The Victorian Electricity Distribution Businesses

Cost of Capital - Market practice in relation to imputation credits

Victorian Electricity Distribution Price Review 2006-10

August 2005
This report contains 28 pages
POWEPAL05-IER_Report_Final_110805jcy-SAR.doc

Contents

1 Executive summary

1.1 Background

Powercor Australia Limited ("Powercor"), Citipower, SP AusNet ("SPA"), United Energy Limited ("United Energy") and the Australian Gas Light Company ("AGL") – collectively referred to as the Victorian electricity distribution businesses ("DBs") – are currently engaged in the 2006-10 Electricity Distribution Price Review ("EDPR") being undertaken by the Essential Services Commission ("ESC") in Victoria. This review is required to set the price controls that will apply to the charges to be levied by the DBs from 1 January 2006.

As part of its review, the ESC is required to make an assumption regarding the benchmark cost of equity and debt for the Businesses, and the appropriate value to attribute to imputation credits (also referred to as "gamma"). In the ESC's recent Draft Decision on the EDPR, a value of 50% was adopted for gamma. However, the ESC conceded that it may dispense with this practice given the problems with conceptually defining and measuring gamma, as well as the apparent lack of support for the adjustment by finance practitioners in the market. Notwithstanding these concerns, the ESC adopted a value of 50% for gamma in the Draft Decision on the basis that it had explicitly allowed for its assumed value of franking credits in attributing a value for the market risk premium ("MRP") in the benchmark cost of equity.

KPMG has been retained by the DBs to undertake a review of the treatment of imputation credits by finance practitioners in the market in their estimation of the cost of capital. This review was undertaken by reference to the practice adopted by independent experts in their valuation of companies that are the subject of a takeover bid. In total, we reviewed a sample of 118 independent expert reports on takeovers occurring between 1 January 2000 to 30 June 2005.

In addition, given the ESC's views on the relationship between the MRP and gamma, the DBs have requested KPMG to identify standard practice amongst finance practitioners on the value that is most commonly adopted for the MRP and whether the value adopted for the MRP is dependent upon the value adopted for gamma.

1.2 Results

Of the 118 reports reviewed, we found that 33 reports adopted the Capital Asset Pricing Model ("CAPM") for estimating the cost of equity. Of these reports:

- none made any adjustment for the value of imputation credits. Reasons cited for not adjusting for imputation credits fell into two categories – entity-specific reasons and conceptual reasons. A full list of reasons cited is provided in section 5.4.1;

- all adopted a value for the MRP within the range of 6% to 8%, and 25 reports (or 76%) adopted 6% as a point estimate for the MRP. This value prevailed despite the fact that most expert reports we reviewed acknowledged the uncertainty surrounding the measurement of the parameter and raised the possibility that the MRP has fallen below historical levels. This evidence suggests that such factors were not considered by the expert as being sufficient to warrant adopting a value for the MRP much higher or lower than 6%, on average; and

- none attributed their choice of value for the MRP to the decision not to adjust for dividend imputation.

1.3 Conclusion

Based on these results, KPMG considers that the standard market practice in relation to estimating the cost of capital in Australia, as evidenced by independent expert reports relating to takeovers, is to assume a zero value for imputation credits and at least 6% for the MRP.

2 Scope of work

2.1 Background

The DBs are currently engaged in the 2006-10 EDPR being undertaken by the ESC in Victoria. This review is required to set the price controls that will apply to the charges to be levied by the DBs from 1 January 2006.

The approach adopted by the ESC requires the establishment of a benchmark revenue requirement for each DB that can be translated into a price control. In setting the benchmark revenue requirement, the ESC adopts an approach that builds up each DB's revenue by reference to the costs of operating the business, including the cost of financing the business and its tax obligations.

The return on capital - which represents the financial return that investors seek for investing in an asset, given the risks that underpin that asset - is a key component of the cost of financing. It also typically represents a significant portion of the total revenue requirement for each DB.

The ESC establishes a return on capital for each DB by estimating a benchmark cost of capital for each business. This is defined as a weighted average cost of capital employed by the business – equity and debt – and denoted as WACC. WACC can be defined in a number of ways, for example, in real or nominal terms, or on a before-tax, after-tax or "no-tax"[1] basis, and applied to cash flows that are defined in a corresponding manner. The definition used by the ESC is a real "no-tax" WACC, which requires the ESC to separately estimate a benchmark cost of tax in the revenue requirement.

The cost of equity component of WACC is measured using the Capital Asset Pricing Model ("CAPM"). The CAPM was formulated under a "classical" tax system where returns to investors are defined to be after-corporate taxes but before personal taxes. However, Australia has a dividend imputation system where equity investors receive a tax credit for any corporate tax paid by the company. Consequently, the corporate tax paid by a company (i.e. the franking credit) could be viewed effectively as a withholding of personal tax but at the company level.

The value to an investor of each dollar of personal tax withheld at the company level is commonly referred to as "gamma". In setting the revenue requirement, the ESC is required to make an assumption regarding the appropriate value to attribute to gamma. The WACC definition adopted by the ESC requires the assumed value of gamma to be applied to the benchmark cost of tax.

2.2 Purpose of report

The ESC has recently released its Draft Decision on the EDPR. In that decision, the ESC adopted a value of 50% for imputation credits (also known as "gamma"). However, the ESC

[1] The "no-tax" definition effectively results in a vanilla WACC where all the tax costs are assumed to be captured within the cash flows.

acknowledged that gamma is not a well defined parameter in theory and is probably even more poorly estimated. Furthermore, the ESC expressed concern that:

"*…making explicit adjustments for the value of imputation credits may no longer reflect standard practice amongst finance practitioners, as the Commission accepted when it first considered the matter in 1998.*"[2]

Notwithstanding this concern, the ESC has nevertheless adopted a value of 50% for gamma, given that it has "*…explicitly allowed for its assumed value of franking credits when interpreting empirical information on the market risk premium.*"[3]

KPMG has been retained by the DBs to undertake a review of the treatment of imputation credits by finance practitioners in the market in their estimation of the cost of capital. The purpose of this review is to identify standard practice in the market in regards to the value attributed to imputation credits in cost of capital estimates by reference to independent expert reports. In addition, given the ESC's views on the relationship between the MRP and gamma, the DBs have requested KPMG to identify standard practice amongst finance practitioners on the value that is most commonly adopted for the MRP and whether the value adopted for the MRP is dependent upon the value adopted for gamma.

This report sets out the results of the review described above. KPMG understands that the DBs expect to provide a copy of this report to the ESC as part of their submissions as evidence for an appropriate decision on the use of gamma.

