptions for the Chairman of the Board and the Chairman of each Board Committee; and
- procedures for directors to access independent advice in appropriate circumstances.

Joint Management Team



Garry Audley

General Manager Electricity Networks

Garry Audley has 27 years' electricity industry experience in Australia, and has been instrumental in reliability and performance initiatives since becoming General Manager in 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 Energy Network Association's Asset Management Committee and the Victorian Energy Minister's Utilities Infrastructure Reference Panel relating to the Roads Management Act.



Brendan Bloore

General Manager Customer Services

Brendan Bloore has 23 years' experience in the electricity industry, working in design, construction, maintenance, customer negotiation, human resources, business development, network relationships and customer management roles. Brendan has a Bachelor of Electrical Engineering, a Diploma of Human Resources and a Masters of Business Administration. In 2008, Brendan was awarded the National Customer Service Executive of the Year by the Customer Service Institute of Australia. Brendan represents Victorian electricity distributors on the Energy and Water Ombudsman's Case Handling Advisory Committee.



Peter Bryant

General Manager Advanced Metering Infrastructure Services

Peter Bryant has more than 25 years' experience in the electricity industry, having operated in a variety of asset management roles. Peter has extensive experience in customer service management, strategy, issue resolution, and relationship and contractor management. As General Manager, Peter is responsible for the advanced metering program, involving the implementation and deployment of Advance Metering Infrastructure, business integration and transformation, and delivering associated services. Peter is an elected member of the National and Victorian Smart Metering Steering Committees, as well as an elected member of the National Electricity Market Information Exchange and Retail Market Executive Committees and a Leadership Victoria Williamson Fellow.



Richard Gross

General Manager Regulation and Business Development

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 22 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 Practising Accountant and is a member of the Australian Institute of Company Directors. He is also a Director and Chairman of the Investment Committee of Equisuper, a major Australian industry superannuation fund.



Glen McLean

General Manager Information Technology

Glen McLean has 27 years' experience in information technology related roles and business change management. He has served in a senior role with Andersen Consulting and in a variety of consulting roles with Bond Consulting, Deloitte Haskins & Sells and Computer Manufacture & Design. He is a former member of the Board of DWS Advanced Business Solutions and holds a Bachelor of Applied Science in Computing/Accounting. Glen has led the information technology program of CitiPower and Powercor since joining the business at privatisation in 1995.



Mark Sturgess

General Manager Powercor Network Services Pty Ltd

Mark Sturgess has more than 30 years' experience leading a diverse range of technical organisations within the energy utilities and public sectors in areas including national growth, marketing, supply chain management, customer service, innovation, and open space design and management. He holds a Bachelor of Business degree (Top Graduate Award), is Chairman of the Swinburne University of Technology Australian Graduate School of Entrepreneurship Advisory Board, Fellow of the Australian Institute of Management and a member of the Australian Institute of Company Directors.



Brian Sullivan

General Manager Human Resources & Corporate Affairs

Brian Sullivan has extensive experience in human resources, corporate affairs, environmental and quality management. Prior to joining the electricity industry, he held management positions at BHP, Adelaide Festival Trust, St John Council for South Australia Inc and Elders Ltd. Brian holds Bachelor of Commerce and Master of Business Administration degrees, is a Fellow of the Australian Human Resources Institute and a Graduate Member of the Australian Institute of Company Directors. Brian is a Director of The Leadership Consortium and Carrick Higher Education Pty Ltd.



Julie Williams

Chief Financial Officer

Julie Williams has 18 years' experience in the electricity industry in finance, treasury and risk management roles. Julie 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. Julie holds Bachelor of Business and Master of Applied Finance degrees.

CHEDHA Holdings Directors



Peter Tulloch

Mr Tulloch is Chairman of CHEDHA Holdings and its subsidiaries, including the CitiPower and Powercor Group Companies and is Chairman of ETSA Utilities. He is also a Non-executive Director of CK Life Sciences Int'l. (Holdings) Inc. Mr Tulloch was educated in Scotland, is a Fellow of the Institute of Canadian Bankers and spent more than 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 Pty Limited and its major subsidiary companies. He is also the Group Managing Director of Cheung Kong Infrastructure Holdings Limited, the Deputy Managing Director of Cheung Kong (Holdings) Limited, the President and Chief Executive Officer of CK Life Sciences Int'l., (Holdings) Inc., an Executive Director of Hutchison Whampoa Limited and Hongkong Electric Holdings Limited, and a Non-executive Director of Spark Infrastructure Group. He holds a Bachelor of Science degree in Engineering and a Masters degree in Business Administration.



Andrew Hunter

Mr Hunter is a Director of CHEDHA Holdings Pty Limited and its subsidiaries. He is also an Executive Director and Chief Operating Officer of Cheung Kong Infrastructure Holdings Limited, as well as the Chief Financial Officer of Cheung Kong (Holdings) Limited, an Executive Director of Hongkong Electric Holdings Limited and a Non-executive Director of Spark Infrastructure Group. Mr Hunter holds a Master of Arts degree and a Masters degree in Business Administration. He is a member of the Institute of Chartered Accountants of Scotland and of the Hong Kong Institute of Certified Public Accountants.



K S Tso

Mr Tso is a Director of CHEDHA Holdings Pty Limited and its major subsidiary companies. He is also the Group Managing Director of Hongkong Electric Holdings Ltd. Mr Tso has more than 40 years of business experience, including senior management and engineering roles with the Hongkong Electric Group and Hutchison Whampoa Properties. He is an Executive Director of Cheung Kong Infrastructure Holdings Ltd, and was appointed to the Board of ETSA Utilities in 2000. Mr Tso holds a Bachelor of Science degree in Civil Engineering and is a Chartered Engineer. He is also a member of the Institute of Civil Engineers and the Institute of Structural Engineers in the United Kingdom.



C T Wan

Mr Wan is a Director of CHEDHA Holdings and its subsidiary companies. He has worked for the Hongkong Electric Group since 1978. From September 2000 to June 2003, he was Chief Executive Officer of CitiPower and Powercor Australia. He is now Director of Engineering (Planning & Development) of Hongkong Electric Holdings Limited and a Director of ETSA Utilities. Mr Wan is a professional Engineer and Honorary Fellow of the Energy Institute in the United Kingdom.

**Laura Reed**

Ms Reed is a Director of CHEDHA Holdings and its subsidiary companies. She was appointed Chief Executive Officer of Spark Infrastructure in September 2008 after serving as Chief Financial Officer from February 2007. Ms Reed has over 20 years' experience working in various financial and commercial roles in the gas industry, and has extensive experience in strategic planning, financial forecasting, treasury management and taxation within the utilities industry. Prior to joining Spark Infrastructure, Laura spent nine years at the gas distribution business Envestra Limited in a number of senior financial roles and, most recently, as CFO of that organisation.

**John Dorrian**

Mr Dorrian is a Director of CHEDHA Holdings and its subsidiary companies. He is also Managing Director of Deutsche Bank AG, Head of RREEF Alternative Investments Australia and Head of RREEF Infrastructure Investments, Asia Pacific. He is an Executive Director of Deutsche Asset Management (Australia) Limited and a Non-executive Director of a number of Australian companies, including Australia Pacific Airports Corporation Limited, the Spark Infrastructure Group, Northern Gas Networks Holdings Limited (UK) and the Port of Geelong. A Fellow of the Institute of Chartered Accountants in Australia and a member of the Australian Institute of Company Directors, he holds a Bachelor of Arts degree in financial management from Macquarie University in Sydney.

**Anne McDonald**

Ms McDonald joined the Board of CHEDHA Holdings and its major subsidiaries on 1 January 2009. She is a Non-executive Director of a number of listed entities, including Spark Infrastructure, The GPT Group and Specialty Fashion Group. She is also a Non-executive Director of Westpac's insurance businesses, Health Super and St Vincent's Health. Ms McDonald is a chartered accountant and was a partner of international accounting firm Ernst & Young for 15 years until 2005. She has over 25 years' experience working with a wide cross section of international and local companies, assisting them with financial advice, due diligence, and regulatory and compliance matters.

