# As Australia's largest distributor of natural gas we take pride in delivering this environment friendly fuel to over one million homes and businesses

Envestra Annual Report 2009

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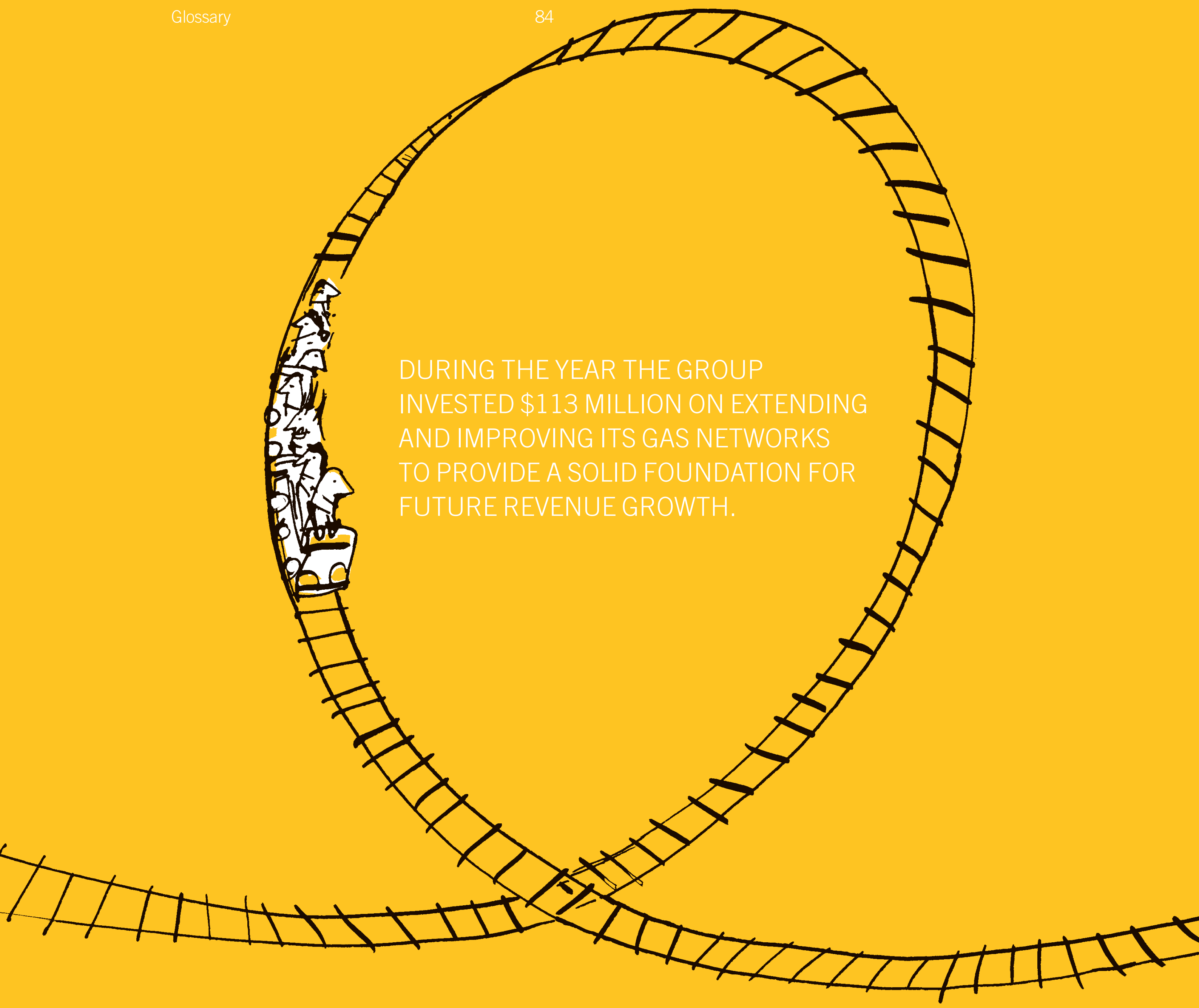
## FINANCIAL CALENDAR

| | |
|---|---|
| 28.10.2009 | *2009 Annual General Meeting* |
| 30.10.2009 | *First-half distribution paid* |
| 25.02.2010 | *Half-year financial results announced* |
| 30.04.2010 | *Second-half distribution paid* |
| 26.08.2010 | *Full-year financial results announced* |
| 27.10.2010 | *2010 Annual General Meeting* |

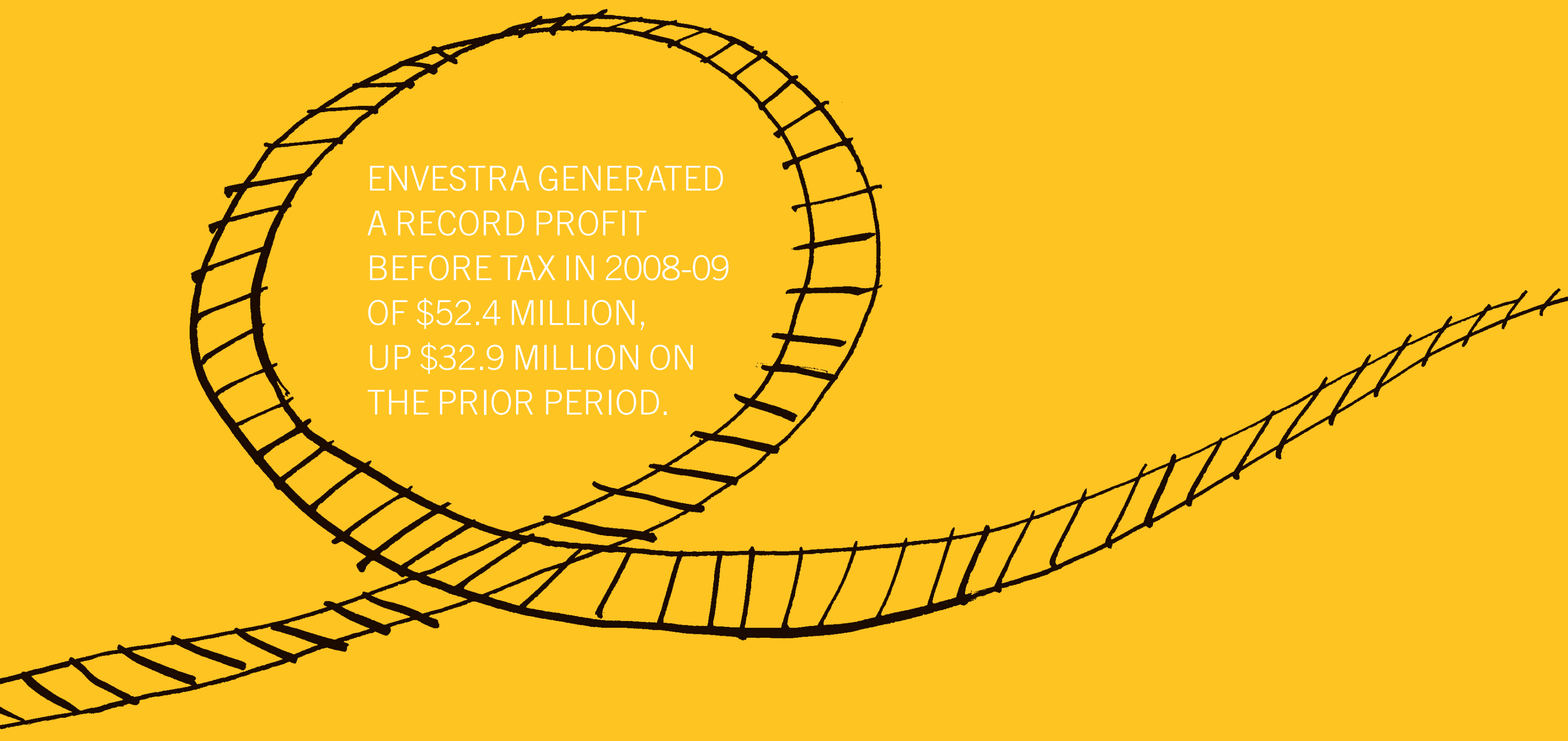
THE 2009 ANNUAL GENERAL MEETING OF ENVESTRA LIMITED (ACN 078 551 685) WILL BE HELD AT 10:00AM ON WEDNESDAY, 28 OCTOBER 2009 AT THE ADELAIDE CONVENTION CENTRE, NORTH TERRACE, ADELAIDE.



DURING THE YEAR THE GROUP INVESTED $113 MILLION ON EXTENDING AND IMPROVING ITS GAS NETWORKS TO PROVIDE A SOLID FOUNDATION FOR FUTURE REVENUE GROWTH.