2.3 Structure of report

The remainder of this report is organised as follows:

- Section 3 provides a brief overview of the nature of the debate surrounding the value of imputation credits;
- Section 4 outlines the approach that we have adopted for our review; and
- Section 5 presents the results of our analysis and highlights the key conclusions from our review.

[2] Essential Services Commission, Electricity Distribution Price Review 2006-10, Draft Decision, June 2005, page 333.
[3] Essential Services Commission, op cit.

3 Overview on imputation credits

3.1 Introduction

Since July 1987, Australia has had a dividend imputation tax system in place. This system aims to remove the double taxation effect of dividends paid to investors by providing domestic equity investors with a taxation credit (i.e. franking credit) for each dollar of dividends they receive that is paid out of profits that have already been subject to corporate tax. This credit may be used to offset the personal tax of the investor and hence, represents additional cash flow to the investor after-company and personal tax.

Without the franking rebate, shareholders would, in effect be paying personal tax on profits that had already been subject to company tax. In a sense, therefore, franking credits effectively represent personal tax collected or withheld at the company level.

3.2 Value of imputation credits

The value of a dollar of imputation credits is commonly represented by "gamma" and denoted by γ. The potential value that may be attributed to gamma is based on two factors:

- the rate at which franking credits are distributed by the firm ("distribution rate"); and
- the rate at which franking credits are utilised by shareholders ("utilisation rate").

In the hypothetical world where the firm distributes 100% of its profits as dividends and there are no time lags between the time franking credits are generated by the firm, distributed by the firm to its shareholders and utilised by the shareholder, a shareholder who is able to fully utilise the imputation tax credit would value gamma at 100%. By contrast, a shareholder who is unable to utilise the tax credit (e.g. a tax-exempt taxpayer) would not attach any value to gamma.

Given that the potential value of gamma is affected by a number of variables, there is considerable debate in respect of whether and how the value of imputation credits should be factored into company valuations and the cost of capital. Much of this debate focuses on the identity of the marginal investor in the Australian sharemarket (i.e. the investor who sets the price of shares and the company's cost of capital at the margin) and whether imputation credits have any value to the marginal investor.

In addition to the conceptual difficulties surrounding the question of valuing imputation credits, there are also a number of problems with the measurement of the value of imputation credits. Many of the existing studies attempting to value imputation credits utilise data prior to the introduction of the 45-day holding period rule[4] and therefore, potentially overstate the value of

[4] The 45-day rule aims to eliminate franking credit trading where franking benefits are received by someone other than the true economic owner of the underlying shares. The rule requires resident taxpayers to hold shares for at least 45 days to be eligible to receive franking benefits from dividends paid on shares. Franking credit trading allow persons who are not the economic owners of shares (that is, persons who are not exposed, or have only a small

imputation credits. Furthermore, many of the existing studies are based on the dividend drop-off methodology. Apart from the fact that the results from studies using this methodology provide an indication of the utilisation rate rather than the value of gamma[5], there are also some methodological drawbacks associated with this approach.[6]

3.3 Relationship between value of imputation credits and the MRP

A further point of debate that is evident in Australian regulatory decisions is the relationship between the value of imputation credits and the MRP. The debate centres on two key questions. The first concerns the question of what impact imputation credits has on the measurement of the MRP. The second concerns the issue of consistency when regulators apply a "domestic CAPM" model which, in principle, assumes that capital markets are segregated, but recognise the existence of foreign investors in the domestic market in the value assumed for imputation credits.

It is not within the scope of this paper to provide a detailed discussion of the issues involved on these questions, nor to debate the merits of alternative views. However, we have attempted to briefly highlight the nature of debate to provide some background on the issues for the reader.

3.3.1 Measuring the MRP

Conventional measures of the Australian MRP using stockmarket accumulation indices do not capture that component of return generated by franking credits. They only capture returns from capital gain (i.e. share price appreciation) and dividends. Consequently, existing empirical measures of the MRP do not include any provision for the value of imputation credits.

In previous regulatory decisions, the ESC has stated that the value it has assumed for the MRP in the calculation of the benchmark cost of capital, includes an upward adjustment of around 0.2 per cent:

"However, the Commission noted that its assumption about the value of franking credits requires an upward adjustment to the measured cash equity premium to add back the non-cash value of franking credits since 1987 – which the Commission has estimated to add 0.2 percentage points onto the long term average."[7]

---

exposure, to the risks of loss and opportunities for gain arising from share ownership) to obtain access to the value of franking credits, which generally would not have been used fully but for the scheme.

[5] Refer paper by Strategic Finance Group, 11 October 2004, "The value of imputation franking credits: Gamma – Report for AGL in relation to ESC Electricity Distribution Review" for a more detailed discussion of these issues.

[6] Dividend drop-off studies measure the fall in the price that occurs on the ex-dividend day for a stock. If trading around this period is dominated by short-term arbitrage traders, the value of imputation credits obtained will be for this class of investors only, rather than for the true investors of the firm. Furthermore, the confidence intervals typically associated with such studies is wide, making interpretation of the results difficult. Finally, many of these studies also suffer from the statistical problem of multicollinearity.

[7] ESC, Review of Gas Access Arrangements Final Decision, October 2002, page 324. Footnote 575 to this statement noted that "This estimate assumes a value of franking credits once distributed of 0.6 (as a proportion of face value), a constant franking ratio of 83 per cent over the period (which is taken from Hathaway, N., R. Officer, 1996, The Value of Imputation Tax Credits, working paper, Melbourne Business School, p.12) and uses the prevailing corporate tax rate and dividend yield for each year.

Further discussion on the value of imputation credits in the 2002 Gas Access Arrangement Final Decision suggests that this was made to take into account the return from franking credits. The decision suggests that the Commission's estimate of the component of return from franking credits was 0.7 percentage points.[8]

In the ESC's recent Draft Decision on the EDPR, the Commission has highlighted that it has made explicit adjustment for franking credits in its estimate of the MRP. On this basis, it has questioned whether this allowance should be removed if a nil value is assumed for imputation credits.

3.3.2 Domestic versus International CAPM

The most commonly applied version of the CAPM is one that assumes that all the underlying parameters are measured by reference to the domestic capital market data. For example, the risk free rate is typically measured by reference to the Australian government 10 year bond yield and the MRP is typically measured by reference to the difference between the return on an Australian stockmarket index and bond yields. The way in which the CAPM is conventionally applied implicitly assumes that the Australian domestic economy is "the market", and it is perfectly segregated from other capital markets in the world. Consequently, non-resident investors are to be excluded from consideration.