**Shane Breheny**

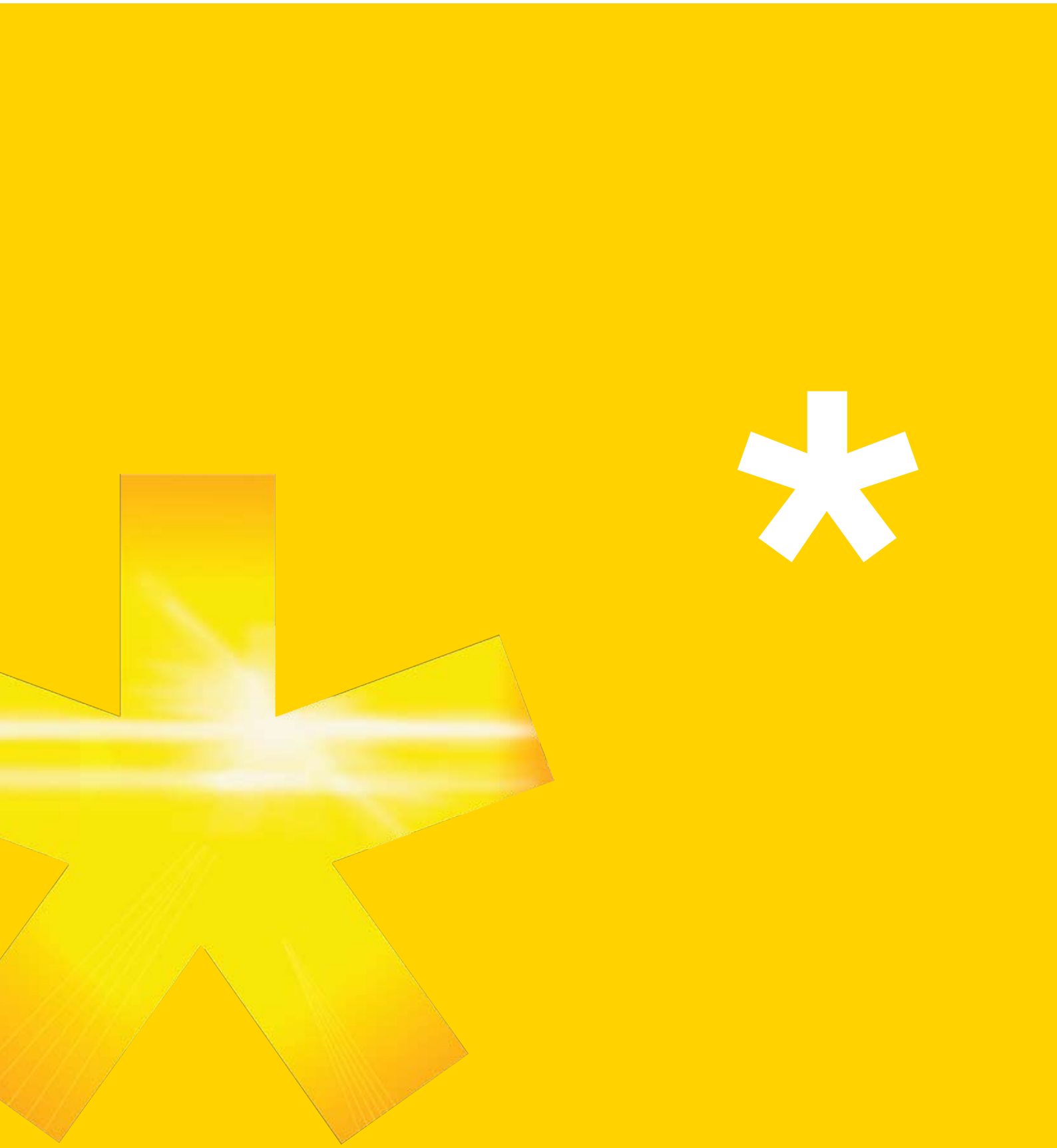
Mr Breheny was appointed a Director and Chief Executive Officer of CHEDHA Holdings and its subsidiaries, including CitiPower and Powercor Australia, in May 2003. He has held the positions of Chief Executive Officer of Electricity Services Victoria, Managing Director of CitiPower, Chief Financial Officer and Executive Director Finance for Powercor Australia. 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 and Deputy Chair of the Energy Networks Association, a Board member of the Committee for Geelong, an Executive Board member of the Committee for Geelong and Chairman of AquaTower Pty Ltd.

Alternate Directors

Dominic Chan
Neil McGee
Charles Tsai
Michael Robinson

2008 Retiring Directors

Peter St George
Bob Stobbe



Financial statements

For the year ended 31 December 2008

CHEDHA Holdings Pty Limited

ABN 37 116 940 820

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Directors' report

31 December 2008

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 2008. 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 was a Director from the beginning of the financial year until his resignation on 5 August 2008.

P B St George was a Director from the beginning of the financial year until his resignation on 1 January 2009.

C T Wan

J D Dorrian

A J Hunter

L A Reed was appointed a Director on 28 August 2008 and continues in office at the date of this report.

A M McDonald was appointed a Director on 1 January 2009 and continues in office at the date of this report.

Principal activities

CHEDHA Holdings holds the investments in the Powercor Group, the CitiPower Group, Powercor Network Services Pty Ltd and CHED Services Pty Ltd. 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 \$74,703 thousand (2007: \$73,701 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 2008, 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
18 February 2009

Auditors' independence declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
180 Lonsdale Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001
Tel: +61 (0) 3 9208 7000
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www.deloitte.com.au

18 February 2009

The Board of Directors
CHEDHA Holdings Pty Ltd
40 Market Street
Melbourne VIC 3000

Dear Board Members

CHEDHA Holdings Pty Ltd

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 Ltd.

As lead audit partner for the audit of the financial statements of CHEDHA Holdings Pty Ltd for the financial year ended 31 December 2008, 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.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Clive Mottershead
Partner
Chartered Accountants

Income statement

For the year ended 31 December 2008

	Notes	Consolidated		Company	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Revenue from continuing operations	4	1,014,399	974,964	155,969	332,465
Other income	5	(3,257)	(2,499)	62,137	68,429
Expenses from ordinary activities	6	(590,030)	(551,646)	–	–
Finance costs	6	(346,409)	(347,118)	(190,656)	(197,505)
Profit before income tax		74,703	73,701	27,450	203,389
Income tax benefit/(expense)	7	14,778	(19,550)	36,217	38,724
Profit from continuing operations		89,481	54,151	63,667	242,113
Profit attributable to members of the parent entity		89,481	54,151	63,667	242,113

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

Balance sheet

As at 31 December 2008

	Notes	Consolidated		Company	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Assets					
Current assets					
Cash and cash equivalents	8	170,040	116,184	–	–
Trade and other receivables	9	34,967	22,709	–	–
Inventories	10	23,453	26,629	–	–
Other	11	106,143	114,905	16,781	17,141
		334,603	280,427	16,781	17,141
Non-current assets classified as held for sale	12	–	4,112	–	–
Total current assets		334,603	284,539	16,781	17,141
Non-current assets					
Trade and other receivables	13	25,017	25,323	276,413	238,299
Other financial assets	14	–	–	1,007,744	936,445
Property, plant and equipment	15	4,183,446	3,981,937	–	–
Intangible assets	16	865,573	870,541	–	–
Other	17	–	147,213	1,361,885	1,361,885
Deferred tax assets	7	66,691	–	220,188	201,476
Total non-current assets		5,140,727	5,025,014	2,866,230	2,738,105
Total assets		5,475,330	5,309,553	2,883,011	2,755,246
Liabilities					
Current liabilities					
Trade and other payables	18	172,713	180,766	27,278	31,931
Borrowings	19	–	457,056	–	–
Provisions	20	71,870	59,584	–	–
Other	21	32,176	192,029	139,570	–
Total current liabilities		276,759	889,435	166,848	31,931
Non-current liabilities					
Trade and other payables	22	–	–	287,307	255,524
Borrowings	23	4,388,860	3,610,880	1,617,751	1,720,353
Deferred tax liabilities	7	–	43,418	–	–
Provisions	24	7,585	9,254	–	–
Other	25	202,318	23,801	–	–
Total non-current liabilities		4,598,763	3,687,353	1,905,058	1,975,877
Total liabilities		4,875,522	4,576,788	2,071,906	2,007,808
Net assets		599,808	732,765	811,105	747,438
Equity					
Issued capital	26	279,499	279,499	315,499	315,499
Reserves	27(a)	(518,767)	(388,342)	–	–
Retained earnings	27(b)	839,076	841,608	495,606	431,939
Total equity		599,808	732,765	811,105	747,438