In the face of the international economic downturn, Envestra has generated record revenues, delivered increased gas volumes to domestic consumers and continued to expand its networks. This strong performance reflects our reliable monopoly infrastructure and our continuing investment in

# long-life assets



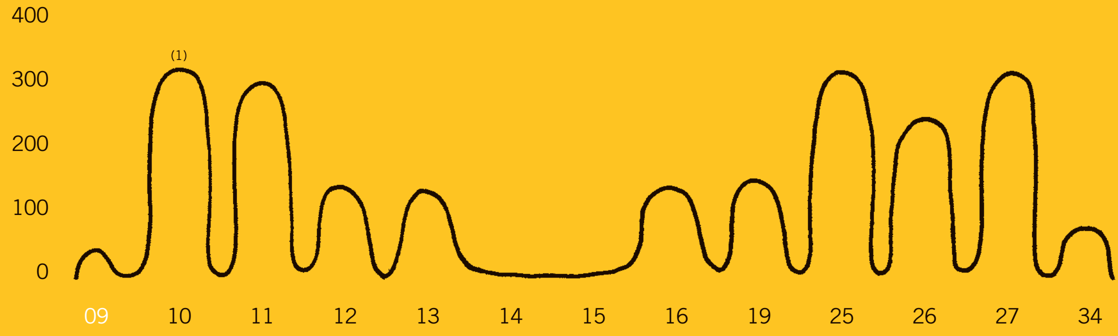
ENVESTRA GENERATED A RECORD PROFIT BEFORE TAX IN 2008-09 OF $52.4 MILLION, UP $32.9 MILLION ON THE PRIOR PERIOD.

# Financial performance

ENVESTRA'S KEY FINANCIAL RESULTS SHOW STEADY IMPROVEMENT. THIS TREND IS EXPECTED TO CONTINUE WITH MORE POSITIVE OPERATING CONDITIONS AND DISCIPLINED CAPITAL MANAGEMENT.

**DEBT MATURITY PROFILE**
**$ MILLION**

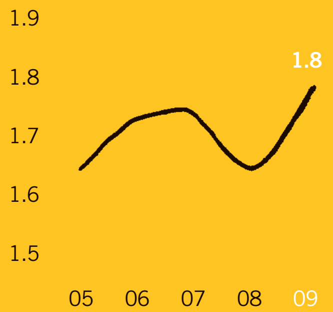
(Refer to page 7 for further information.)




(1) All debt maturing in 2009-10 was refinanced in July 2009. Envestra's financing strategy for many years has been to extend the duration of its debt portfolio. The average debt maturity at 30 June 2009 was 9.3 years.

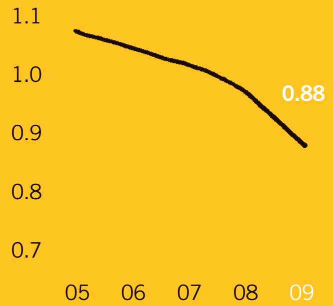
**INTEREST COVER RATIO**

Defined as EBITDA divided by net borrowing costs (refer page 16).



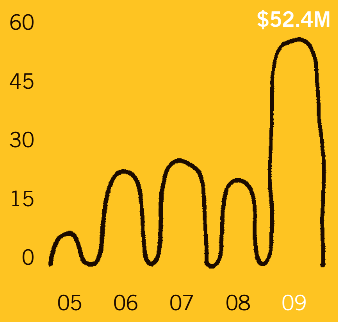

The Group's Interest Cover Ratio improved in 2008-09 and is considered strong in view of the Group's regulated monopoly status and its reliable cash flows.

**DEBT TO REGULATED ASSET BASE**
**DEBT AS A MULTIPLE OF RAB**




The significant shift to predominantly funding growth capital expenditure from surplus cash flow will further improve this gearing measure.

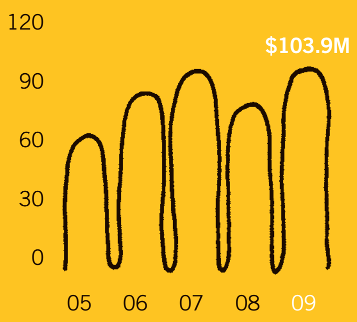
## PROFIT / LOSS BEFORE TAX
**$ MILLION**




The Company generated a record profit before tax of $52.4 million due mainly to higher volumes delivered to the domestic market and the annual increase in tariffs charged to retailers.

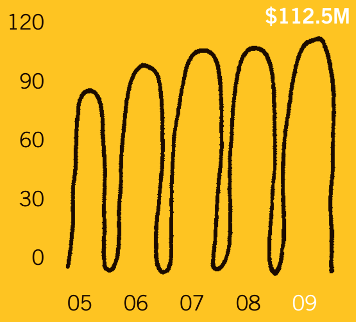
## CASH FLOW FROM OPERATIONS
**$ MILLION**

After financing costs and replacement capital expenditure.




A key measure of our success is cash flow available to pay distributions to shareholders. Cash flow was 1.4 times distributions and is expected to increase to 1.5 times in 2009-10.

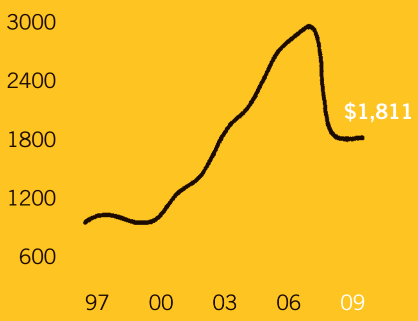
## CAPITAL EXPENDITURE
**$ MILLION**




We expect to continue investing more than $100 million each year upgrading our assets and installing new networks. About 80% of our investments are growth orientated, with the remainder spent on replacing old assets.

## ACCUMULATED RETURNS TO SHAREHOLDERS
**AS AT 30 JUNE 2009**

$1,000 invested in 1997. Assumes that distributions paid are reinvested at the security price as at the end of the year and participation in the 2009 Rights Issue.



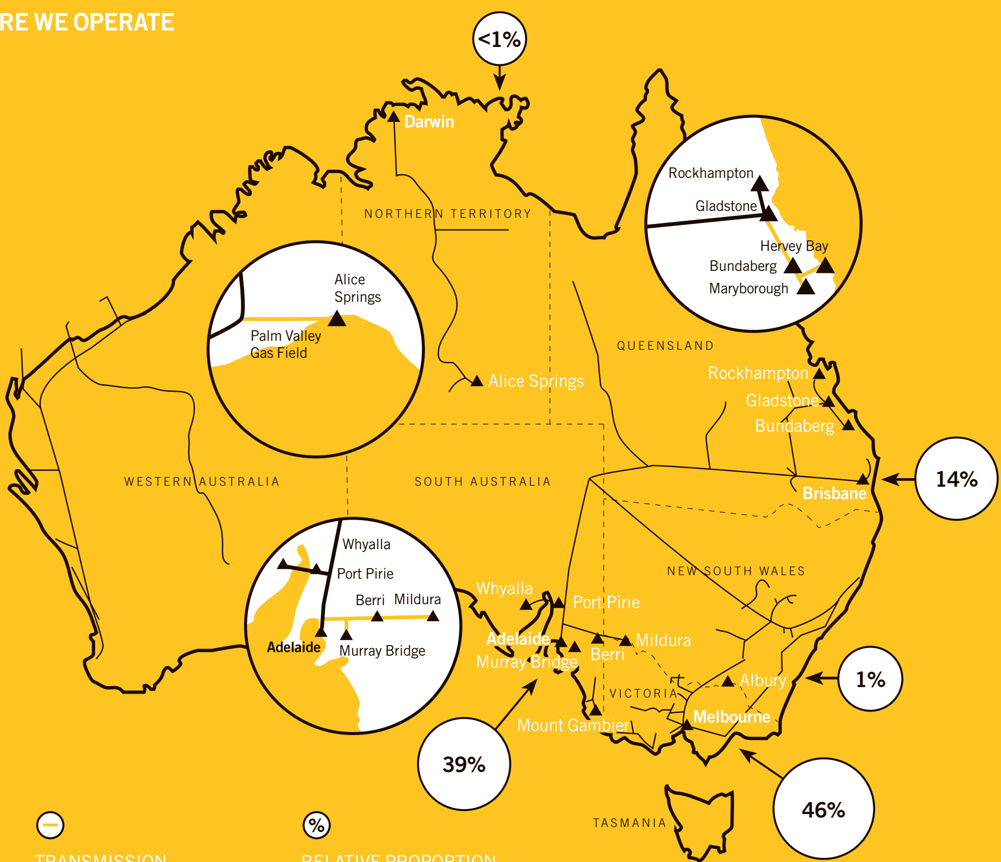

The continuing global economic crisis, together with ongoing uncertainty in the Australian share market, held returns to our shareholders for 2008-09 (for those who participated in the February 2009 Rights Issue) to 0.3%.