The alternative would be to apply an international version of the CAPM ("ICAPM") where the market is defined to be a world market. Under this model, account could be taken of non-resident investors.

The ESC has previously expressed concern that its approach to the CAPM and imputation credits is theoretically inconsistent. That is, the value that the ESC has attributed to imputation credits implicitly takes into account the value placed on such credits by foreign investors, but at the same time, the MRP has been estimated by reference to Australian market data.

This issue remains the subject of much debate in the ESC's price review. The issue revolves around questions of whether regulators should adopt a theoretically purist approach which is in contrast to standard practice, the difficulties involved in applying the ICAPM and the resulting impact on the benchmark cost of capital.

---

[8] ESC, Review of Gas Access Arrangements, Final Decision, October 2002, page 393. It is, however, unclear to us how the ESC has applied this adjustment to arrive at a 0.2 percentage point adjustment to the long term average MRP.

4 KPMG's approach

4.1 Relevance of market practice

Knowledge of standard market practice in relation to the cost of capital is an important consideration in setting the benchmark revenue requirement for the DBs. As the ESC has recognised, the benchmark WACC reflects an opportunity cost of capital. Therefore, this return should be set at a level that is commensurate with the return that an investor would expect to earn from other investment opportunities in the market, after adjusting for different levels of risk.

To ensure that an appropriate level of incentive is provided for investment in electricity network assets, the regulator must ensure that the benchmark cost of capital used to set the revenue requirement is – at a minimum – estimated in a way that is comparable with the way in which investors in the market estimate their (risk-adjusted) expected returns from alternative investments. This is necessary irrespective of whether or not market practice varies from strict financial theory.

Knowledge of how the cost of capital is estimated in practice and how market evidence is interpreted and applied, is also useful given the uncertainties associated with various aspects of the theory underlying the cost of capital.

4.2 Methodology

The methodology adopted in KPMG's review is similar to that undertaken by Lonergan (2001)[9], which examined 122 takeover reports between 1990 and 1999. Under Section 640 of the Corporations Law, a report by an independent expert must be provided to shareholders of a company subject to a takeover bid ("target company") where a bidder has more than 30% or more of the voting power in the target company or where the bidder and the target company have directors in common.

The purpose of the independent expert report is to provide shareholders of the target company with an objective and disinterested view as to whether the offer is "fair and reasonable" and to provide them with sufficient information to make an informed decision as to whether to accept or reject the offer. Policy Statement 75 defines an offer as being "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. Compliance with this regulation therefore requires the independent expert to attribute a value to the shares of the target company.

KPMG considers that independent expert reports addressing corporate takeovers are an ideal source of information on standard market practice in relation to the cost of capital for a number of reasons:

- firstly, such reports contain a valuation of the target company. It is recognised that not all reports will adopt a discounted cash flow ("DCF") valuation methodology, however, those

[9] Lonergan, Wayne, 2001, "The disappearing returns", JASSA, Issue 1, Autumn, pp. 8-17.

that do can provide useful information on whether and how the CAPM is applied in estimating a discount rate in practice;

- secondly, the expert is "independent" of the target company in the sense that it has no financial interest in the outcome of the offer (except for receiving a fee in relation to the preparation of the expert report);

- thirdly, the independent expert assesses the bid from the perspective of an investor in the target company, as distinct from the management of the target company; and

- lastly, takeover reports are public documents and as such, the information sourced from them can be readily verified.

4.3 Process

Our precise scope of work for this review involved:

- identifying expert reports on takeovers occuring between 1 January 2000 to 30 June 2005. This list identified 145 reports;

- reducing the sample of reports to exclude those where KPMG (more precisely, KPMG Corporate Finance) is named as the independent expert (to avoid any perception of conflict of interest), as well those reports which either were not available for access or did not contain sufficient information on the valuation of the target[10]. This reduced the sample to 118 reports;

- identifying those reports using the DCF and CAPM methodology for valuation purposes; and

- examining the independent expert's approach to adjusting for dividend imputation (including stated reason for adjusting / not adjusting) and choice of value for the MRP.

As part of our review, we also took note of any apparent anomalies in the independent expert's application of the CAPM methodology, such as whether the independent expert made adjustments to any parameters that a straight "textbook" application of the CAPM would normally preclude.

4.4 Sources of information

Our primary source of information for this review was a list of the expert reports on takeovers occurring between 1 January 2000 and 30 June 2005 obtained from a database provided by *Connect 4,* a company specialising in providing information on companies listed on the Australian Stock Exchange ("ASX").

[10] 27 reports were excluded based on this criteria.

We were able to obtain an electronic copy of most of the expert reports identified on the Connect 4 list, however, a number of reports were not available. Where this was the case, we obtained an electronic copy of the expert report through Aspect Huntley's[11] DatAnalysis database. This database provides company information, including company announcements, for all companies listed on the ASX, including many that have been delisted. As all publicly listed companies are required to inform the ASX of the despatch of their target statements in response to takeover bids, we were able to obtain electronic copies of those reports not initially available through Connect 4.

[11] Specialist provider of financial information and research.

5 Analysis

5.1 Review of Lonergan (2001)

As noted earlier, the methodology adopted in our review is similar to that undertaken by Lonergan (2001). Accordingly, it is useful to briefly review the results of that study.

Lonergan (2001) examined the impact of imputation credits on the cost of capital and on company values. Using a series of examples, the author demonstrated that the only class of investor that was most likely better off after the introduction of imputation was Australian individual shareholders. However, this class of investor only accounted for just over 18% of ownership in listed Australian equities at the time of the study. Furthermore, the author contended that the price-makers in the Australian sharemarket are foreign investors and Australian life companies / superannuation funds, both of which were not significantly better off as a result of imputation.

The author also questioned whether imputation had any effect on the cost of capital given that Australia is most likely a price-taker in the world capital market. In examining this question, Lonergan reviewed 122 takeover reports between 1990 and 1999 to assess the extent to which there was market support for adjusting the cost of capital for the value of imputation credits. That study found that:

- of the 122 reports reviewed, only 48 (or 39%) provided support showing how they had arrived at the WACC used in their reports;
- of the 48 reports, 42 (or 88%) used the classical CAPM model and made no adjustment for dividend imputation. That is, only 6 reports made an adjustment to reflect dividend imputation; and
- of those reports that made an adjustment to reflect dividend imputation, five attributed little or zero net effect on the value of the company being assessed.

These results led Lonergan to question whether the rates of returns that were being allowed by regulators at the time, were adequate:

"Allowable rates of return permitted by regulatory authorities in Australia have, on a number of occasions, been reduced because of the alleged reduction in the cost of capital as a result of imputation credits. As a result, some investors are being deprived of part of the rate of return to which they properly should be entitled. This is not only unjust; it also has serious implications on the future availability of equity capital to invest in major infrastructure projects."[12]

[12] Lonergan (2001), op cit, page 17.