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

Statement of recognised income and expense

For the year ended 31 December 2008

		Consolidated		Company	
	Notes	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(Loss)/gain on cash flow hedges taken to equity	27a	(186,322)	45,039	–	–
Actuarial (loss)/gain on defined benefit plans	27b	(131,448)	10,704	–	–
Income tax on items taken directly to equity	7c	95,332	(16,723)	–	–
Net (expense)/income recognised directly in equity		(222,438)	39,020	–	–
Profit for the year		89,481	54,151	63,667	242,113
Total recognised income and expense for the year		(132,957)	93,171	63,667	242,113

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

Cash flow statement

For the year ended 31 December 2008

	Notes	Consolidated		Company	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash flows from operating activities					
Receipts from customers		1,022,878	980,080	–	–
Payments to suppliers and employees		(494,793)	(480,708)	–	–
Interest received		7,291	4,477	–	–
Net repayment of trust monies		(11,487)	(5,564)	–	–
Interest paid		(352,460)	(353,881)	–	–
Net cash provided by operating activities	34a	171,429	144,404	–	–
Cash flows from investing activities					
Payments for property, plant and equipment		(336,979)	(302,333)	–	–
Receipts from customers for capital works		72,245	52,403	–	–
Payments for intangible assets		(660)	(927)	–	–
Proceeds from sale of property, plant and equipment		3,474	5,252	–	–
Net cash (used in) investing activities		(261,920)	(245,605)	–	–
Cash flows from financing activities					
Proceeds from borrowings – external		878,872	875,000	–	–
Repayment of borrowings – external		(631,912)	(679,400)	–	–
Repayment of borrowings – related parties		(102,613)	(78,152)	–	–
Dividend received from related party		–	6,323	–	–
Net cash provided by/(used in) financing activities		144,347	123,771	–	–
Net increase (decrease) in cash and cash equivalents					
Cash and cash equivalents at the beginning of the financial year		116,184	93,614	–	–
Cash and cash equivalents at end of year	34b	170,040	116,184	–	–

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

Notes to the financial statements

31 December 2008

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

Adoption of new and revised Accounting Standards

In the current year, the Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. There were no relevant accounting policy changes during the year ended 31 December 2008.

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 3	'Business Combinations'	31 December 2009
AASB 8	'Operating Segments'	31 December 2009
AASB 101	'Presentation of Financial Statements'	31 December 2009
AASB 123	'Borrowing Costs' – revised standard	31 December 2009

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.

In addition to the standards issued above, other standards and interpretations have been issued but not yet effective by the Australian Accounting Standards Board, these standards are not relevant to the operations 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.

The financial statements were authorised for issue by the directors on 18 February 2009.

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. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

(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. Interest is calculated on monies held in trust. 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.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

(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. To the extent that eligible employees are entitled to take their long-service leave in the next 12 months, whether they are expected to take it or not, the liability is classified as current.

(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 (liability)/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 assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

Other financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss', and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

- (i) has been acquired principally for the purpose of selling in the near future;
- (ii) is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- (iii) is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 37.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

(j) Financial instruments issued by the company

Debt and equity instruments

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

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities. At the reporting date the types of financial liabilities for the purpose of disclosure was limited to other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

(k) 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 2(g)).

(l) 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.

(m) 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 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.

(n) 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).

Notes to the financial statements continued

2. Summary of significant accounting policies continued

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.

(o) 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.

(p) 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.

(q) Investments

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

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) 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	15–50 years

(w) 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.

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.

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 group assets.

Customer refunds

The provision for customer refunds represents the present value of the directors' best estimate of the future sacrifice of economic benefits that will be required to settle claims for billing adjustments that relate to prior years.

(x) Receivables

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

(y) 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'.

(z) 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.

(aa) 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 2(e).

(ab) 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.

Useful lives of property, plant and equipment

As described in note 2(v), the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During the financial year, the directors determined that the lives of high and low voltage metering assets should be adjusted such that their useful life expires by 31 December 2020. This is consistent with the 2006 regulatory determination allocating 15-year lives for all such assets.

The financial effect of this reassessment is to increase consolidated depreciation expense in the current financial year and for the next 12 years, by the following amounts:

Year	\$'000
2008	9,289
2009–2020	107,446

Notes to the financial statements continued

4. Revenue

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
From continuing operations				
Distribution Revenue	773,386	767,948	–	–
	773,386	767,948	–	–
Other operating revenue				
Customer contributions for capital works	87,704	83,138	–	–
Dividends	–	–	–	180,959
Meter data/public lighting	47,421	36,565	–	–
Customer transfers and connections	14,087	9,532	–	–
Reserve capacity	1,132	1,241	–	–
Service level agreement revenue	10,466	10,333	–	–
Property Rentals	1,447	1,424	–	–
Interest revenue – other entities	7,291	4,477	–	–
Interest revenue – related party	–	–	155,969	151,506
Secondment revenue – other related parties	282	409	–	–
Other revenue	71,183	59,897	–	–
	241,013	207,016	155,969	332,465
	1,014,399	974,964	155,969	332,465

5. Other income

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
From continuing operations				
Gain on disposal of property, plant and equipment	232	1,265	–	–
Fair value foreign exchange hedge gain	921	–	–	–
Fair value interest rate swap not designated in hedge relationship (loss)	(2,166)	(4,006)	–	–
Ineffectiveness on interest rate swaps in cash flow hedge relationships	(2,244)	487	–	–
Gain on discounting of intercompany loans	–	–	62,137	68,429
Fair value foreign exchange hedge (loss)	–	(4)	–	–
Fair value foreign exchange cross currency swap (loss)	–	(51,132)	–	–
Fair value foreign exchange bank loan – offshore gain	–	50,891	–	–
	(3,257)	(2,499)	62,137	68,429

6. Expenses

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Expenses, excluding finance costs, included in the income statement classified by nature				
Transmission fees	159,745	160,024	–	–
Materials expense	20,969	23,680	–	–
Personnel expense	192,355	161,804	–	–
Depreciation and amortisation expense	173,818	157,492	–	–
External services	229,522	209,241	–	–
Operating lease rentals – minimum lease payments	7,047	6,760	–	–
Taxes, fees and charges	10,201	9,932	–	–
Capitalised expenses*	(228,103)	(196,277)	–	–
Bad debts written off	1,060	340	–	–
Doubtful debts provided for	238	160	–	–
Other expenses	23,178	18,490	–	–
	590,030	551,646	–	–
Profit before income tax includes the following specific expenses:				
<i>Depreciation</i>				
Buildings	3,703	3,202	–	–
Distribution assets	142,571	126,813	–	–
Plant and equipment	21,916	21,876	–	–
Total depreciation	168,190	151,891	–	–
<i>Amortisation</i>				
Intellectual property	5,628	5,601	–	–
Total amortisation	5,628	5,601	–	–
<i>Finance costs</i>				
Interest and finance charges paid/payable	165,562	155,677	–	–
Other related parties	180,847	191,441	190,656	197,505
Total finance costs	346,409	347,118	190,656	197,505
<i>Employee benefit expense</i>				
Defined contribution plans	7,461	6,125	–	–
Defined benefit plans	(595)	(422)	–	–
Total employee benefits	6,866	5,703	–	–