IN THE PAST, FUNDING FOR GROWTH CAPITAL EXPENDITURE WAS MAINLY SOURCED FROM NEW DEBT AND EQUITY. OVER THE SIX YEARS TO 2014 WE EXPECT TO FUND THIS ACTIVITY LARGELY FROM SURPLUS CASH FLOW AND MODEST INCREASES IN EQUITY.

# Operational highlights

ABOUT 85% OF THE COMPANY'S OPERATIONS ARE IN VICTORIA AND SOUTH AUSTRALIA – THE TWO COLDEST MAINLAND STATES IN THE NATION. TODAY THE COMPANY DELIVERS NATURAL GAS TO MORE THAN ONE MILLION CONSUMERS AND CONNECTS OVER 20,000 NEW CONSUMERS EACH YEAR.

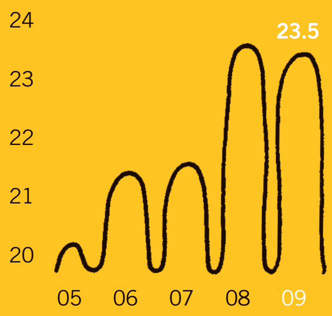
**WHERE WE OPERATE**




TRANSMISSION PIPELINES OWNED AND OPERATED BY ENVESTRA

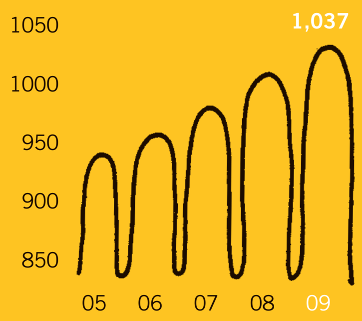
RELATIVE PROPORTION OF 2008-09 REVENUE (ROUNDED)

## NEW CONSUMERS
'000




Every year we add more than 20,000 new consumers to our networks. On average, each domestic consumer generates around $275 in revenue per year.

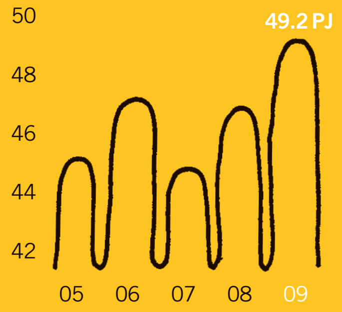
## TOTAL CONSUMERS
'000




The environmental benefits of natural gas are widely recognised by governments and the community. Today, Envestra delivers gas to more than one million consumers.

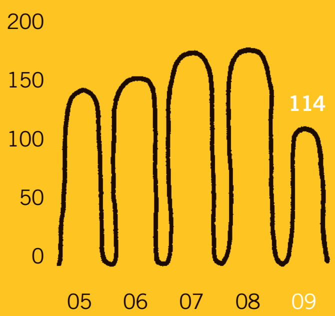
## GAS VOLUMES
<10TJ CONSUMERS

Refer to Glossary of Terms (page 84)



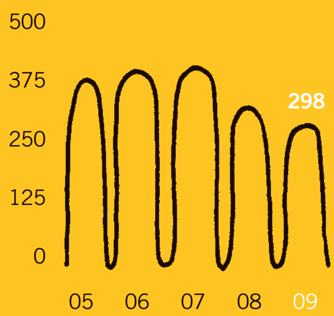

Gas volumes to the domestic market, from which we generate around 90% of our revenue, have on average, increased by about 2% annually, despite being impacted in recent years by warmer than normal winter weather in the south-eastern states.

## MAINS REPLACEMENT
KM




Over the past decade we have replaced about 2,000 kilometres of old cast iron and steel pipes by inserting smaller, higher pressure, polyethylene pipes in the redundant pipes. Our investment in this activity was reduced in 2008-09 in response to the economic climate. This program will continue over the next decade.

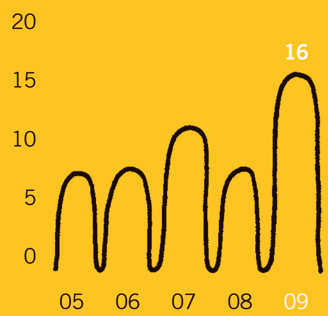
## NEW MAINS
KM




State and Federal Government energy policies which promote the use of natural gas, and the First Home Owners Grant, have sustained demand for extending the Company's networks into new subdivisions.

## SAFETY STATISTICS
LTIs

A Lost Time Injury (LTI) is an injury that results in one full day or more off work.




Our major contractor, APA, has over 1,100 employees and subcontractors working for Envestra. Although LTIs increased in 2008-09, most were in the nature of muscle strains and workers were generally back at work in a relatively short time. APA has increased its efforts on improving its safety record in 2009-10.

# Chairman's and Managing Director's review

## IT IS PLEASING TO REPORT IN A YEAR OF SIGNIFICANT ECONOMIC TURBULENCE THAT THE COMPANY RECORDED A PROFIT BEFORE TAX OF $52.4 MILLION, AN INCREASE OF $32.9 MILLION OVER THE PREVIOUS 12 MONTHS.

Profit after tax declined by $123.3 million as 2007-08 was impacted by a significant one-off tax benefit of $153.2 million.

On an underlying basis, the profit after tax for 2008-09 was up $24.3 million to a record $35.6 million, compared with an underlying profit after tax of $11.3 million in 2007-08.

The Company performed very well against most of its operational measures, and a return to normal weather assisted revenues and our bottom-line result.

During the year the Board undertook a number of capital market initiatives to better enable it to ride out the substantial uncertainties in capital markets. These included debt consolidation, conducting a Rights Issue and reducing distributions to shareholders in the face of Standard & Poor's downgrading the Company's credit outlook (subsequently retracted after the completion of the Rights Issue in February 2009).

In February 2009, we completed a $111 million Rights Issue, which was underwritten by our largest shareholder, Australian Pipeline Limited (APA). The offer received strong support with more than 5,300, or 28%, of shareholders participating, and around 371 million new securities being issued. APA's holding in Envestra is now 30.4% and our second largest shareholder, Cheung Kong Infrastructure Holdings (Malaysian) Limited, holds 18.4%.

In May 2009, the loan note component of our stapled security was redeemed when the final amount of principal was repaid to shareholders. This greatly simplified the equity structure of the Company. Following this payment, equity is in the form of ordinary shares. It is anticipated that unfranked dividends will be paid on these shares for the foreseeable future.

**SHARE MARKET PERFORMANCE**

It is extremely disappointing that shareholder returns were flat for the year and negative for those who did not participate in the Rights Issue. This was a consequence of the material, ongoing decline in the prices of listed infrastructure securities generally, which occurred in conjunction with the turmoil in world financial markets, the substantial escalation in the cost of debt and general investor concerns regarding the ongoing availability of capital to support corporate refinancing requirements.

The Board deemed it prudent to reduce annual distributions from 9.5 cents to 5.5 cents to conserve capital in response to the global financial crisis and in recognition of the fact that the number of securities on issue increased by over 40% during the year as a result of the Rights Issue. Distributions for 2008-09 totalled 7.25 cents (4.5 cents in November and 2.75 cents in May), and are expected to be 5.5 cents in 2009-10, payable in equal half-yearly instalments.

### FINANCING STRATEGY

Envestra's financing strategy for many years has been to extend the duration of its debt portfolio, aim to have refinancing in place at least six months prior to maturity, and set a limit of 15% of the debt portfolio to mature in any one year. At 30 June 2009, the average loan maturity for the Envestra group was just over nine years.

During the year the Company refinanced $255 million of debt. However, the margins were substantially above those that applied to the maturing facilities, and the new loan periods were shorter than those which were available in the past. These terms are symptomatic of the current global financial crisis. These additional costs are potentially recoverable via future regulatory resets, and in part, under our current access arrangements.

There are no further significant debt refinancing requirements until May 2011, other than a $100 million facility due in July 2010 which was undrawn at 30 June 2009.

The Company's exposure to interest rate risk is minimal as over 95% of floating rate debt is hedged in line with the regulatory reset periods through to 2011 for South Australia and Queensland, and 2012 for Victoria.

At 30 June 2009 the Company had undrawn bank facilities amounting to $236 million with terms extending from 2009 to 2012. These credit facilities, in conjunction with the cash being generated by the business, are more than sufficient to support our capital expenditure program and fund operating costs over the next several years.

During the year, $250.9 million of debt was repaid whilst $180.7 million of new debt was drawn down. Our capital expenditure program was largely financed by internal cash generation and equity raisings.