5.2 Data description

KPMG reviewed a total 118 takeover reports for this project. A list of the independent expert reports included in our sample is contained in Appendix B to this report. This list identifies the name of the target company (and ASX code), the independent expert, the target's industry sector and whether the expert adopted the CAPM in its valuation.

Those reports which did adopt the CAPM were further reviewed to identify:

- whether an adjustment was made in respect of imputation credits and if so, what reasons were provided; and
- what value was adopted for the MRP.

In respect of those reports which did not adopt the CAPM, no further review was undertaken.

5.3 General observations

5.3.1 Distribution of experts

Table 1 below shows the distribution of independent experts responsible for the reports we reviewed. Of the 118 independent expert reports we reviewed, 32 reports, or 27%, were prepared by Grant Samuel & Associates.

Table 1: Independent experts

Name of expert	Number of reports	% of reports reviewed
Grant Samuel & Associates	32	27%
Deloitte Corporate Finance	21	18%
Ernst & Young Corporate Finance	12	10%
Pricewaterhouse Coopers	8	7%
Horwath Investment Services	7	6%
Lonergan & Edwards	5	4%
BDO Corporate Finance	5	4%
PKF Corporate Advisory	5	4%
Other	23	20%
Total	**118**	**100%**

Lonergan (2001) noted that the independent expert market was dominated by a relatively small number of firms[13]. Notwithstanding this, we concur with Lonergan, that there is no evidence to

[13] Lonergan (2001), page 14.

suggest that the views expressed in such reports, which have been widely disseminated in both the public and professional investor market, are not shared by the investment community.

5.4 Results and implications

5.4.1 Imputation credits

Table 2 below sets out a summary of the results of our review.

Table 2: Expert reports on takeovers

Year of takeover announcement	Number of reports reviewed	Number of reports for which WACC was applied	Number of reports adopting CAPM to estimate cost of equity	Number of reports adjusting for imputation
2000	24	7	7	-
2001	24	8	6	-
2002	12	4	4	-
2003	26	7	7	-
2004	22	7	7	-
2005 (up to 30 June)	10	2	2	-
Total	**118**	**35**	**33**	**0**

Of the 118 reports reviewed, only 35 reports adopted a discounted cash flow valuation methodology and utilised a WACC as the discount rate for valuing the target company.[14] Of these, 33 reports adopted the CAPM for estimating the cost of equity. The remaining 2 reports did not provide adequate information on this matter.

Importantly, **none of the reports which applied the CAPM made any adjustment for the value of imputation credits.** These results provide even stronger evidence than Lonergan (2001)[15] that the standard practice of finance practitioners in the market is not to make any adjustment for the value of imputation credits.

Reasons for not adjusting for imputation

As with Lonergan (2001), the reasons cited for not adjusting for imputation may be categorised into entity-specific and conceptual reasons.

Entity-specific reasons included:

[14] Most of the other expert reports applied the capitalisation of future maintainable earnings valuation methodology or an assets-based methodology.
[15] Lonergan (2001) found that 6 of the 48 reports reviewed which provided support for the WACC adopted in the valuation made an adjustment for imputation credits.

- the bidder is a foreign company (or potential acquirors of the target company are foreign companies) and franking credits do not have the same value to such parties;

- the target company has unused accumulated tax losses and has not paid tax or generated franking credits for some time; and

- the target company has franking credits but is unlikely to be able to distribute them in the short term.

Conceptual reasons most commonly cited for not adjusting for imputation included the following:

- there is no generally accepted method for allowing for dividend imputation. In fact, there is considerable debate within the academic community as to the appropriate adjustment or even whether any adjustment is required at all;

- there is no market consensus on whether and to what extent the value of franking credits should be reflected in the valuation of assets;

- while acquirors are attracted by such credits, there is no clear evidence that they will actually pay extra for them or build it into values based on long term cash flows;

- existing evidence on the value the market attributes to imputation credits is insufficient or inconclusive to rely on for valuation purposes;

- the studies that measure the value attributed to franking credits are based on the immediate value of franking credits distributed and do not address the risk and other issues associated with the ability to utilise them over the longer term;

- not all shareholders can use franking credits. In particular, foreign investors gain no benefit from franking credits. If foreign investors are the marginal price setters in the Australian market, there should be no adjustment for dividend imputation; and

- investors subject to high personal taxes may not attach any value to franking credits as they would prefer their returns to be generated by way of capital gains rather than cash dividends.

The range of reasons offered for not adjusting for imputation credits is similar to that found in Lonergan (2001). The common theme that emerges from most expert reports is that whilst imputation credits are valuable to investors, including such value in company valuations or the cost of capital involves more complex considerations.

5.4.2 Value assumed for MRP

Table 3 below summarises the MRP values utilised in those reports where the CAPM was applied for valuation purposes.

Table 3: MRP values used in expert reports applying the CAPM

MRP value adopted	Number of reports	% of total
< 6%	-	-
6%	25	76%
6% - 6.5%	3	9%
7%	4	12%
8%	1	3%
> 8%	-	-
Total	**33**	**100%**

It is evident that standard practice amongst finance practitioners is to adopt a value for the MRP in the range of 6% to 8%. **The most widely used point estimate is a value of 6%.** This value was adopted despite the fact that most expert reports we reviewed:

- acknowledged the uncertainty surrounding the measurement of the MRP. A few reports highlighted the importance of using long term historical measurements of the MRP due to the greater stability of such measures[16];
- suggested that the MRP is not constant and changes over time; and
- noted that some observers believed the market risk premium has fallen below historical levels.

This evidence suggests that such factors were not considered by the expert as being sufficient to warrant adopting a value for the MRP much higher or lower than 6%, on average.

As we have already noted, none of these reports advocated any adjustment for the value of imputation credits. Furthermore, none of these reports attributed their choice of value for the MRP to the decision not to adjust for dividend imputation.[17]

5.4.3 Other observations on application of the CAPM

As part of our review, we made general observations regarding application of the CAPM in a manner that was not strictly in line with a conventional "textbook" application. We found limited evidence of such instances. Where there was a variation from the conventional textbook application of the CAPM, it related to the following:

[16] For example, refer to the independent expert report on Pacific Hydro (19/04/05) prepared by Ernst & Young Corporate Finance, Appendix 3.
[17] We note, however, that Grant Samuel did include comments on dividend imputation that stated that some observers did advocate grossing up the MRP by 2% to reflect the benefit of franking credits that are on average received by shareholders. However, Grant Samuel disputed the merits of this approach.