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

Notes to the financial statements continued

7. Income tax expense

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(a) Income tax (benefit)/expense recognised in profit				
Tax (income)/expense comprises:				
Current tax (benefit)/expense in respect of the current year	(6,191)	(25,441)	(23,695)	(29,701)
Deferred tax (benefit)/expense relating to the origination and reversal of temporary differences	(8,587)	44,991	(12,522)	(9,023)
	(14,778)	19,550	(36,217)	(38,724)
Attributable to:				
Continuing operations	(14,778)	19,550	(36,217)	(38,724)
	(14,778)	19,550	(36,217)	(38,724)
(b) Numerical reconciliation of income tax expense to prima facie income tax (benefit)				
Profit from continuing operations before income tax expense	74,703	73,701	27,450	203,389
Profit (loss) from operations	74,703	73,701	27,450	203,389
Tax at the Australian tax rate of 30%	22,411	22,110	8,235	61,017
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non-deductible interest expense	–	206	–	109
Non-deductible expenses	111	131	–	–
Effect of change in tax base	(37,300)	–	–	–
Effect of transactions within the tax consolidated group that are exempt from taxation	–	–	(44,452)	(98,617)
Sundry items	–	(6)	–	–
	(14,778)	22,441	(36,217)	(37,491)
Adjustments recognised in the current year in relation to the current tax of prior periods	–	(2,891)	–	(1,233)
Income tax expense/(benefit)	(14,778)	19,550	(36,217)	(38,724)
(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	55,897	(13,512)	–	–
Actuarial movements in defined benefit plans	39,435	(3,211)	–	–
	95,332	(16,723)	–	–

The tax rate used in the above reconciliation is the corporate tax rate of 30 per cent payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with 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

	Consolidated			
	Opening balance \$'000	Charged to income \$'000	Charged to equity \$'000	Closing balance \$'000
(d) Taxable and deductible temporary differences				
Taxable and deductible temporary differences arise from the following:				
2008				
Temporary differences				
Property, plant and equipment	(74,824)	4,891	–	(69,933)
Intangible assets	(181,225)	–	–	(181,225)
Provisions	20,720	3,666	–	24,386
Doubtful debts and impairment losses	1,029	65	–	1,094
Defined benefit superannuation asset	(13,010)	(1,076)	39,435	25,349
Cash flow hedges	(30,795)	–	55,897	25,102
Fair value hedges	276	(276)	–	–
Ineffectiveness on cash flow hedges	(1,056)	1,322	–	266
Other	3,978	(5)	–	3,973
Deferred tax (liability)	(274,907)	8,587	95,332	(170,988)
2007				
Temporary differences				
Property, plant and equipment	(109,145)	34,321	–	(74,824)
Intangible assets	(96,775)	(84,450)	–	(181,225)
Provisions	20,413	307	–	20,720
Doubtful debts and impairment losses	981	48	–	1,029
Defined benefit superannuation asset	(9,465)	(334)	(3,211)	(13,010)
Cash flow hedges	(17,283)	–	(13,512)	(30,795)
Fair value hedges	194	82	–	276
Ineffectiveness on cash flow hedges	(2,113)	1,057	–	(1,056)
Other	–	3,978	–	3,978
Deferred tax (liability)	(213,193)	(44,991)	(16,723)	(274,907)
Company				
	Opening balance \$'000	Charged to income \$'000	Charged to equity \$'000	Closing balance \$'000
2008				
Temporary differences				
Discounting of intercompany loans	(30,013)	12,522	–	(17,491)
Deferred tax (liability)	(30,013)	12,522	–	(17,491)
2007				
Temporary differences				
Discounting of intercompany loans	(39,036)	9,023	–	(30,013)
Deferred tax (liability)	(39,036)	9,023	–	(30,013)

Notes to the financial statements continued

7. Income tax expense continued

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(e) Deferred tax assets and liabilities				
Deferred tax (assets) comprise:				
Tax losses – revenue	(237,679)	(231,489)	(237,679)	(231,489)
Temporary differences	(80,170)	(26,003)	–	–
	(317,849)	(257,492)	(237,679)	(231,489)
Deferred tax liabilities comprise:				
Temporary differences	251,158	300,910	17,491	30,013
	251,158	300,910	17,491	30,013
Net deferred tax liability/(asset)	(66,691)	43,418	(220,188)	(201,476)

8. Current assets – Cash and cash equivalents

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash at bank and in hand	3,390	5,784	–	–
Deposits at call	166,650	110,400	–	–
	170,040	116,184	–	–

9. Current assets – Trade and other receivables

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Trade receivables	2,873	2,486	–	–
Provision for doubtful receivables	(2,543)	(2,416)	–	–
	330	70	–	–
Non-trade receivables	35,740	23,654	–	–
Provision for doubtful receivables	(1,103)	(1,015)	–	–
	34,637	22,639	–	–
	34,967	22,709	–	–

(a) Impaired trade receivables

The Consolidated Entity has a number of classes of receivables. Trade receivables are primarily for network fees which are received from electricity retailers. The credit risk on these receivables is considered low as the retailer payments are governed by a Use of System Agreement which stipulates that all payments are to be made on the 10th day after monthly invoicing. Any provision for outstanding trade receivables would usually be in relation to billing disputes between the Consolidated Entity and electricity retailers.

Non-trade receivables are predominantly from revenue for any non-electricity tariff services including customer initiated augmentation work, excluded services and external project work. It is policy of the Consolidated Entity to provide for any of these receivables following specific assessment of individual receivables where the probability of collection is assessed as doubtful.

9. Current assets – Trade and other receivables continued

(a) Impaired trade receivables continued

As at 31 December 2008 current trade receivables of the Consolidated Entity with a nominal value of \$2,543 thousand (2007: \$2,416 thousand) were past due. The amount of the provision was \$2,543 thousand (2007: \$2,416 thousand). As at 31 December 2008 the Consolidated Entity has provided fully for those trade receivables that are beyond 90 days (2007: 100 per cent). As at 31 December 2008 current non-trade receivables of the Group with a nominal value of \$1,103 thousand (2007: \$1,015 thousand) were beyond 90 days. The amount of the provision was \$1,103 thousand (2007: \$1,015 thousand). The receivables provided for mainly relate to works done for individual customers. Amounts provided for vary according to specific assessment of individual receivables and assessment of past collection experience. There were no provisions required in the Company.

Included in the Consolidated Entity's non-trade receivable balance are debtors with a carrying amount of \$10,074 thousand (2007: \$7,472 thousand) which are past due at the reporting date for which the Consolidated Entity has not provided as there has not been a significant change in credit quality and the Consolidated Entity believes that the amounts are still considered recoverable.

Movements in the provision for doubtful receivables are as follows:

	Consolidated	
	2008 \$'000	2007 \$'000
Balance at beginning of year	3,431	3,271
Increase/(decrease) in provision recognised in profit or loss	215	160
Balance at end of year	3,646	3,431

10. Current assets – Inventories

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Raw materials – construction, general purpose and maintenance stocks – At cost	23,453	26,629	–	–
	23,453	26,629	–	–

11. Current assets – Other assets

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Other related parties	106	106	16,781	17,141
Accrued revenue	100,341	107,820	–	–
Prepayments	5,696	4,813	–	–
Interest rate swaps – at fair value	–	2,166	–	–
	106,143	114,905	16,781	17,141

Notes to the financial statements continued

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

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Land and buildings classified as held for sale	–	4,112	–	–
	–	4,112	–	–

At 31 December 2007 it was the intention of the Consolidated Entity to dispose of property comprising land and buildings. A buyer was found and settlement of the property was expected to occur in January 2008. The final price offered by the buyer was deemed not to be at a satisfactory level. As a result the disposal of the land and buildings did not occur as expected. The property has been withdrawn from the market and the property is no longer classified as held for sale.