More than 80% of the credit-wrapped Capital Indexed Bonds issued by the Envestra Group are guaranteed by the monoline insurer, FSA, which has maintained its AAA credit rating during these difficult financial times.

### DEBT CONSOLIDATION

During the year we sought approval from our financiers to consolidate the debt packages of Envestra Limited and Envestra Victoria Pty Ltd, and to have covenants under the financing arrangements measured on a consolidated basis in the future. A pre-condition of the consolidation was the raising of $100 million in equity, which was achieved via the Rights Issue. The consolidation enabled the Group to access the relatively stronger financial metrics of the Parent Company and avoid the tight interest coverage covenants in Envestra Victoria which could have restricted capital expenditure in that State in the future. The consolidation also assisted in having the "Outlook Negative" classification on the Group's investment grade rating being removed by Standard & Poor's.

## OUR FINANCIAL PERFORMANCE

Haulage and services revenue, which is generated mainly from the delivery of natural gas for retailers, increased 12% over the previous year to $372.9 million due mainly to a return to normal winter conditions in South Australia and Victoria, the annual increase in tariffs, the addition of over 23,000 new consumers to the networks, and mains relocation work associated with the Brisbane Airport Link project.

Gas volumes were in line with the previous year at 1.15 petajoules, but more importantly the volume delivered to domestic and small commercial consumers was up 5%. The Company generates around 90% of its haulage revenue from these consumers.

Operating costs were up 1.7% on the previous year as a result of increased maintenance on the networks due to leak repairs, and the associated cost of system use gas (that is, replacing the gas “lost” due to leakage and other factors), and higher APA management fees payable in reward for Envestra’s improved revenue.

Finance costs were $158.3 million, up 9.3% or $13.5 million on the previous year due to increased interest rates on hedges put in place to match the Victorian regulatory reset in December 2007, higher margins on refinanced debt and higher indexation on the Company’s Capital Indexed Bonds.

The cost of indexation on our Capital Indexed Bonds was up $5.2 million to $17.6 million; however, these non-cash costs are mostly recovered through the annual increase in tariffs, the adjustments to which are linked to movements in the consumer price index.

Underlying cash flow from operating activities was $121.3 million, 15% higher than in the previous year, due mainly to higher haulage and services revenue.

After allowing for replacement capital expenditure, cash flow available for distributions amounted to $103.9 million, with a distribution cover ratio of 137%. It is expected that this ratio will steadily improve over the next few years as a result of the recent capital management initiatives undertaken by the Company, and increases in revenue.

Distributions to shareholders were reduced from 9.5 cents to 7.25 cents per security, with total distributions being $75.8 million, down $5.9 million on the prior year, notwithstanding the additional amount paid on new securities issued during the year under the Company’s Distribution Reinvestment Plan and the Rights Issue.

The balance owing to shareholders on the loan note component of our stapled securities was 4.94 cents at 30 June 2008. The final repayment on the loan note occurred as part of the distribution made in May 2009.

## THE REGULATORY REGIME

Envestra’s monopoly position as a gas distributor has been subject to regulatory oversight by State Regulators, and since 1 July 2008 by the Australian Energy Regulator (AER). The AER reviews the Company’s Access Arrangements at five-yearly intervals under the National Gas Law and Rules. This process determines revenue, and as a consequence, tariffs, as well as contractual terms for retailers and some large volume consumers over the following five years.

We reported last year that the Company had lodged an appeal in relation to a range of matters associated with the review (by the previous Regulator, the Essential Services Commission of Victoria) of the Victorian and Albury Access Arrangements. These included the allowed rate of return that can be earned on investments (known as Weighted Average Cost of Capital) and the disallowance of 50% of the network management fee paid to APA Asset Management (our operator).

In November 2008, the Appeal Panel ruled that the full network management fee is recoverable by Envestra. The Panel also ruled favourably on a component of the “Efficiency Sharing Mechanism”. These adjustments will result in increased revenue of around $8 million over the remaining four-year period of the Victorian and Albury Access Arrangements, to 2012.

We are hopeful that the move to the AER from State-based Regulators will deliver a more equitable approach to balancing the interests of distributors and their shareholders, and the interests of gas consumers.

In the past, asset owners have sometimes been provided only marginal encouragement to spend the significant capital required to ensure their networks deliver a reliable supply of gas through the most demanding weather conditions, and to make gas more widely available in the community.

During the year the AER conducted a review of the rate of return to be applied to the electricity industry. Envestra participated with all energy distributors in an industry campaign aimed at ensuring that the Regulator understood the challenges currently being faced by these businesses.

*We are hopeful that the Australian energy regulator will recognise the impact the new economic environment is having on infrastructure companies when undertaking the forthcoming regulatory reviews for gas networks, with a view to strongly encouraging investments that increase the reliability and availability of gas supplies*

The Final Determination of the AER provided an uplift of about 1% in the rate of return allowed in its Draft Determination. Although this does not have any direct impact on Envestra, it provides some guidance as to the rate of return that the Regulator might apply when they review our Access Arrangements in South Australia and Queensland in 2011 and in Victoria in 2012. In this regard we would expect the allowed return for the gas industry to be higher given the different nature of the gas industry regulatory structure and the inherently higher risk associated with the gas industry due to the fact that, as opposed to electricity, gas is a fuel of choice for consumers.

**EQUITY RAISING**

Almost $134 million of additional share capital was raised during the year under the Company's Distribution Re-investment Plan ($23 million) and the Rights Issue ($111 million) announced in December. Around 15% of shareholders participated in the two DRPs and 28% in the Rights Issue.

It is pleasing to report that the Company's two major shareholders, APA Group and Cheung Kong Infrastructure Holdings subscribed to the Rights Issue (with APA acting as underwriter to the equity raising), and both subscribed to the first DRP offer in November 2008. The funds raised were partially used to repay debt and to support the substantial capital investment program undertaken in 2008-09.

**CAPITAL EXPENDITURE PROGRAM**

The Company undertook a significant capital expenditure program in 2008-09 with $112.5 million spent on network extensions, capacity enhancements, mains replacement and meter changes. During the year 298 kilometres of new mains were laid, 114 kilometres of old mains were replaced, and a number of high pressure mains were laid to enhance the capacity of our networks.

Capital expenditure allowed under the Company's three Access Arrangements was $175 million and $200 million for Queensland and South Australia respectively, over the five years from July 2006, and $352 million for Victoria, for the five-year period from January 2008. These levels of expenditure require significant support from investors and financiers and will only occur where we are satisfied that the returns expected from these investments are consistent with Envestra's cost of capital. In this regard, due to the turmoil in world financial markets, the cost of raising debt and equity is currently in excess of that allowed by the Regulators, and as a result we reviewed our capital program for 2008-09 and reduced our spending for the year. In containing capital expenditure, we are mindful of our responsibilities to ensure that the networks continue to be operated in a safe and reliable manner, and that this is not compromised through any expenditure cuts.

Similar capital expenditure constraints will apply throughout 2009-10 and we forecast that our investments will be limited to around $115 million.

Our interest rate hedging program, together with the fact that we have put a range of financing facilities in place over many years at margins that are relatively attractive in comparison to current financial market conditions, will enable us to support the capital expenditure program in 2009-10. However, as noted, the program will be well below that which was envisaged by the South Australian and Victorian Regulators due to the high cost of debt and equity relative to that allowed under the regulatory regime.

Gas leakage (which forms part of system use gas or SUG) continues to be an issue for the Company. While the Regulators make an allowance in our operating costs for a certain rate of SUG, the level does not take into account recent trends. During the year, we did not meet the Regulator's target rate for South Australia and Victoria and as a result incurred additional operating costs. This is despite having spent considerable effort over the past decade replacing some 2,000 kilometres of old cast iron and steel mains, via the insertion of polyethylene pipe in the old mains.

We intend to increase our efforts in reducing SUG, by replacing 145 kilometres of "old" pipe in South Australia and Queensland in 2009-10 (up from 114 kilometres in 2008-09), at a cost of $19 million.

The Company has been contracted to undertake substantial mains relocation work associated with the Airport Link project in Brisbane. At 30 June, 2009, the value of this work was approximately $3.7 million. A further $5 million will be spent over the next 12 months.

**OPERATOR PERFORMANCE**

APA Asset Management, as operator of our networks, performed well. Operating costs rose 1.7% as a result of increased leak management activities. There were a number of relatively minor incidents throughout the year, primarily caused by third parties damaging the Company's gas mains and associated assets, which required urgent attention by APA. These incidents were handled in a professional and efficient manner, which resulted in minimal disruption to gas consumers.

Safety performance for APA's 1,100 employees and contractors, whilst not meeting all targets, reflects a high standard, and is a direct result of their attention to this key performance measure. No injuries of major significance occurred in 2008-09.