- the addition of a company specific risk premium to the cost of equity by some experts. This risk premium was generally in the range of 3% to 5% and was included to take into account of a small company premium. An example of this is the valuation of Brisbane Broncos Ld by Deloitte Corporate Finance. We also found that many reports commented that company specific risk should theoretically be incorporated into cash flows, however, it was also common practice to allow for certain classes of specific risk by adjusting the discount rate[18];

- selection of a beta factor outside of the range of the market evidence reviewed by the expert. For example, Grant Samuel's valuation of Cable Wireless Optus noted that Optus' beta factor was 4.22 using the AGSM risk measurement service, 1.51 using Bloomberg and 1.42 measured against the Morgan Stanley Capital Index. Evidence on beta factors for comparable telecommunications businesses internationally indicated that most established operators have betas of less than 1.0. Grant Samuel's choice of beta factor, however, was 1.1;

- selection of a risk free rate of return using a proxy other than the standard 10 year benchmark government bond yield. For example, Grant Samuel's valuation of WMC Resources noted that whilst the standard benchmark used in practice for the risk free rate was the ten year rate, this rate was not considered appropriate for WMC Resources given the long duration of its major assets. Use of the 30 year government bond yield was also problematic given that there was a significant discrepancy between the 10 year and 30 year rates. Given these circumstances, Grant Samuel stated that it had "*…judgmentally selected a risk free rate having regard to the current yield to maturity on both 10 year and 30 year United States Treasury Notes.*"[19]; and

- judgmentally adjusting the theoretically derived WACC outcome to obtain a WACC that is more in line with what the expert considers appropriate. In its valuation of WMC Resources, Grant Samuel noted that the calculated WACC outcome was "*..lower than the discount rates that real world potential purchasers would use in assessing these assets…Accordingly, Grant Samuel has judgmentally increased the estimated WACCs for the purposes of selecting discount rates…*"[20] The judgmental increase in WACC was around 0.5% to 0.7% above the calculated WACCs.

5.5 Summary and conclusions

Based on our review of a sample of 118 independent expert reports issued in relation to takeovers announced between 1 January 2000 and 30 June 2005, we found that 33 reports (or approximately 28% of the sample) adopted the CAPM for estimating the cost of equity. Of these reports:

- none made any adjustment for the value of imputation credits;

[18] For example, refer Grant Samuel, Independent Expert Report on Casinos Austria International Limited in relation to a takeover offer by Casinos Austria International Holdings GmbH, 26 May 2004, Appendix 2, page 5.
[19] Grant Samuel, Independent Expert Report on WMC Resources in relation to a bid by Xstrata PLC, 22 December 2004, Appendix 1.
[20] Grant Samuel, op cit, Appendix 1, page 9.

- 25 reports (or 76%) adopted 6% as a point estimate for the MRP;
- all adopted a value for the MRP within the range of 6% to 8%; and
- none attributed their choice of value for the MRP to the decision not to adjust for dividend imputation.

Based on these results, KPMG considers that the standard market practice in relation to estimating the cost of capital in Australia, as evidenced by independent expert reports relating to takeovers, is to assume a zero value for imputation credits and at least 6% for the MRP.

A Disclaimer

Inherent Limitations

This report has been prepared based on the scope of work outlined in Section 2 of this report and the procedures outlined in Section 4 of this report. The procedures outlined in Section 4 constitute neither an audit nor a comprehensive review of operations.

The findings in this report are based on a qualitative study. The statements and opinions included in this report are given in good faith, and on the belief that such statements and opinions are not false or misleading. However, no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made in this report.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

Third Party Reliance

This KPMG report was produced solely for the purpose set out in Section 2.2 and for the use and benefit of the Victorian electricity distribution businesses as contemplated in Section 2.2. This report cannot be relied on or distributed, in whole or in part, in any format by any other party.

Any redistribution of this report requires the prior written approval of KPMG and in any event is to be a complete and unaltered version of the report and accompanied only by such other materials as KPMG may agree. Responsibility for the security of any electronic distribution of this report remains the responsibility of the Victorian electricity distribution businesses and KPMG accepts no liability if the report is or has been altered in any way by any person.

This report has been prepared at the request of the Victorian electricity distribution businesses in accordance with the terms of KPMG's engagement letter/contract dated 11 July 2005. Other than our responsibility to the Victorian electricity distribution businesses, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

B List of expert reports

Review of Independent Expert Reports: 2000-2005

Appendix B

	Company	ASX Code	Date	Expert	GICS Industry	WACC (Y/N)	CAPM (Y/N)	MRP	Imputation: Adjustment made (Y/N)	Imputation: Reasons cited	Other comments
1	AAPT	AAP	15-Sep-00	Grant Samuel & Associates	N/A	Y	Y	6%	N	The report mentions that there is no generally accepted method fo allowing for dividend imputation and that there is considerable debate within the academic community as to whether any adjustment is required at all. It also states that Grant Samuel does not believe that such adjustments are widely used by acquirers of assets at present and that while acquirors are attracted to franking credits, there is no clear evidence that they will actually pay extra for them or build it into values based on long term cash flows. The bidder is also a foreign company and franking credits do not have the same value to such parties.	
2	Abelle Ltd	ABX	16-Mar-04	Grant Samuel & Associates	Metals & Mining	Y	Y	6%	N	Same reasons as for AAPT	
3	Advance Property Fund	APF	18-Sep-00	BDO Corporate Finance Pty Ltd	REIT	N	N				
4	AMP Diversified Property Trust	ADP	28-May-03	Deloitte Corporate Finance	REIT	N	N				
5	AMP Industrial Trust	AIP	24-Jul-03	Deloitte Corporate Finance	REIT	N	N				
6	AMP Shopping Centre Trust	ART	18-Mar-03	Deloitte Corporate Finance	REIT	N	N				
7	AMP Shopping Centre Trust	ART	20-May-03	Deloitte Corporate Finance	REIT	N	N				
8	ARC Energy NL	AQ	08-Apr-02	Pricewaterhouse Coopers	Energy	Y	Y (but see comments)	6%	N	None provided	Full company valuation was not based on DCF. PWC however did assess a management cash flow model in relation to the Dongara Field and in that process, made an assessment of the appropriate WACC for that asset. The CAPM parameter values for this report therefore reflects this approach.
9	Aurora Gold Ltd	AUG	02-Oct-01	Ernst & Young Corporate Finance P/L	Metals & Mining	N	N				
10	Austar United Communications	AUN	13-May-03	Grant Samuel & Associates	Media	Y	Y	6%	N	Same reasons as for AAPT	
11	Australian Oil & Gs Corporation Ltd	AOG	14-May-02	PKF Corporate Advisory Services ltd	Energy	N	N				
12	Australian Plantation Timber Ltd	APL	19-Oct-04	Pitcher Partners	Paper & Forest Products	N	N				
13	AV Jennings Homes Ltd	AVJ	16-Jun-00	Ernst & Young Corporate Finance P/L	Real Estate	N	N				
14	Balmoral Corporation	BMR	30-Sep-02	PKF Corporate Advisory Services ltd	Real Estate	N	N				
15	Balmoral Corporation	BMR	28-Apr-03	PKF Corporate Advisory Services ltd	Real Estate	N	N				
16	Bligh Ventures Ltd	BLV	23-Nov-00	Deloitte Corporate Finance	Diversified Financials	N	N				
17	Breakfree Ltd	BRK	08-Oct-03	Grant Samuel & Associates	Consumer Services	N	N				