13. Non-current assets – Trade and other receivables

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Receivable from subsidiaries	–	–	276,413	238,299
Finance lease receivable	25,017	25,023	–	–
Deferred receivables	–	300	–	–
	25,017	25,323	276,413	238,299
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	29,200	31,300	–	–
Minimum lease payments	31,300	33,400	–	–
Less: future finance charges	(6,283)	(8,377)	–	–
Finance lease receivable	(6,283)	(8,377)	–	–
Net investment in finance leases	25,017	25,023	–	–
	25,017	25,023	–	–

14. Non-current assets – Other financial assets

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Shares in subsidiaries (note 33)	–	–	1,007,744	936,445
	–	–	1,007,744	936,445

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 2007					
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
Year ended 31 December 2007					
Opening net book amount	104,789	70,276	107,532	3,519,135	3,801,732
Additions	322	1,245	48,703	285,814	336,084
Disposals	(703)	(1,503)	(6,194)	(302)	(8,702)
Disposals – accumulated depreciation	–	361	4,353	–	4,714
Depreciation charge	–	(3,202)	(21,876)	(126,813)	(151,891)
Closing net book amount	104,408	67,177	132,518	3,677,834	3,981,937
At 31 December 2007					
Cost	104,408	81,946	219,742	4,309,499	4,715,595
Accumulated depreciation	–	(14,769)	(87,224)	(631,665)	(733,658)
Net book amount	104,408	67,177	132,518	3,677,834	3,981,937
Year ended 31 December 2008					
Opening net book amount	104,408	67,177	132,518	3,677,834	3,981,937
Additions	464	2,375	21,170	344,818	368,827
Asset reclassification*	–	–	(32,685)	32,685	–
Disposals	(95)	(480)	(8,515)	–	(9,090)
Disposals – accumulated depreciation	–	159	5,691	–	5,850
Transfer from asset held for sale	579	3,533	–	–	4,112
Depreciation charge	–	(3,703)	(21,916)	(142,571)	(168,190)
Depreciation reclassification	–	–	1,601	(1,601)	–
Closing net book amount	105,356	69,061	97,864	3,911,165	4,183,446
At 31 December 2008					
Cost	105,356	87,373	199,712	4,687,003	5,079,444
Accumulated depreciation	–	(18,312)	(101,848)	(775,838)	(895,998)
Net book amount	105,356	69,061	97,864	3,911,165	4,183,446

* For year ended 31 December 2007, metering assets that have been capitalised since 2006 were reclassified from 'Distribution system' to 'Plant and equipment'. This was subsequently reversed for year ended 31 December 2008.

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

Notes to the financial statements continued

16. Non-current assets – Intangible assets

	Consolidated		
	Licences \$'000	Intellectual property \$'000	Total \$'000
At 1 January 2007			
Cost	773,122	141,652	914,774
Accumulated amortisation	–	(39,560)	(39,560)
Net book amount	773,122	102,092	875,214
Year ended 31 December 2007			
Opening net book amount	773,122	102,092	875,214
Additions	–	928	928
Amortisation expense	–	(5,601)	(5,601)
Closing net book amount	773,122	97,419	870,541
At 31 December 2007			
Cost	773,122	142,580	915,702
Accumulated amortisation	–	(45,161)	(45,161)
Net book amount	773,122	97,419	870,541
Year ended 31 December 2008			
Opening net book amount	773,122	97,419	870,541
Additions	–	660	660
Amortisation expense	–	(5,628)	(5,628)
Closing net book amount	773,122	92,451	865,573
At 31 December 2008			
Cost	773,122	143,240	916,362
Accumulated amortisation	–	(50,789)	(50,789)
Net book amount	773,122	92,451	865,573

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 \$92,451 thousand and will be fully amortised over 30 years.

The licences, which have been assessed as having an indefinite life, have a carrying amount of \$773,122 thousand at 31 December 2008. 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. The key assumption on which management has based its assessment is projected maintainable earnings before interest, tax, depreciation and amortisation ('EBITDA') and the terminal value based on a multiple of RAB (regulated asset base). A discounted cash flow analysis has been used as a basis for testing for asset impairment.

17. Non-current assets – Other

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Loans advanced to subsidiaries – at amortised cost	–	–	1,361,885	1,361,885
Defined benefit superannuation asset (note 36a)	–	43,367	–	–
Interest rate swaps – at fair value	–	103,846	–	–
	–	147,213	1,361,885	1,361,885

18. Current liabilities – Trade and other payables

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Goods and services tax (GST) payable	2,704	2,302	–	–
Creditors and accruals	100,707	93,790	–	–
Accrued interest – other	24,117	27,257	–	–
Accrued interest – other related parties	27,287	31,937	27,278	31,931
Trust funds and deposits	13,728	23,475	–	–
Other payables	4,170	2,005	–	–
	172,713	180,766	27,278	31,931

19. Current liabilities – Borrowings

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Unsecured – at amortised cost				
Bank loans – offshore	–	457,056	–	–
	–	457,056	–	–

Notes to the financial statements continued

20. Current liabilities – Provisions

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Employee benefits	58,138	44,352	–	–
Vegetation management	3,797	3,241	–	–
Customer refunds	1,522	2,204	–	–
Transmission fees	7,408	8,293	–	–
Uninsured losses	448	624	–	–
Other provisions	557	870	–	–
	71,870	59,584	–	–

Employee benefits

AASB 101 requires that a liability shall be classified as current where the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. To the extent that eligible employees are entitled to take their long service leave in the next 12 months, whether they are expected to take it or not, the liability is classified as current.

The current provision for employee benefits includes \$39,449 thousand of annual leave and vested long service leave entitlements accrued but not expected to be taken within 12 months (2007: \$27,511 thousand).

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.

Customer refunds

The provision for customer refunds represents the present value of the directors' best estimate of the future sacrifice of economic benefits that will be required to settle claims for billing adjustments that relate to prior years.

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 restructuring and environmental restorations.

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	Customer refunds \$'000	Total \$'000
Consolidated – 2008						
Current						
Balance at 1 January 2008	3,241	8,293	624	870	2,204	15,232
Additional provisions recognised	–	7,408	1,507	–	–	8,915
Reductions arising from payments/other sacrifices of future economic benefits	(1,496)	(8,293)	(1,137)	(13)	–	(10,939)
Reductions resulting from remeasurement or settlement without cost	–	–	(546)	(300)	(682)	(1,528)
Other – Movement between current and non-current	2,052	–	–	–	–	2,052
Carrying amount at end of year	3,797	7,408	448	557	1,522	13,732

21. Current liabilities – Other

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Other related parties	111	111	139,570	–
Deferred revenue	32,065	16,316	–	–
Cross currency swaps – at fair value	–	175,602	–	–
	32,176	192,029	139,570	–

22. Non-current liabilities – Trade and other payables

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Loans from subsidiaries – at amortised cost	–	–	287,307	255,524
	–	–	287,307	255,524

23. Non-current liabilities – Borrowings

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Unsecured – at amortised cost				
Subordinated loans from related parties	1,617,784	1,720,397	1,617,751	1,720,353
Medium term notes	2,522,074	1,890,483	–	–
Bank loans	249,002	–	–	–
	4,388,860	3,610,880	1,617,751	1,720,353

24. Non-current liabilities – Provisions

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Employee benefits	2,060	1,677	–	–
Vegetation Management	5,525	7,577	–	–
	7,585	9,254	–	–

Notes to the financial statements continued

24. Non-current liabilities – Provisions continued

Movements in provisions

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

	Vegetation management \$'000	Total \$'000
Consolidated – 2008		
Non-current		
Balance at 1 January 2008	7,577	7,577
Other – Movement between current and non-current	(2,052)	(2,052)
Carrying amount at end of year	5,525	5,525

25. Non-current liabilities – Other

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Interest rate swaps – at fair value	84,561	–	–	–
Defined benefit superannuation liability (note 36a)	84,494	–	–	–
Deferred revenue	30,731	19,529	–	–
Trust funds and deposits – at amortised cost	2,532	4,272	–	–
	202,318	23,801	–	–

26. Issued capital

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Ordinary shares				
265,498,640 fully paid ordinary shares (2007: 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		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(a) Reserves				
Hedging reserve – cash flow hedges	(58,571)	71,854	–	–
Surplus acquisition reserve	(460,196)	(460,196)	–	–
	(518,767)	(388,342)	–	–

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.

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Movements:				
<i>Hedging reserve – cash flow hedges</i>				
Balance at 1 January	71,854	40,327	–	–
Gain/(loss) recognised				
– Interest rate swaps	(150,710)	64,994	–	–
– Cross currency swaps	762	(9,582)	–	–
Transferred to profit or loss				
– Interest rate swaps	(35,453)	(19,851)	–	–
– Cross currency swaps	(921)	9,478	–	–
Deferred tax arising therefrom	55,897	(13,512)	–	–
Balance 31 December	(58,571)	71,854	–	–

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.