During the year APA implemented a new safety program which is expected to improve performance in this area.

There were nine lost-time injuries sustained by APA employees, and seven for contractors compared to five and two respectively in the previous year. Whilst we continue to target reductions in conjunction with APA, the desired outcome is challenging given the difficult working conditions often confronting the operator's field workers, and the ageing of APA's workforce.

**GROWTH STRATEGY**

Our substantial capital program provides for long-term revenue growth as investments in new networks expand our regulatory asset base, and deliver sustained increases in revenue over many years.

Conditions in financial markets precluded any meaningful effort being directed to network acquisitions, and this situation was compounded by the fact that there were limited opportunities available during the year. We do not expect this situation to change in the near future with financial markets generally reluctant to support major acquisition initiatives in the current climate.

We connected more than 20,000 new consumers per year for over a decade and expect this to continue in 2009-10, despite the capital constraints discussed earlier. This historically strong demand is being supported by recent State and Federal Government policy decisions which recognise the environmental benefits of natural gas and promote the use of the fuel, as well as the First Home Owners Grant.

The previous increase in new consumer connections in Queensland, resulting from the introduction of an energy policy by the Queensland Government which requires the installation of gas hot water heaters wherever natural gas is available, continued in 2008-09. During the year 2,751 new consumers were connected compared with 2,163 in the previous period.

In the Northern Territory we constructed a spur pipeline off the Company owned Palm Valley transmission pipeline to supply gas to a new power station built by the Power and Water Corporation (PWC) to provide electricity to Alice Springs. The project cost around $7 million, which will be recovered via the tariffs under a 25-year haulage agreement with PWC.

We believe consolidation of the energy infrastructure sector will continue as companies seek to free-up the value of "non-core" assets, or seek mergers to facilitate further growth or to ensure long-term financial stability in the face of volatile debt and equity markets. Envestra's participation in such moves will be determined by whether they provide an overall benefit to our shareholders.

**GREENHOUSE GAS EMISSIONS REPORTING AND TRADING**

The Federal Government has passed legislation that makes it mandatory for companies to report annually on greenhouse gas emissions, energy production and energy consumption at certain thresholds. The requirement applies to Envestra given the leakage of methane (a major component of natural gas) from our networks. The first report is due to be lodged by businesses with the Government in October 2009, for the year ended 30 June 2009.

The proposed introduction of an Emissions Trading Scheme (ETS) by the Federal Government has been delayed beyond the original timeframe of 2010. It is expected that any financial impost on Envestra resulting from the application of a charge for these emissions will ultimately be recovered from consumers through a combination of the regulatory Access Arrangements, and haulage agreements we have with retailers and directly with large businesses.

We continue to closely monitor this ETS initiative and its likely impact on Envestra, and will keep shareholders informed on developments.

**ORGANISATION AND STAFFING**

Most of our work is undertaken by the 1,100 employees and contractors of our operator, APA Asset Management. We appreciate the significant effort that these people have made throughout the year to the operation and maintenance of our networks and the provision of various support services. As with all businesses in the current climate we are closely monitoring our operating costs, and appreciate the assistance being provided by APA in arriving at solutions to meet the targets we have set for them.

Envestra has only a small management team, largely comprising experienced professionals with significant expertise across financial, engineering and regulatory disciplines. The finalisation of the Victorian regulatory appeal, participation in the AER rate of return review, the $111 million Rights Issue, debt consolidation and the refinancing of almost $400 million of debt are a few of the significant issues addressed by the team during the year. While not without challenge, particularly during these difficult times, all were delivered in an extremely professional manner.

On behalf of our Board, we take the opportunity to thank our employees, as well as the employees of APA for their substantial contributions to Envestra achieving its operating performance and record underlying profit in 2008-09.

J G Allpass
Chairman
28 August 2009

I B Little
Managing Director

# Business strategy

## OUR BUSINESS STRATEGY IS TO OWN AND RELIABLY OPERATE NATURAL GAS NETWORKS, PIPELINES AND RELATED SERVICES THAT GENERATE ATTRACTIVE RETURNS TO OUR SHAREHOLDERS.

Following is a summary of how we have performed over the past 12 months against the activities that will enable us to deliver on our strategy:

- **Achieving long-term (pre-tax) annual returns to our shareholders (including distributions and capital gains) of at least 10%.**

  *Total shareholder returns for 2008-09 were 0.3%. The result was impacted by the ongoing global financial crisis, and the reduction in distributions.*

  *While returns to shareholders were disappointing, the Group's underlying profit after tax was up $24.3 million to $35.6 million and our distribution coverage ratio improved to 1.4 times.*

  *We completed important capital management initiatives including raising equity, consolidating our previously separate debt packages and refinancing maturing debt, all of which served to enhance our credit rating and provide a better platform for achieving improved shareholder returns in the future.*

- **Operating our networks safely and efficiently, complying with all laws and relevant industry standards, and enhancing their value by adding connections and augmenting capacity.**

  *There were no significant incidents involving interruption to supply, or breaches of laws or gas industry standards. During the year, more than 23,000 new consumers were connected to the networks and $112.5 million was spent on improving and extending gas supplies.*

- **Promoting the use of natural gas, the most environment friendly fossil fuel and a cost competitive, convenient energy source for most consumers.**

  *Although significant funding constraints were applied to our marketing activities in 2008-09, we maintained, through our contractor, APA Asset Management, a close association with property developers and builders. Our funding cuts have been made in recognition of the fact that governments appreciate the environmental benefits of natural gas and have over the past few years implemented energy polices that promote the use of gas and in some cases mandate the use of the fuel. However, we anticipate an increased need in the medium term to support the promotion of natural gas as a fuel of choice, as it must now compete increasingly with green energy.*

- **Positively changing the regulatory environment so that investment is encouraged, reasonable economic rewards are available to network owners and the long-term interests of gas consumers (including supply reliability and environmental benefits) are protected.**

  *During the year, the Australian Energy Regulator undertook a review of the rate of return (commonly known as WACC, or Weighted Average Cost of Capital) that will apply to the electricity industry for the next five years.*

  *We participated in an industry campaign conducted by participants in the energy infrastructure sector, aimed at ensuring the Regulator understood the challenges currently being faced by these businesses (refer to page 8 for further details).*

- **Profitably growing our business through network expansion, building new transmission pipelines, adding related gas infrastructure and making appropriate acquisitions.**

  *Almost 300 kilometres of new mains were laid in 2008-09 at a cost of $25 million, bringing the total to 20,436 kilometres. Today the Company delivers gas to around 1,037,000 consumers. There was no activity in relation to new transmission pipelines and acquisitions. With regard to acquisitions, it was a combination of a lack of attractive opportunities and the current economic climate that drove this outcome.*

- **Delivering natural gas to our consumers in a manner that has minimal effect on the environment.**

  *There were no major incidents involving gas leaks, and our contractor continued to perform its role in repairing gas mains and the associated equipment, and installing new mains in a manner sympathetic to the environment. There were no contraventions of environmental codes or guidelines.*

  *When the Company acquired the Victorian business in 1999 (including The Albury Gas Company), it included a small number of sites that were used some 40 years ago for the production of coal gas. These sites contain by-products of this production process and require rehabilitation. We are working closely with the respective local council and Environmental Protection Agency to identify the most appropriate remediation program to address the known contamination issues.*

- **Providing outstanding service to our retail and commercial consumers that ensures continuing growth in consumer connections and increasing gas deliveries.**

  *Fewer than 40 complaints were received by the Energy Ombudsmen across all States in relation to the Company's assets and activities. This represents a sound performance as more than one million consumers are connected to our networks.*

- **Maintaining a work environment for our employees and major contractor that encourages innovation and professionalism, recognises and rewards success, and promotes safety.**

  *Envestra and APA Asset Management promote skills enhancement of employees and contractors through company funded training programs. This includes attendance at tertiary courses and support of various apprenticeship schemes as well as specialised courses or events for experienced staff.*

  *APA has a major focus on safety through an incentive scheme for all employees under which they are rewarded for reaching certain targets. This incentive recognises the difficult working conditions many of their employees encounter. Refer to page 17 for APA's safety statistics for 2008-09.*

# Financial review

THE COMPANY CONTINUED TO PRODUCE STRONG CASH FLOWS FROM WHICH DISTRIBUTIONS TO SHAREHOLDERS WERE PAID, AND THE COST OF REPLACEMENT CAPITAL EXPENDITURE WAS MET.

**REVENUE**

$389.1 million in 2008-09 *($346.0 million in 2007-08).*

Envestra's revenue and income, which is generated mainly from the delivery of natural gas for retailers, was $389.1 million, up $43.1 million on the previous year. The improvement in revenue was due mainly to cooler weather than the prior year in Victoria and South Australia, the increase in distribution tariffs across all three major States (South Australia, Victoria and Queensland), as well as revenue from the 23,000 new consumers added to the Company's networks. Land sale proceeds and increased revenue from mains alterations works carried out during the year were further contributors to the higher revenue and income in 2008-09.