	Company	ASX Code	Date	Expert	GICS Industry	WACC (Y/N)	CAPM (Y/N)	MRP	Imputation		Other comments
									Adjustment made (Y/N)	Reasons cited	
18	Breakfree Ltd	BRK	27-Jan-05	Ernst & Young Corporate Finance P/L	Consumer Services	N	N				
19	Breakwater Island Trust	BRI	07-Oct-02	Deloitte Corporate Finance	Consumer Services	N	N				
20	Brisbane Broncos Ltd	BBL	21-Feb-02	Deloitte Corporate Finance	Consumer Durables & Apparel	Y	Y	6-6.5%	N	Evidence relating to the value that the market ascribes to imputation credits is inconclusive	In addition to beta, the expert took into account a specific company risk premium, specifically, the small size of the company. This premium was 3% to 5% and added to the cost of equity.
21	Brisbane Broncos Ltd	BBL	21-Feb-02	Deloitte Corporate Finance	Consumer Durables & Apparel	Y	Y	6-6.5%	N	Evidence relating to the value that the market ascribes to imputation credits is inconclusive	In addition to beta, the expert took into account a specific company risk premium, specifically, the small size of the company. This premium was 3% to 5% and added to the cost of equity.
22	Bristile Ltd	BRS	04-Mar-03	Grant Samuel & Associates	Construction Materials	N	N				
23	Burswood Ltd	BIR	27-Apr-04	Lonergan Edwards & Associates	Consumer Services	N	N				
24	Cable & Wireless Optus Ltd	CWO	21-May-01	Grant Samuel & Associates	Telecommunications Services	Y	Y	6%	N	Same reasons as for AAPT	Grant Samuel noted that Optus' beta was 4.22 as measured by the AGSM database, 1.51 using Bloomberg and 1.42 against the MSCI. Grant Samuel selected 1.1 as the beta factor for valuation.
25	Casinos Austria International	CAI	22-Apr-04	Grant Samuel & Associates	Consumer Services	Y	Y	6%	N	Same reasons as for AAPT	Applied a specific risk premium. The expert noted that specific risks should ideally be incorporated into cash flows, however, it is also common in practice to allow for certain classes of specific risk (particularly sovereign and other country specific risks) by adjusting the discount rate. In this case, Grant Samuel has stated that it has taken into account specific risk (either explicitly or implicitly) by judgmentally discounting the net present values of the component businesses making up the target company.
26	Challenger Property Income Trust	CGP	08-Jun-00	Ernst & Young Corporate Finance P/L	N/A	N	N				
27	Citadel Securix International Ltd	CSX	18-Apr-02	Pitcher Partners	Software & services	N	N				
28	Clarity International Ltd	CLA	18-Apr-02	White Funds Management P/L	Software & services	N	N				
29	Comalco Ltd	CMC	05-May-00	Grant Samuel & Associates	N/A						
30	Consolidated Rutile Ltd	CRT	25-Jun-01	Deloitte Corporate Finance	Metals & Mining	Y	Y	6%	N	The mining expert states that it is not aware of any mathematically rigorous methodology which allows the effects of dividend imputation to be taken into account and that there is a body of opinion that suggests that dividend imputation does not in fact reduce the cost of capital.	Deloitte relied upon the DCF analysis of specialist mining valuer Resource Equity Consultants.
31	Contact Energy Ltd	CEN	01-Nov-01	Grant Samuel & Associates	Utilities	Y	Y	7%	n/a		Contact Energy is a NZ business
32	DC International Ltd	DCI	12-Sep-01	Deloitte Corporate Finance	Consumer services	N	N				
33	Dome Resources NL	DOR	27-Mar-00	Resource Equity Consultants	N/A	Y	Y	7%	N	None provided	Comments on the CAPM noted that whilst the CAPM provides a mechanism for deriving discount rates in an objective manner, in some cases, it may be more appropriate for the analyst to assign a discount rate, based on the analyst's own perceptions as to the risks associated with certain investments, and the fiscal, commercial and geopolitical circumstances of the opportunity.