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(b) Retained earnings				
The balance and movements in retained earnings were as follows:				
Balance at 1 January	841,608	779,964	431,939	189,826
Actuarial (losses)/gains on defined benefit plans recognised directly in retained earnings	(131,448)	10,704	–	–
Deferred tax recognised directly in equity	39,435	(3,211)	–	–
Net profit (loss) for the year attributable to members of CHEDHA Holdings Pty Ltd	89,481	54,151	63,667	242,113
Balance 31 December	839,076	841,608	495,606	431,939

Notes to the financial statements continued

28. Commitments for expenditure

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(a) Capital expenditure commitments				
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:				
<i>Property, plant and equipment</i>				
Payable:				
Not longer than one year	–	1,407	–	–
Longer than one year but not later than five years	–	–	–	–
Longer than five years	–	–	–	–
	–	1,407	–	–
(b) Operating lease commitments				
Operating leases relate to the rental of property and equipment with terms between 1 and 13 years.				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Not longer than one year	4,822	4,211	–	–
Longer than one year but not longer than five years	20,050	18,159	–	–
Longer than five years	36,593	41,627	–	–
Commitments not recognised in the financial statements	61,465	63,997	–	–

29. Contingencies

The Consolidated Entity does not have any contingent assets or liabilities at 31 December 2008 (2007: nil).

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 was a Director from the beginning of the financial year until his resignation on 5 August 2008.

P B St George was a Director from the beginning of the financial year until his resignation on 1 January 2009.

J D Dorrian

C T Wan

A J Hunter

L A Reed was appointed a Director on 28 August 2008 and continues in office at the date of this report.

A M McDonald was appointed a Director on 1 January 2009 and continues in office at the date of this report.

(b) Details of key management personnel remuneration

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

Name						2008
	Primary			Post-employment		Total \$
	Cash salary and fees \$	Cash bonus \$	Non monetary benefits \$	Super- annuation \$	Retirement benefits \$	
Compensation 2008	1,996,216	1,019,743	123,571	237,484	–	3,377,014
Compensation 2007	2,234,758	667,598	246,098	148,994	–	3,297,448

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		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
(a) Assurance services				
<i>Audit services</i>				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	702,465	610,298	–	–
Total remuneration for audit services	702,465	610,298	–	–
<i>Other assurance services</i>				
Audit of regulatory returns	166,850	137,863	–	–
IFRS accounting advice services	–	20,450	–	–
Total remuneration for other assurance services	166,850	158,313	–	–
Total remuneration for assurance services	869,315	768,611	–	–
(b) Taxation services				
Tax compliance services, including review of company income tax returns	202,066	647,070	–	–
Total remuneration for taxation services	202,066	647,070	–	–
(c) Advisory services				
Provision of other advice	263,245	852,015	–	–
Total remuneration for advisory services	263,245	852,015	–	–
Total remuneration	1,334,626	2,267,696	–	–

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 2008 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.

Notes to the financial statements continued

32. Related party transactions continued

(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 and management services were provided by, and to, the Consolidated Entity;
- Dividend received from related party.

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, 22 and 23 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(u):

Name of entity	Country of incorporation	Equity holding	
		2008 %	2007 %
Ultimate parent entity			
CHEDHA Holdings Pty Limited	Australia	–	–
Parent entity			
CHEDHA Holdings Pty Limited	Australia	–	–
Subsidiaries			
CKI Power Distribution Pty Ltd	Australia	100	100
CKI Power Development Pty Ltd	Australia	100	100
CKI/HEI Power Holdings Pty Ltd	Australia	100	100
HEI Power Development Pty Ltd	Australia	100	100
HEI Power Distribution Pty Ltd	Australia	100	100
CKI/HEI Electricity Assignment Pty Ltd	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
CHED Services Pty Ltd	Australia	100	100
Powercor Network Services Pty Ltd (formerly CKI/HEI Electricity Distribution (Network 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		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(a) Reconciliation of profit after income tax to net cash inflow from operating activities				
Profit (loss) for the year	89,481	54,151	63,667	242,113
Depreciation and amortisation	173,818	157,492	–	–
Customer contributions received	(87,704)	(83,138)	–	–
Superannuation adjustment	(3,588)	(1,115)	–	–
Amortised finance charges	1,731	1,535	–	–
Net (gain) loss on sale of non-current assets	(232)	(1,265)	–	–
Hedging and foreign exchange gains	3,489	4,024	–	–
Decrease (increase) in trade receivables	(11,950)	(3,511)	–	–
Decrease (increase) in inventories	3,176	(1,976)	–	–
Decrease (increase) in prepayments	(883)	253	–	–
Decrease (increase) in accrued revenue	7,479	(5,334)	–	–
Increase (decrease) in trade creditors and accruals	9,491	960	180,847	10,483
Increase (decrease) in accrued interest	(7,790)	(8,557)	–	–
Increase (decrease) in deferred revenue	10,558	11,646	–	–
Increase (decrease) in income taxes payable	(14,778)	19,550	(36,217)	(38,724)
Increase (decrease) in other provisions	10,618	5,249	–	–
Increase (decrease) in trust funds and deposits	(11,487)	(5,564)	–	–
Decrease (increase) in other receivables	–	4	(146,160)	(145,443)
Gain on discounting of intercompany loans	–	–	(62,137)	(68,429)
Net cash provided by operating activities	171,429	144,404	–	–
(b) Reconciliation of cash and cash equivalents				
Cash and cash equivalents (note 8)	170,040	116,184	–	–
	170,040	116,184	–	–
(c) Non-cash investing and financing activities				
Receipt of gifted assets	31,851	33,210	–	–
	31,851	33,210	–	–

Notes to the financial statements continued

34. Notes to the cash flow statement continued

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'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 working capital facility	70,000	70,000	–	–
Debt bank facility	500,000	250,000	–	–
Medium term note facility	2,530,000	1,900,000	–	–
Total	3,106,000	2,226,000	–	–
Used at balance date				
Debt bank facility	250,000	–	–	–
Bank loans – offshore	–	632,000	–	–
Medium term note facility	2,530,000	1,900,000	–	–
Total	2,780,000	2,532,000	–	–
Unused at balance date				
Unsecured bank overdrafts	6,000	6,000	–	–
Unsecured working capital facility	70,000	70,000	–	–
Debt bank facility	250,000	250,000	–	–
Total	326,000	326,000	–	–

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 per cent 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		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(a) Balance sheet amounts				
The amounts recognised in the balance sheet are determined as follows:				
Present value of the defined benefit obligation	284,432	205,274	–	–
Fair value of defined benefit plan assets	(199,938)	(258,905)	–	–
Scheme deficit/(surplus)	84,494	(53,631)	–	–
Capping adjustment on pension asset	–	10,264	–	–
Net liability/(asset) in the balance sheet (notes 25, 17)	84,494	(43,367)	–	–
(b) Categories of plan assets				
The major categories of plan assets are as follows:				
Equity instruments	129,960	163,110	–	–
Debt instruments	33,989	44,014	–	–
Property	27,991	38,836	–	–
Other assets	7,998	12,945	–	–
Fair value of plan assets	199,938	258,905	–	–
(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	205,274	198,973	–	–
Current service cost	4,537	4,737	–	–
Interest cost	12,351	11,189	–	–
Contributions by plan participants	3,434	3,448	–	–
Actuarial losses/gains	70,838	(4,125)	–	–
Benefits paid	(15,064)	(8,948)	–	–
Other	3,062	–	–	–
Closing defined benefit obligation	284,432	205,274	–	–
Movements in the present value of the plan assets in the current period were as follows:				
Balance at the beginning of the year	258,905	240,470	–	–
Expected return on plan assets	17,483	16,348	–	–
Actuarial (losses)/gains	(70,445)	6,895	–	–
Contributions from the employer	2,563	692	–	–
Contributions from plan participants	3,434	3,448	–	–
Benefits paid	(15,064)	(8,948)	–	–
Other	3,062	–	–	–
Carrying value of plan assets	199,938	258,905	–	–

Notes to the financial statements continued

36. Defined benefit superannuation plans continued

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(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	4,537	4,737	–	–
Interest cost	12,351	11,189	–	–
Expected return on plan assets	(17,483)	(16,348)	–	–
Total	(595)	(422)	–	–
Actuarial losses/(gains) – including prior period gains not recognised	131,448	(20,969)	–	–
Capping adjustment on pension asset	–	10,264	–	–
Actuarial losses and (gains) incurred during the year and recognised in the statement of recognised income and expense	131,448	(10,705)	–	–
Cumulative actuarial losses (and gains) recognised in the statement of recognised income and expense	84,978	(46,470)	–	–

	Consolidated	
	2008 %	2007 %
(e) Principal actuarial assumptions		
The principal actuarial assumptions used (expressed as weighted averages) were as follows:		
Discount rate	4.3	6.1
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.