**CASH FLOWS**

$122.3 million in 2008-09 *($94.8 million in 2007-08).*

The Company generated cash flows from operating activities of $122.3 million, up $27.5 million on the previous year due mainly to increased haulage revenue and the timing of an interest payment in 2007-08.

Distributions to shareholders amounted to $75.8 million, down $5.9 million on the prior year, due to the reduction in the amount paid per security. The remaining $46.5 million of operating cash flows was available to fund the $112.5 million capex program. The balance of the capex program was financed by a combination of equity raised during the year, and debt drawdowns. Cash flow cover of distributions, after financing costs and stay-in-business capital expenditure, was137%.

**EARNINGS BEFORE INTEREST AND TAX (EBIT)**

$213.0 million in 2008-09 *($175.1 million in 2007-08).*

The significant EBIT improvement occurred despite operating expenses of $113.1 million being up $1.9 million as a result of higher leak repair costs (up $3.4 million) and system use gas costs (up $0.7 million). The strong revenue result noted above underpinned the EBIT result.

### BORROWING COSTS

$158.3 million in 2008-09 *($144.8 million in 2007-08).*

Borrowing costs (excluding loan note interest paid to shareholders) were $158.3 million, up $13.5 million on the previous period. The increase largely reflects higher interest rates on hedges put in place in late 2007 and higher indexation costs on the Company's Capital Indexed Bonds (which is non-cash). These increases are largely recoverable through higher tariffs under the regulatory regime over the next four years, as tariffs are adjusted to reflect the historical CPI outcomes.

The average interest rate at 30 June 2009 was around 8.1%, compared to 7.1% in 2007-08.

### PROFIT AFTER TAX

$40.3 million in 2008-09 *($163.6 million in 2007-08 (including $153.2 million one-off tax benefit)).*

The Company recorded a consolidated profit after tax and interest on loan notes of $40.3 million. An underlying profit after tax of $35.6 million was recorded, compared with an underlying profit after tax of $11.3 million in 2007-08. Other than the one-off tax benefit in 2007-08 outlined above, other items eliminated from the profit after tax to calculate the underlying profit are land sales, remediation provisions and investment tax allowance.

### CAPITAL EXPENDITURE

$112.5 million in 2008-09 *($108.3 million in 2007-08).*

Capital expenditure was $112.5 million, an increase of $4.2 million on the previous year. Around $95 million was spent on growth projects and $18 million on replacement of "old" mains and other "stay-in-business" activities.

### CASH RESERVES

$6.2 million in 2008-09 (*$10.8 million in 2007-08).*

The Company's cash reserves at year end were $6.2 million, compared with $10.8 million at the end of the previous period. Cash balances are normally maintained at modest levels to minimise debt and enhance returns to shareholders.

The Company had available unused bank credit lines of $236 million at year end.

During the year debt, excluding loan notes, decreased by $52.4 million to $1,981.4 million, largely as a result of the addition of $111 million of new equity.

The average loan duration for the Envestra Group, at 30 June 2009, was 9.3 years.

Envestra's gearing level was 74.7% at year-end. Gearing is defined as net debt divided by total non-cash assets. Whilst the level of gearing is relatively high compared to industrial and property companies, it is considered appropriate in the context of the reliable cash flow expectations that are associated with a regulated monopoly service provider. The gearing level has been negatively impacted by the decline in the Company's security/share price.

### CREDIT RATING

Envestra's credit rating with Standard & Poor's of BBB-/A-3 was affirmed in March 2009, and the long-term ratings outlook was revised from negative to stable. This upgrade was in response to the various capital management initiatives undertaken by the Company throughout the year.

Moody's rating of Baa2 Outlook Negative for the Envestra Security Group, which relates to the Company's South Australian and Queensland assets, remains unchanged.

We are working to strengthen these ratings to ensure the Company operates with the lowest sustainable cost of capital.

# Financial summary

SUMMARY OF CASH FLOWS ($M)

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Operating receipts less payments** | **257.4** | **230.2** | **226.1** | **217.6** | **195.4** |
| **Net cash flow before borrowing costs** | **257.4** | **230.2** | **226.1** | **217.6** | **195.4** |
| Net borrowings costs | (135.1) | (135.4) | (106.9) | (118.3) | (119.2) |
| **Cash flow from operating activities** | **122.3** | **94.8** | **119.2** | **99.3** | **76.2** |
| Replacement capital expenditure | (18.4) | (16.8) | (18.7) | (17.1) | (14.3) |
| **Available for distribution** | **103.9** | **78.0** | **100.5** | **82.2** | **61.9** |
| Distributions | (75.8) | (81.7) | (77.7) | (73.8) | (73.1) |
| **Contribution to growth capital expenditure** | **28.1** | **(3.7)** | **22.8** | **8.4** | **(11.2)** |
| Growth capital expenditure | (94.1) | (91.5) | (89.1) | (75.0) | (72.5) |
| **Cashflow available pre-debt/equity re-financing** | **(66.0)** | **(95.2)** | **(66.3)** | **(66.6)** | **(83.7)** |
| Debt (drawdowns net of repayments) | (70.2) | 60.3 | 6.3 | 5.6 | 65.9 |
| Proceeds from sale of land | 1.0 | - | 2.4 | 0.1 | - |
| Equity raising | 133.9 | 34.6 | 43.0 | 49.9 | - |
| Capital raising costs | (3.3) | (0.3) | (0.4) | (12.8) | (19.1) |
| **Change in cash** | **(4.6)** | **(0.6)** | **(15.0)** | **(23.8)** | **(36.9)** |
| **Opening cash** | **10.8** | **11.4** | **26.4** | **50.2** | **87.1** |
| **Closing cash** | **6.2** | **10.8** | **11.4** | **26.4** | **50.2** |

INCOME STATEMENT ($M)

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Revenue / income (excluding interest received)** | **388.1** | **344.5** | **344.5** | **340.2** | **314.6** |
| Operating costs | (113.1) | (111.2) | (108.4) | (99.4) | (99.6) |
| **EBITDA** | **275.0** | **233.3** | **236.1** | **240.8** | **215.0** |
| Depreciation / amortisation / impairment | (63.0) | (59.7) | (58.3) | (55.2) | (51.7) |
| **Profit before net borrowing costs and income tax** | **212.0** | **173.6** | **177.8** | **185.6** | **163.3** |
| Net borrowing costs | (157.3) | (143.3) | (134.3) | (138.9) | (131.3) |
| **Profit before interest on loan notes** | **54.7** | **30.3** | **43.5** | **46.7** | **32.0** |
| Interest on loan notes | (2.3) | (10.8) | (18.2) | (24.7) | (26.3) |
| **Profit before income tax** | **52.4** | **19.5** | **25.3** | **22.0** | **5.7** |
| Income tax | (12.1) | 144.1 | (28.3) | (28.4) | (22.0) |
| **Profit/(Loss) after income tax** | **40.3** | **163.6** | **(3.0)** | **(6.4)** | **(16.3)** |

# Sustainability

## A MAJOR FOCUS OF ENVESTRA IS SUSTAINABILITY – DOING THE THINGS THAT WE BELIEVE WILL ENABLE US TO MEET THE LONG-TERM EXPECTATIONS OF OUR SHAREHOLDERS AND THE COMMUNITY.

We do this by protecting the environment in which we operate, delivering high quality services to the consumers supplied with energy via our networks, providing a safe working environment for our employees, encouraging their development and rewarding success. Allied to this is the support we provide to local communities and organisations with which we interact. By continually improving our performance in these areas we create a stronger future for Envestra.

Australia's natural gas reserves are expected to last at least 100 years and over the next two decades, its use will grow to around 25% of the nation's primary energy needs. Envestra's ever expanding gas distribution networks will play a pivotal role in delivering this environment friendly fuel.

**HEALTH AND SAFETY OF OUR PEOPLE**

Management of occupational health and safety associated with the Company's operations continued to receive close attention.

We have the responsibility to ensure that our major contractor, APA, adopts a sound approach to this important business activity. APA has more than 1,100 employees and contractors working for Envestra. During the year nine lost-time injuries were sustained by APA employees, and seven among contractors. These compare with five and two in the previous year, respectively.

APA's focus is on the frequency of lost-time and moderate injuries, defined as the Serious Injuries Frequency Rate (SIFR) and a range of activities aimed at preventing injuries. A SIFR of 10.3 for employees and contractors was recorded in 2008-09. Although this is slightly above the target set for the year, it is a sound performance considering the nature of many of the operational activities undertaken.