	Company	ASX Code	Date	Expert	GICS Industry	WACC (Y/N)	CAPM (Y/N)	MRP	Imputation: Adjustment made (Y/N)	Imputation: Reasons cited	Other comments
34	Durban Roodeport Deep Ltd	DRD	09-Mar-01	Resource Equity Consultants	Metals & Mining	Y	Y	7%	N	None provided	Comments on the CAPM noted that whilst the CAPM provides a mechanism for deriving discount rates in an objective manner, in some cases, it may be more appropriate for the analyst to assign a discount rate, based on the analyst's own perceptions as to the risks associated with certain investments, and the fiscal, commercial and geopolitical circumstances of the opportunity.
35	eFinance Capital Ltd	EFC	09-Jan-02	PKF Corporate Advisory Services ltd	Diversified Financials	N	N				
36	Email Ltd	EML	02-Nov-00	ING Barings (Australia) Pty Ltd	Capital Goods	N	N				
37	Email Ltd	EML	21-Jun-00	ING Barings (Australia) Pty Ltd	Capital Goods	N	N				
38	Emperor Mines Ltd	EMP	08-Mar-04	Deloitte Corporate Finance	Metals & Mining	Y	Y	6%	N	The expert stated that no adjustment has been made for imputation credits in the cost of capital nor cash flows due to the diverse views as to the value of imputation credits and the appropriate method that should be employed to calculate this value. The expert believes that current evidence of the value attributed by the market to imputation credits is inconclusive.	The expert used a single discount rate (9%) as a base case valuation and also conducted sensitivity analysis using a range of 7% -11%. One of the reasons cited for this range is to take into account "the specific business and financing risks of Emperor".
39	Environmental Recovery Services Ltd	EQM	13-Mar-01	Horwath Investment Services	Commercial Services & Supplies	N	N				
40	FH Faulding & Co Ltd	FHF	13-Aug-01	Grant Samuel & Associates	Pharmaceuticals & Biotechnology	N	N				
41	Flinders Industrial Property Trust	FIT	20-Jun-00	Ernst & Young Corporate Finance P/L	N/A	N	N				
42	Flinders Industrial Property Trust	FIT	23-May-00	Ernst & Young Corporate Finance P/L	N/A	N	N				
43	Foodland Associated Ltd	FOA	06-Dec-04	Grant Samuel & Associates	Food & Staples Retailing	Y	Y	6%	N	None provided	
44	Forest Place Group	FPG	01-Nov-03	Horwath Investment Services	Real Estate	N	N				Horwath relied upon property valuations undertaken by specialist property valuer
45	Frucor Beverages Group	FRU	16-Nov-01	Grant Samuel & Associates	Food Beverage & Tobacco	Y	Indeterminate				Grant Samuel utilised the DCF methodology as one of its valuation methods. No detailed information on the assumptions underlying the parameter values for the WACC was provided.
46	General Property Trust	GPT	08-Nov-04	Grant Samuel & Associates	Real Estate	N	N				
47	Guiness Peat Group PLC	GSP	20-Nov-02	Horwath Investment Services	Diversified Financials	N	N				
48	Hamilton Island Ltd	HAM	03-Nov-03	Deloitte Corporate Finance	Consumer Services	N	N				
49	Harris & Company		04-Dec-03	Horwath Investment Services	Media	N	N				
50	Hazelton Airlines Ltd	HZA	28-Nov-00	Ernst & Young Corporate Finance P/L	N/A	N	N				
51	Heggies Baulkhaul Ltd	HBL	07-Jul-04	PKF Corporate Advisory Services ltd	Transportation	N	N				
52	Hotcopper Australia Ltd	HOT	09-Mar-00	Horwath Investment Services	N/A	N	N				
53	Hudson Pacific Group Ltd	HPG	13-Aug-01	Court & Co	Real Estate	N	N				
54	IAMA Ltd	IAM	13-Dec-00	Pricewaterhouse Coopers	Food Beverage & Tobacco	N	N				

	Company	ASX Code	Date	Expert	GICS Industry	WACC (Y/N)	CAPM (Y/N)	MRP	Imputation		Other comments
									Adjustment made (Y/N)	Reasons cited	
55	IAMA Ltd	IAM	09-Feb-01	Pricewaterhouse Coopers	Food Beverage & Tobacco	N	N				
56	Ipoh Limited	IPH	22-Oct-01	Deloitte Corporate Finance	REIT	N	N				
57	Ipoh Limited	IPH	14-Mar-03	Deloitte Corporate Finance	REIT	N	N				
58	Lake Technology Ltd	LAK	19-Sep-03	Grant Samuel & Associates	Software & services	N	N				
59	Lake Technology Ltd	LAK	25-May-04	Grant Samuel & Associates	Software & services	N	N				
60	Lemvest Ltd	LEV	15-Oct-03	Pitcher Partners	Capital Goods	N	N				
61	Lowan Australia Ltd	LAL	02-Mar-05	BDO Corporate Finance Pty Ltd	Food & Staples Retailing	N	N				
62	Media Entertainment Group Ltd	MED	06-Jun-01	Pitcher Partners	Media	N	N				
63	Metcash Trading Limited	MTT	21-Jan-05	Pricewaterhouse Coopers	Food & Staples Retailing	N	N				
64	Montana Group (NZ) Ld	MTA	13-Aug-01	Pricewaterhouse Coopers	Food Beverage & Tobacco	Y	Indeterminate				WACC figures quoted but no further details of underlying assumptions provided.
65	MTM Media Entertainment Trust	MME	15-Jun-01	BDO Corporate Finance Pty Ltd	REIT	Indeterminate	Indeterminate				DCF was undertaken and a discount rate was utilised but report contains no information on definition of discount rate nor basis for its estimation.
66	Namakwa Diamond NDC Company NL	NDC	26-Apr-01	Ernst & Young Corporate Finance P/L	Metals & Mining	Y	Y	6%	N	None provided	The expert made adjustment for a specific risk premium to take into account the risk associated with the company's operations in South Africa. A premium of 5% to 7% was added to the cost of equity.
67	Neighbourhood Cable Ltd	NCA	19-Apr-05	DMR Corporate P/L	Telecommunications Services	Y	Y				DCF was one of three valuation methodologies applied, however, there were no details provided to support the discount rate of 16% that was applied.
68	Neverfail Springwater Ltd	NEV	29-Apr-03	Grant Samuel & Associates	Food Beverage & Tobacco	Y	Y	6%	N	None provided	
69	Normandy Mining Ltd	NDY	19-Nov-01	Grant Samuel & Associates	Metals & Mining	Y	Y	6%	N	Same reasons as for AAPT	
70	Northern Gold NL	NNG	24-May-01	Ernst & Young Corporate Finance P/L	Metals & Mining	N	N				
71	North Ltd	NBH	24-Jul-00	Grant Samuel & Associates	N/A	Y	Y	6%	N	Same reasons as for AAPT	
72	Nova Health Ltd	NHL	30-Mar-05	Horwath Investment Services	Healthcare equipment & services	N	N				
73	Novus Petroleum Ltd	NVS	22-Dec-03	Grant Samuel & Associates	Energy	Y	Y	6%	N	None provided	Grant Samuel utilised a beta factor of 0.9-1.0 despite eivdence on measured betas of comparable companies being below this range. Grant Samuel stated that it believed that under more stable market conditions, the betas of oil and gas assets would be closer to 1.0.
74	Oil Company of Australia Ltd	OCA	11-Jul-03	Grant Samuel & Associates	Metals & Mining	Y	Y	6%	N	None provided	