	2008 \$'000	2007 \$'000	2006 \$'000
(f) Historic summary			
Present value of defined benefit obligation	(284,432)	(205,274)	(198,973)
Fair value of plan assets	199,938	258,905	240,470
Capping adjustment on pension asset	–	(10,264)	(9,949)
(Deficit)/surplus	(84,494)	43,367	31,548
Experience adjustments arising on plan liabilities – loss/(gain)	29,716	3,407	9
Experience adjustments arising on plan assets – loss/(gain)	70,445	(6,895)	(16,732)

37. Financial instruments

(a) Capital risk management

The consolidated entity's objective in managing capital is to safeguard the Consolidated Entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

In order to maintain or adjust the capital structure, the Consolidated Entity may adjust the level of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Consolidated Entity is monitored through the gearing ratio. The ratio is calculated as net debt divided by total capital with net debt calculated as total interest bearing financial assets and financial liabilities (including derivative financial instruments) less cash and cash equivalents. Total capital is calculated as equity shown in the consolidated balance sheet plus net debt.

During the years ended 31 December 2008 and 2007, the Consolidated Entity's strategy was to maintain the gearing ratio at less than 75 per cent in order to secure access to finance at a reasonable cost and maintain a long-term credit rating of A-.

The Consolidated Entity's risk management committee reviews the capital structure on a semi-annual basis.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis for measurement and the basis on which income 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.

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(c) Categories of financial instruments				
Financial assets				
Fair value through profit and loss				
Derivative instruments (interest rate)	–	2,166	–	–
Derivative instruments designated in a hedge accounting relationship	–	103,846	–	–
Cash and cash equivalents	170,040	116,184	–	–
Loans and receivables	59,984	48,032	1,638,298	1,600,184
	230,024	270,228	1,638,298	1,600,184
Financial liabilities				
Derivative instruments designated in a hedge accounting relationship	84,561	175,602	–	–
Other liabilities				
Subordinated loans	1,617,784	1,720,397	1,617,751	1,720,353
Medium term notes	2,522,074	1,890,494	–	–
Bank loans – offshore	–	457,056	–	–
Trust funds	2,532	4,272	–	–
Trade and other payables	172,713	180,765	454,155	287,455
Bank loans	249,002	–	–	–
	4,648,666	4,428,586	2,071,906	2,007,808

Notes to the financial statements continued

37. Financial instruments continued

(d) Financial risk management objectives

The Consolidated Entity's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management strategy focuses on monitoring and managing these financial risks such that potential adverse effects on the Consolidated Entity's financial performance are minimised. The Consolidated Entity uses a range of derivative financial instruments to hedge these risk exposures. Derivative financial instruments are not entered into or traded for speculative purposes.

Financial risk management is carried out by the Consolidated Entity's Treasury function under policies approved by the Board of Directors. The Consolidated Entity has written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative and non-derivative financial instruments and the investment of excess liquidity.

(e) Market risk

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

- Cross Currency Swaps (CCS) 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;

- Foreign currency forward contracts and options to hedge the exchange rate risk arising from payables and receivables denominated in foreign currencies; and
- Interest rate swaps and options to mitigate the risk of rising interest rates.

The Consolidated Entity measures the market risk exposures using sensitivity analysis and cash flow forecasting. There has been no change from the prior year to the types of market risks the Consolidated Entity is exposed to or manner in which the risks are managed and measured.

(f) Foreign currency risk management

Foreign exchange risk arises from recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Consolidated Entity undertakes certain transactions denominated in foreign currencies, primarily USD, from which exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising currency swap agreements and foreign currency forward contracts.

There was zero exposure to foreign currency denominated financial assets and liabilities including derivatives in 2008 for the Consolidated Entity (in 2007, a USD denominated bank loan of \$400,000 thousand was offset by CCS of \$400,000 thousand, resulting in net exposure of nil).

Cross currency swaps

At 31 December 2008 the consolidated entity held zero CCS principal and interest rate swaps, however in 2007 CCS principal and interest rate swaps (USD floating to AUD floating) were held to manage the foreign exchange risk arising from the future principal and interest payments required on foreign currency denominated long-term borrowings. These swaps achieved two distinct outcomes under a single contract:

- Hedged the forward foreign 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); and
- Determined the floating interest rate reference for the life of the borrowing as BBSW + margin.

In 2007, AUD\$582 million of the debt was designated as the hedged item within a fair value hedge and AUD\$50 million of the debt was designated as the hedged item within a cash flow hedge.

The changes in the fair values of the hedged items resulting from movements in the forward exchange rates and interest rate were offset against the changes in the value of the CCS principle and interest rate swaps. The objective of this hedging was to convert foreign currency borrowings to floating AUD borrowings.

The following table details the CCS outstanding at the reporting date.

								Consolidated	
		Exchange rate average		Interest rate average		Contract value		Fair value	
		2008 %	2007 %	2008 %	2007 %	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Buy USD									
Less than 3 months		-	0.6330	-	6.6000	-	631,912	-	(175,602)
						-	631,912	-	(175,602)
								Company	
		Exchange rate average		Interest rate average		Contract value		Fair value	
		2008 %	2007 %	2008 %	2007 %	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Buy USD									
Less than 3 months		-	-	-	-	-	-	-	-
						-	-	-	-

37. Financial instruments continued

Foreign currency sensitivity

The following table details the Group's sensitivity to a 10 per cent increase and decrease in the value of the AUD against the relevant foreign currencies. A sensitivity of 10 per cent has been selected as it is considered reasonable given the current level of exchange rates and volatility observed both on an historical basis and in market expectations for future movements. The sensitivity analysis includes outstanding foreign currency denominated financial assets and liabilities (including derivatives) and adjusts their translation at period end for a 10 per cent change in foreign exchange rates on a total portfolio basis with all other variables held constant.

The foreign currency risk exposure from recognised assets and liabilities arises primarily from long-term borrowings denominated in foreign currencies. There is no significant impact on profit from foreign currency movements associated with these borrowings because they are effectively hedged.

Consolidated				
	Net profit		Equity	
			Cash flow hedge reserve	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Impact of 10% adverse movement				
Increase/(decrease)	–	(113)	–	(22)
Impact of 10% favourable movement				
Increase/(decrease)	–	138	–	26

Company				
	Net profit		Equity	
			Cash flow hedge reserve	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Impact of 10% adverse movement	–	–	–	–
Impact of 10% favourable movement	–	–	–	–

Notes to the financial statements continued

37. Financial instruments continued

(g) Interest rate risk management

The Consolidated Entity is exposed to interest rate risk as it invests and borrows funds at both fixed and floating interest rates. The risks are managed by maintaining an appropriate mix between fixed and floating rate borrowings and through the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to confirm alignment with the debt and liquidity management policy and ensure that the Consolidated Entity is not exposed to excess risk from interest rate volatility.

The Consolidated Entity's exposure to interest rates on financial assets and financial liabilities, including derivatives, are detailed under the interest rate swap contract section.

Interest rate sensitivity

The sensitivity analysis contained in the table below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date with the stipulated change taking place at the start of the financial year and held constant for the reporting period. A sensitivity of one per cent (100 basis points) has been selected as this is considered reasonable given the current level of both short and long term AUD interest rates.

Profit would have been affected mainly as a result of the ineffective portion of cash flow and fair value hedge transactions and interest rate swaps which are not part of a designated hedge relationship. Equity, through the cash flow hedge reserve, would have been affected mainly as a result of an increase/decrease in the fair value of interest rate swaps which qualify for cash flow hedge accounting.