During the year, four environmental audits and eight environmental emergency response exercises were conducted on our networks. These activities did not identify any major issues.

Envestra closely monitors the performance of its operator, APA, to ensure compliance with all requirements of the environmental licences and permits held by the Company. There were no material incidents during the year.

## RISK MANAGEMENT

The Company, through its Executive Risk Management Committee, undertakes a comprehensive risk management assessment at least twice each year that aims to identify key business risks and ensure appropriate control mechanisms or other actions are in place to minimise exposures. This assessment, and the control mechanisms, is regularly reviewed by the committee throughout the year. The outcomes are monitored by the Audit and Risk Committee at regular intervals.

Our internal audit program is conducted by KPMG and focuses on controls associated with major risk areas. During 2008-09 KPMG undertook reviews of Envestra's compliance with its Treasury Policy, shared services cost allocations by APA under the Operating and Management Agreements, and APA's compliance with environmental and employee policies.

Further details on our risk assessment and management activities appear on page 27.

*Our risk assessment program is designed to ensure strategic, operational, legal, reputation and finance risks are identified and a control framework is in place wherever possible to mitigate risks and enable the company to achieve its business objectives*

## ENVIRONMENTAL BENEFITS OF NATURAL GAS

As one of Australia's largest distributors of natural gas, we take pride in our role in the distribution of this environment-friendly fuel.

In South Australia, Queensland and Victoria, the governments have introduced energy policies that prevent standard electric hot water services being installed in new dwellings. Only high efficiency natural gas units, gas-boosted solar systems and electric heat pumps qualify for installation under the new regulations. As from 1 July 2008, in South Australia, the Government also prohibited the replacement of standard electric hot water units in established dwellings when existing water heaters reach the end of their operational life.

The Victorian Government, in addition to its five-star energy rating system for new dwellings, requires the installation of a rainwater tank or solar hot water system in all new dwellings. Where solar hot water is the selected compliance option, units must be natural-gas-boosted wherever natural gas is available.

These initiatives are a clear recognition of the environmental importance of using natural gas as part of the climate change solution.

Envestra has in the past played a key role in promoting the use of natural gas through advertising and network development programs, particularly through direct promotional activities with land and property developers and builders, as well as gas connection and appliance installation incentives to consumers and key market partners. These activities help us maintain a penetration rate for natural gas, in new subdivisions, in excess of 95% in South Australia and Victoria. However, with increased government support in promoting natural gas, the funds for these promotional activities have been redirected to other areas.

## WORKING WITH THE COMMUNITY

Envestra, through APA Asset Management (APA), undertakes strategic partnerships to promote the benefits of natural gas, to build and maintain business relationships, source market intelligence and generate new growth opportunities.

Partnerships undertaken in 2008-09 with a range of key market participants included the:

- Housing Industry Association
- Master Builders' Association
- Plumbing Industry Association
- Urban Development Institute of Australia
- Property Council of Australia
- Australian Land Development Engineers
- Hotel and Restaurant Industry Associations.

As part of these activities we supported the training of apprentice chefs and other hospitality trainees through Hospitality Group Training and donated around 950 natural gas cookers to more than 130 schools.

Gas distribution is an essential community service and we believe our involvement with, and contribution to, these organisations reflects our corporate values and social responsibility and serves to promote the position of natural gas in the marketplace.

## SUSTAINABILITY INDEX

The Australian Sustainability Index (AuSSI) tracks the performance of around 70 Australian companies that lead their industry in terms of economic, environmental and social criteria. Envestra's performance in relation to sustainability has been recognised by its inclusion in the index.

## CORPORATE GOVERNANCE

Envestra's practices are consistent in almost all respects with the Corporate Governance Principles issued by the Australian Securities Exchange. The main areas of non-conformance are not having a majority of independent Directors and not having a Nomination Committee. The reasons for the non-conformances are outlined in our Corporate Governance Statement which appears on pages 23 to 28.

# Board of Directors



ENVESTRA'S BOARD HAS EXTENSIVE INDUSTRY, BANKING, LEGAL AND COMMERCIAL EXPERIENCE. THE COMPANY BENEFITS FROM ALSO HAVING ON THE BOARD REPRESENTATIVES OF AUSTRALIAN INFRASTRUCTURE COMPANIES.

**John Allpass*** (68) FCA, FCPA, FAICD
*Director since June 1997*
Chairman of the Board (since 2002)
Chairman of the Remuneration Committee
Chartered accountant with over 30 years' experience in the accounting profession.

*Other Directorships:* MBF Australia Pty Ltd (since October 1999); BUPA Australia Holdings Pty Ltd (since May 2008); BUPA Australia Health Pty Ltd (since May 2008); and BrisConnections Management Company Ltd (since May 2008). He is a former Managing Partner, KPMG (Queensland) and member, KPMG National Board and former Director, Macquarie Bank Ltd (1994-2007); and Queensland Investment Corporation (1991-2008).

**Ian Little** (52) CA, BCA, MBA, MAICD
*Managing Director since April 2003*
Chartered accountant with some 30 years' experience in the energy industry.

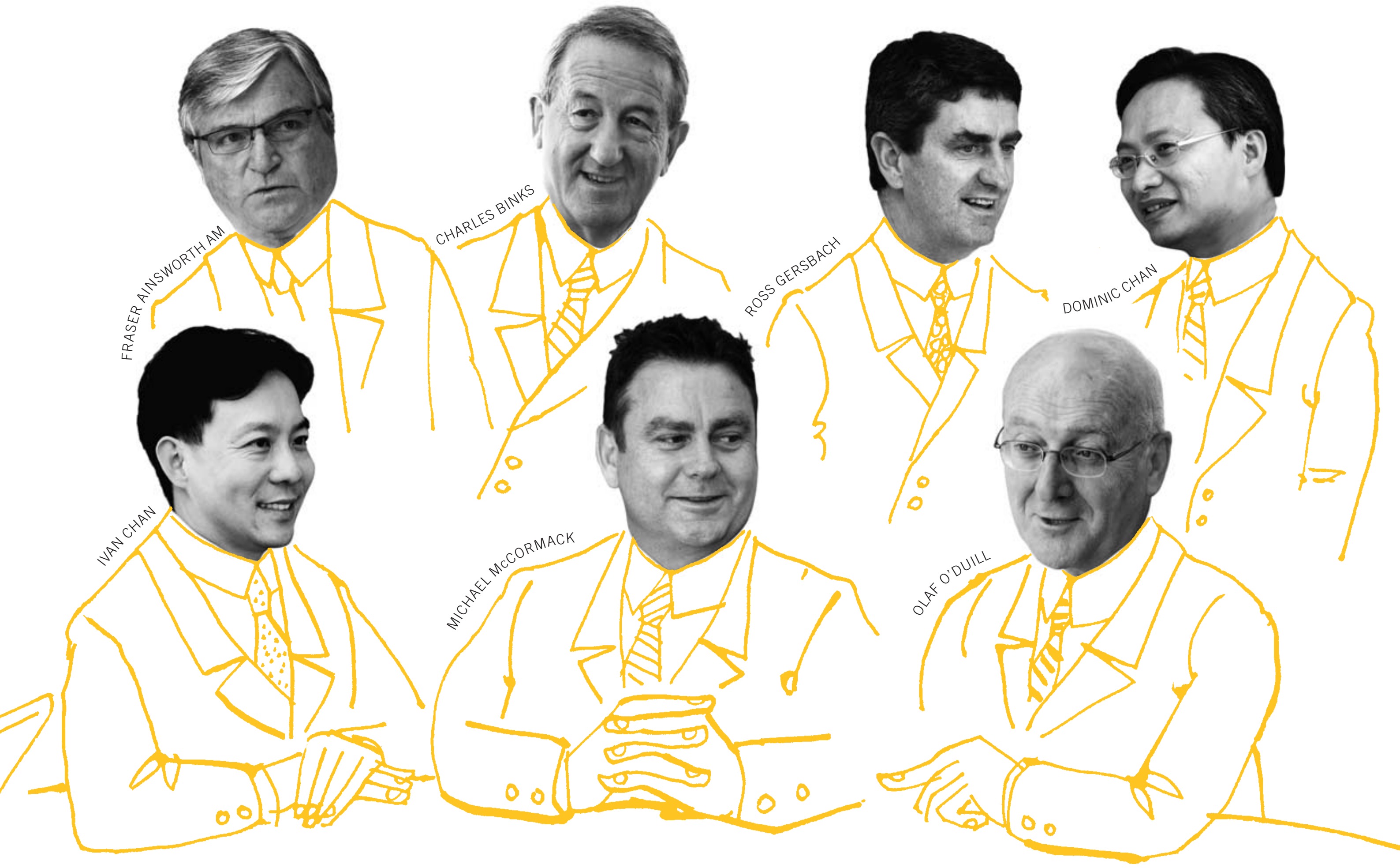
*Other Directorships:* Deputy Chairman, Energy Supply Association of Australia (since November 2006); Director, Australian Gas Industry Trust (since December 2006); and Chairman, SA Botanic Gardens & State Herbarium (since July 2005).