	Company	ASX Code	Date	Expert	GICS Industry	WACC (Y/N)	CAPM (Y/N)	MRP	Imputation		Other comments
									Adjustment made (Y/N)	Reasons cited	
75	OPSM Group Ltd	OPS	26-Nov-04	Lonergan Edwards & Associates	Healthcare equipment & services	N	N				
76	Otter Gold Mines Ltd	OTR	24-Dec-01	Stanton Partners Corporate P/L	Metals & Mining	See note	See note				The expert relied upon the asset specific valuations undertaken by a specialist mining valuer, who utilised the DCF methodology but did not provide information on the definition of the discount rate nor the basis of its derivation.
77	Pacific Hydro Ltd	PHY	19-Apr-05	Ernst & Young Corporate Finance P/L	Utilities	Y	Y	6%	N	None provided	The valuation involved local and overseas assets. A base local discount rate was derived and adjustments were made to incorporate country specific risks into the rate for overseas assets.
78	Pacific Strategic Investments Ltd	PSI	09-Aug-04	Grant Thornton	Diversified Financials	N	N				
79	Petroz NL	PTZ	21-Nov-00	Grant Samuel & Associates	Metals & Mining	Y	Y	6%	N	Same reasons as for AAPT	
80	Pinnacle VRB Ltd	PCE	16-Aug-01		Capital Goods	N	N				
81	Pioneer International Ltd	PNI	25-Jan-00	Grant Samuel & Associates	N/A	N	N				
82	Pirelli Cables Australia Ltd	PRL	01-Dec-00	Deloitte Corporate Finance	Capital Goods	N	N				
83	PowerTel	PWT	10-Jun-03	Pricewaterhouse Coopers	Telecommunications Services	N	N				
84	Principal America Office Trust	PAO	28-Jul-04	Deloitte Corporate Finance	REIT	N	N				
85	Principal Office Fund	POF	26-May-03	Deloitte Corporate Finance	REIT	N	N				
86	Prudential Investment Company Australia Ltd	PIA	28-May-03	Hindal Corporate P/L	Real Estate	N	N				
87	QCT Resources Ltd	QRL	02-Oct-00	Grant Samuel & Associates	Metals & Mining	Y	Y	6%	N	Same reasons as for AAPT	
88	Ranger Minerals	RGS	03-May-02	Pricewaterhouse Coopers	Metals & Mining	N	N				
89	Reliance Mining Ltd	REM	06-Jan-05	Deloitte Corporate Finance	Metals & Mining	N	N				
90	Retail Technology Services Ltd	RTS	01-Mar-05	RSM Bird Cameron Corporate P/L	Media	N	N				
91	Rib Loc Group Ltd	RBL	17-Jun-03	Leadenhall Australia Ltd	Construction Materials	Y	Y	6%	N	None provided	
92	Rib Loc Group Ltd	RBL	25-Feb-04	Leadenhall Australia Ltd	Construction Materials	Y	Y	6%	N	None provided	
93	RM Williams	RMW	02-Jul-03	Grant Samuel & Associates	Retailing	N	N				

	Company	ASX Code	Date	Expert	GICS Industry	WACC (Y/N)	CAPM (Y/N)	MRP	Imputation: Adjustment made (Y/N)	Imputation: Reasons cited	Other comments
94	Ronin Property Group	RPH	27-Sep-04	Deloitte Corporate Finance	Real Estate	N	N				
95	Sea World Property Trust	SWD	14-Jan-02	DDH Graham Ltd	REIT	Y	Y	6%	N	None provided	
96	Shell Australia Investments		23-Nov-00	Grant Samuel & Associates	Energy	Y	Y	6%	N	Same reasons as for AAPT	
97	Siddons Ramset ltd	SID	31-Jan-00	Grant Samuel & Associates	N/A	N	N				
98	Sky Network Television	SKT	28-Aug-03	Deloitte Corporate Finance	Media	Y	Y	8%	N	None provided	
99	Softlaw Corporation	SLC	15-Dec-04	Lonergan Edwards & Associates	Software & services	See note	See note				Not applicable as valuation was of options
100	Software Communication Group	SOF	01-May-03	BDO Corporate Finance Pty Ltd	Software & services	N	N				
101	Southcorp	SRP	17-Jan-05	Lonergan Edwards & Associates	Food Beverage & Tobacco	N	N				
102	Southern Star Group	SSR	15-Dec-03	Horwath Investment Services	Media	N	N				
103	Spicers Paper ltd	SCP	12-Dec-00	Grant Samuel & Associates	Paper & Forest Products	N	N				
104	Spotless Services ltd	SPS	13-Apr-00	Pricewaterhouse Coopers	N/A	Indeterminate	Indeterminate				DCF was utilised as a valuation cross-check but no details were provided regarding the discount rate
105	TAB Ltd	TAB	23-Feb-04	Lonergan Edwards & Associates	Consumer Services	Y	Y	6%	N	None provided	
106	Taipan Resources NL	TAI	05-Mar-01	Stanton Partners Corporate P/L	Metals & Mining	N	N				
107	TDG Logistics Ltd	TD	03-Sep-01	Grant Samuel & Associates	Transportation	N	N				
108	Telecasters Australia Ltd	TCA	08-Jun-01	Ernst & Young Corporate Finance P/L	Media	N	N				
109	Tenon Ltd	TNN	13-Apr-04	Grant Samuel & Associates	Paper & Forest Products	N	N				
110	Terrain Australia Ltd	TER	27-Oct-04	DMR Corporate P/L	Diversified Financials	N	N				
111	Uecomm Ltd	UEC	21-May-04	Grant Samuel & Associates	utilities	N	N				

	Company	ASX Code	Date	Expert	GICS Industry	WACC (Y/N)	CAPM (Y/N)	MRP	Imputation		Other comments
									Adjustment made (Y/N)	Reasons cited	
112	Universal Resources Ltd	URL	17-Dec-04	SRK Consulting	Metals & Mining	See note	See note				No expert opinion provided
113	Virgin Blue Holdings	VBA	28-Jan-05	Grant Samuel & Associates	Transportation	N	N				
114	Westgold Resources NL	WGR	12-Dec-01	Ernst & Young Corporate Finance P/L	Metals & Mining	N	N				
115	WMC Resources Ltd	WMR	22-Nov-04	Grant Samuel & Associates	Metals & Mining	Y	Y	6%	N	None provided	Grant Samuel acknowledges 10year bond rate is most commonly used for the risk free rate but believes a longer term proxy would be more appropriate in the case of WMC given the life of its assets. However, it recognises the market for 30y bonds is not deep and there is currently a wide gap between 10Y and 30Y US treasury note yields. As such, Grant Samuel stated that it has judgementally selected a risk free rate having regard to the current yields to maturity on both 10Y and 30Y US treasury notes.
116	Woodside Petroleum	WPL	27-Dec-00	Deloitte Corporate Finance	Energy	Y	Y	6-6.5%	N	As for Emperor Mines	
117	York Group	YSL	06-Oct-04	BDO Corporate Finance Pty Ltd	Capital Goods	N	N				
118	Zimbabwe Platinum Mines Ltd	ZIM	30-Jun-03	Venmyn Rand (Pty) Ltd	Metals & Mining	Y	Y	6%	N	Assets of the company are located in South Africa	