Consolidated				
	Net profit		Equity	
			Cash flow hedge reserve	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Impact of 1% increase in interest rates				
Impact of 1% increase in interest rates – (decrease)/increase	(1,497)	(1,650)	31,221	32,733
Impact of 1% decrease in interest rates				
Impact of 1% decrease in interest rates – (decrease)/increase	1,489	1,635	(32,178)	(33,860)

Company				
	Net profit		Equity	
			Cash flow hedge reserve	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Impact of 1% increase in interest rates				
Impact of 1% increase in interest rates	–	–	–	–
Impact of 1% decrease in interest rates				
Impact of 1% decrease in interest rates	–	–	–	–

37. Financial instruments continued

Interest rate swap contracts

Under interest rate swap contracts the Consolidated Entity agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Consolidated Entity to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on issued floating rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the yield curves at the reporting date and the credit risk inherent in the contract. The average interest rate is based on the outstanding balances at the end of the financial year.

The following table details the notional principal amounts and remaining terms for interest rate swap contracts outstanding as at the reporting date.

Consolidated						
Receive floating/pay fixed	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2008 %	2007 %	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Senior debt						
Less than 1 year	–	5.52	–	615,000	–	2,166
1 to 2 years	5.51	–	1,950,000	–	(71,658)	–
2 to 5 years	5.16	5.56	580,000	2,015,000	(12,903)	103,846
5 years+	–	–	–	–	–	–
Total			2,530,000	2,630,000	(84,561)	106,012
Company						
Receive floating/pay fixed	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2008 %	2007 %	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
			–	–	–	–

Notes to the financial statements continued

37. Financial instruments continued

Interest rate swap contracts continued

All interest rate swap contracts are designated as cash flow hedges, of which AUD\$265 million are forward start commitments with commencement dates in 2009 through to 2013.

The Consolidated Entity enters into interest rate swap contracts exchanging floating rate interest amounts for fixed rate amounts in order to reduce the floating cash flow exposure resulting from floating interest rates on borrowings.

The following table details the expected transfer of the cash flow hedge reserve to the profit and loss.

				Consolidated
	0 to 1 Year \$'000	1 to 2 Years \$'000	2 to 5 Years \$'000	Total \$'000
2008				
Cash flow reserve transferred to profit and loss	(34,411)	(47,365)	(1,897)	(83,673)
	(34,411)	(47,365)	(1,897)	(83,673)
2007				
Cash flow reserve transferred to profit and loss	36,175	31,941	34,532	102,648
	36,175	31,941	34,532	102,648
				Company
	0 to 1 Year \$'000	1 to 2 Years \$'000	2 to 5 Years \$'000	Total \$'000
2008				
	-	-	-	-
2007				
	-	-	-	-

(h) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss. The Consolidated Entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate 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.

Trade receivables consist of a large number of customers with ongoing credit evaluation performed on their financial condition. Where appropriate, additional collateral credit support is obtained to mitigate the risk of loss.

The Consolidated Entity does not have significant credit risk exposure to any single counterparty. 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.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Consolidated Entity's maximum exposure to credit risk without taking account of the value of any collateral obtained.

(i) Liquidity risk management

The Board of Directors is ultimately responsible for liquidity risk and has adopted an appropriate liquidity risk management framework to manage the consolidated entity's funding and liquidity requirements. The Consolidated Entity manages liquidity risk by (i) maintaining adequate reserves, banking and reserve borrowing facilities, (ii) continuously monitoring forecast and actual cash flows and (iii) matching the maturity profiles of financial assets and liabilities.

37. Financial instruments continued

Liquidity and interest rate tables

The following table details the Consolidated Entity's remaining contractual maturity for its derivative and non-derivative financial assets and financial liabilities. The table is drawn up based upon the future undiscounted principal and interest cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis of which are not included in the carrying amount of the financial liability or financial asset on the balance sheet.

Consolidated							
	Weighted average effective interest rate %	Nominal cash flows				Adjust \$'000	Carrying amount \$'000
		0 to 1 year \$'000	1 to 2 years \$'000	2 to 5 years \$'000	Over 5 years \$'000		
2008							
Financial liabilities (derivative and non-derivative)							
Medium term notes	5.04	113,660	270,065	960,674	2,207,255	(1,029,580)	2,522,074
Bank loans	5.92	256,446	–	–	–	(7,445)	249,001
Interest rate swaps	5.52	35,582	48,985	1,943	–	(1,948)	84,562
Shareholder loans*	10.85	269,800	178,239	491,616	–	678,129	1,617,784
Trade and other payables	–	172,713	–	–	–	–	172,713
		848,201	497,289	1,454,233	2,207,255	(360,844)	4,646,134
Total financial liabilities		848,201	497,289	1,454,233	2,207,255	(360,844)	4,646,134
2007							
Non-derivative financial liabilities							
Medium term notes	7.33	142,886	142,526	886,914	1,828,260	(1,110,092)	1,890,494
Bank loans – offshore (fixed)	6.15	471,063	–	–	–	(14,007)	457,056
Shareholder loans*	10.85	218,760	183,330	549,821	–	768,486	1,720,397
Trade and other payables	–	180,765	–	–	–	–	180,765
		1,013,474	325,856	1,436,735	1,828,260	(355,613)	4,248,712
Derivative financial liabilities							
Cross currency swap	7.22	643,517	–	–	–	(11,605)	631,912
		643,517	–	–	–	(11,605)	631,912
Total financial liabilities		1,656,991	325,856	1,436,735	1,828,260	(367,218)	4,880,624
Derivative financial assets							
Interest rate swaps	5.56	(31,702)	(31,654)	(34,215)	–	(8,441)	(106,012)
Cross currency swap	6.15	(471,063)	–	–	–	14,753	(456,310)
Total financial assets		(502,765)	(31,654)	(34,215)	–	6,312	(562,322)

Notes to the financial statements continued

37. Financial instruments continued

Liquidity and interest rate tables continued

	Weighted average effective interest rate %	Nominal cash flows				Adjust \$'000	Company Carrying amount \$'000
		0 to 1 year \$'000	1 to 2 years \$'000	2 to 5 years \$'000	Over 5 years \$'000		
		2008					
Non-derivative financial liabilities							
Shareholder loans*	10.85	269,800	178,239	491,616	–	678,096	1,617,751
Trade and other payables	–	27,278	–	–	287,307	–	314,585
		297,078	178,239	491,616	287,307	678,096	1,932,336
Total financial liabilities		297,078	178,239	491,616	287,307	678,096	1,932,336
2007							
Non-derivative financial liabilities							
Shareholder loans*	10.85	218,760	183,330	549,821	–	768,442	1,720,353
Trade and other payables	–	31,931	–	–	255,524	–	287,455
		250,691	183,330	549,821	255,524	768,442	2,007,808
Total financial liabilities		250,691	183,330	549,821	255,524	768,442	2,007,808

* Cash flows 'Over 5 years' are \$163,722 thousand per annum plus principal repayment of \$1,521,635 thousand in 2105. The adjustment excludes interest and principal cash flows 'Over 5 years' and is the difference between the sum of the cash flows for year 0 to year 5 and the Carrying amount.

(j) Fair value of financial instruments

The fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and option pricing models using prices from observable current market transactions.

The carrying value of all financial assets and liabilities approximates their fair value except for the medium term notes as shown in the table below.

	Consolidated		Company	
	Carrying value \$'000	Fair value \$'000	Carrying value \$'000	Fair value \$'000
As at 31 December 2008	2,530,000	1,735,605	–	–
As at 31 December 2007	1,900,000	1,900,000	–	–

Directors' declaration

31 December 2008

In the directors' opinion:

- (a) the financial statements and notes set out on pages 36 to 74 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 2008 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
18 February 2009

Independent auditor's report

to the members of CHEDHA Holdings Pty Limited

Deloitte.

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We have audited the accompanying financial report of CHEDHA Holdings Pty Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, cash flow statement and statement of recognised income and expense for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 36 to 75.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

- (a) the financial report of CHEDHA Holdings Pty Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.



DELOITTE TOUCHE TOHMATSU



Clive Mottershead
Partner
Chartered Accountants
Melbourne, 18 February 2009

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 Limited Liability Company (USA)
Powercor Australia Holdings Pty Ltd
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

CHED Services Pty Ltd
ABN 14 112 304 622

Powercor Network Services Pty Ltd
ABN 94 123 230 240

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Simon Lucas

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