**Fraser Ainsworth AM*** (63) B.Com, FCPA, FAICD
*Director since February 2004*
Member of the Audit and Risk Committee
Member of the Remuneration Committee
More than 30 years' experience in the Australian resources and energy sectors.

*Other Directorships:* Chairman, Horizon Oil Ltd (since December 2001); Chairman, Tarac Australia Ltd (since January 2006 – Deputy Chairman from 1996-2005); Director, Oil Search Ltd (since October 2002). He is a former Managing Director, SAGASCO Holdings Group (1988-1994) and Delhi Petroleum Pty Ltd (1983-1987); and former Chairman, SA Generation Corporation (1996-2000) and Bionomics Ltd (1997-2004).

**Charles Binks*** (66) LL.B, FAICD
*Director since December 2001*
Member of the Audit and Risk Committee

*Other Directorships:* Former Chairman, Sundance Energy Australia Ltd (2005-2008) and Director (since January 2009); and former Director Wyatt Benevolent Trust Inc (2005) and Chairman (2006-2008).
He is a former Partner and Chairman, Minter Ellison Lawyers (Adelaide).




**Dominic Chan** (47) FCPA, FCCA
*Director since July 2005*
Certified Public Accountant with over 20 years' experience in the accounting profession. Chief Financial Officer, Cheung Kong Infrastructure Holdings Ltd.

*Other Directorships:* Cambridge Water PLC. Former Director, ETSA Utilities; Powercor Australia Ltd and CitiPower Pty Ltd.

**Ivan Chan** (46) BSc, LLB, MBA
*Director since August 2007*
More than 20 years' experience in investment banking and finance. Chief Planning and Investment Officer, Cheung Kong Infrastructure Holdings Ltd.

**Ross Gersbach** (48) B.Bus, CPA, MAICD
*Director since July 2007*
Member of the Audit and Risk Committee
Extensive experience in the infrastructure sector of the energy industry. He is Group Manager Commercial, APA Group.

*Other Directorships:* Former Director, APA Group (2006-2008), Elgas Ltd (2004-2006) and ActewAGL (2004-2006).

**Michael McCormack** (48) B.Surv, Grad Dip Eng, MBA, FAICD
*Director since July 2007*
Extensive experience in the infrastructure sector of the energy industry.

*Other Directorships:* Managing Director, APA Group (since July 2006) and Chairman of a number of APA subsidiary companies. He is a Director, Australian Pipeline Industry Association (since October 2004) and the Australian Brandenburg Orchestra (since August 2006).

**Olaf O'Duill*** (62) B. Comm. (Hons), FAICD, SFFin
*Director since July 2000*
Chairman of the Audit and Risk Committee
Member of the Remuneration Committee
Extensive experience in financial markets.

*Other Directorships:* Former Chairman, National Electricity Market Management Company Ltd (1996-1999), Southern Healthcare Network (1995-1999), Amrad Corporation Ltd (2002-2004) and Tower Ltd (2000-2006). Former Director, McPhersons Ltd (1995-2003), Sigma Company Ltd (1995-2002), and Sunraysia Television Ltd (1992-2008).

** Independent Director*

# Management team


ENVESTRA'S MANAGEMENT TEAM HAS EXTENSIVE EXPERIENCE IN THE OPERATIONAL, FINANCIAL, REGULATORY AND LEGAL ASPECTS OF THE GAS DISTRIBUTION SECTOR.

**Andrew Staniford** (53) M.Ec
*Commercial Manager*

More than 20 years' experience in development and application of regulatory arrangements in the energy industry; extensive experience in commercial management of utilities. Former Director, Electricity Reform, South Australian Government. Director, Energy Networks Association and Chairman, Regulatory Affairs Committee.

**Peter Ryan** (51) B.Ec, FCA, MAICM, F Fin
*Chief Financial Officer*

More than 25 years' experience in corporate finance, capital markets and mergers and acquisitions. Former partner of Price Waterhouse, Executive Manager, Finance – SA Business Unit, Santos Limited and Chief Financial Officer ABB Grain Limited (including CFO of AusBulk Limited).

**Des Petherick** (58) PNA
*Manager, Corporate Services and Company Secretary*

More than 20 years' experience in corporate services in the gas industry. Former Group Manager, Corporate Services, South Australian Gas Company; Secretary to various South Australian Government Ministers, including the Deputy Premier.

**Greg Meredith** (41) B.Ec (Hons), MBA, F Fin
*Group Treasurer*

More than 15 years' experience in the energy sector in various roles including regulatory and treasury management, mergers and acquisitions strategy and economic advice.

**Paul May** (37) B.Acc, CA
*Financial Controller*

Chartered Accountant with more than 10 years' experience in various corporate accounting roles in ASX listed companies, including previously at Santos Limited and Henry Walker Eltin Group Limited.

### OUTSOURCED OPERATIONS

Envestra's business strategy is founded on striking an appropriate balance between internal management and outsourced operations. Our business is run by senior managers with extensive energy industry experience and, unlike many other infrastructure entities, no fees are paid to financial institutions to manage the financing, regulatory, legal or strategic functions. Operation of the gas distribution networks and transmission pipelines, including maintenance, engineering, network development, consumer service and various administrative activities, is outsourced to APA Asset Management (APA). Significant incentives are available to APA to improve productivity, increase revenue and enhance services.

# Corporate governance

ENVESTRA IS COMMITTED TO SOUND CORPORATE GOVERNANCE AND TO THIS END THE FOLLOWING POLICIES AND PRACTICES HAVE BEEN ADOPTED AND IMPLEMENTED BY THE BOARD.

Each year a review of the Company's corporate governance framework is carried out against the guidelines of the Australian Securities Exchange's Corporate Governance Council.

The Company's framework largely complies with these recommendations. Consistent with the Company's approach to sound corporate governance, opportunities for improvement are regularly considered.

The Board delegates to the Managing Director and senior executives day-to-day management of the affairs of the Company and its controlled entities, and the implementation of the corporate strategies and policies.

Non-executive Directors meet, at least twice per year, without management present.

The Directors are responsible to shareholders for the performance of the Company and their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

The main processes that the Directors of the Company use in doing so are set out in this statement.

**BOARD COMPOSITION**

The Company's Constitution requires that the minimum number of Directors is three and the maximum is 10. The Company has two major shareholders, Australian Pipeline Ltd (APA Group) and Cheung Kong Infrastructure Holdings (CKI).

Under Envestra's Constitution, while CKI holds more than 15% of Envestra's securities, they may appoint up to two non-executive Directors. If their holding is between 10 and 15%, they may appoint one Director.

The APA Group and CKI Directors are not regarded as being independent as both organisations each hold more than 15% of the Company's issued capital. In addition, APA Group has a significant contractual relationship with Envestra under the Operating and Management Agreements related to the Company's assets.

Membership of the Board comprises:

- Four independent non-executive Directors.
- Two non-executive Directors nominated by APA Group.
- Two non-executive Directors appointed by CKI.
- The Managing Director.

The Chairman must be an independent Director.

To comply with the ASX guidelines on independent Directors it would be necessary to appoint two additional Directors, which would require an amendment to the Constitution. However, given the balance between the existing major shareholders' representatives on the Board, and the independent Directors, the existing Board structure is considered appropriate, particularly as under the Constitution the Chairman has a casting vote in the event of an equality of votes.

Directors are subject to retirement by rotation and election by shareholders at a general meeting.

No Director may remain on the Board for more than three years without re-election. Where a Director is appointed during the year that Director will hold office until the next Annual General Meeting, and then be eligible for re-election.

Details of the members of the Board, their experience, qualifications and special responsibilities are set out on pages 20 and 21.

When considering Board vacancies, Directors take into account the candidate's capacity to enhance the mix of skills and experience of the Board and to contribute to the development of the Company. When a vacancy exists, the Board identifies candidates with the relevant experience and expertise, using external consultants when required.

The current Board has a broad range of expertise covering financial, legal, banking, commercial and operational backgrounds, with all members bringing the benefits of experience from other Boards and industries.

**PERFORMANCE APPRAISAL**

The Board has adopted a policy of undertaking self-assessments of its performance to initiate improvements and assist in determining the Board's support for individual members offering themselves for re-election by the shareholders. Assessments are conducted at regular intervals.

**BOARD RESPONSIBILITIES**

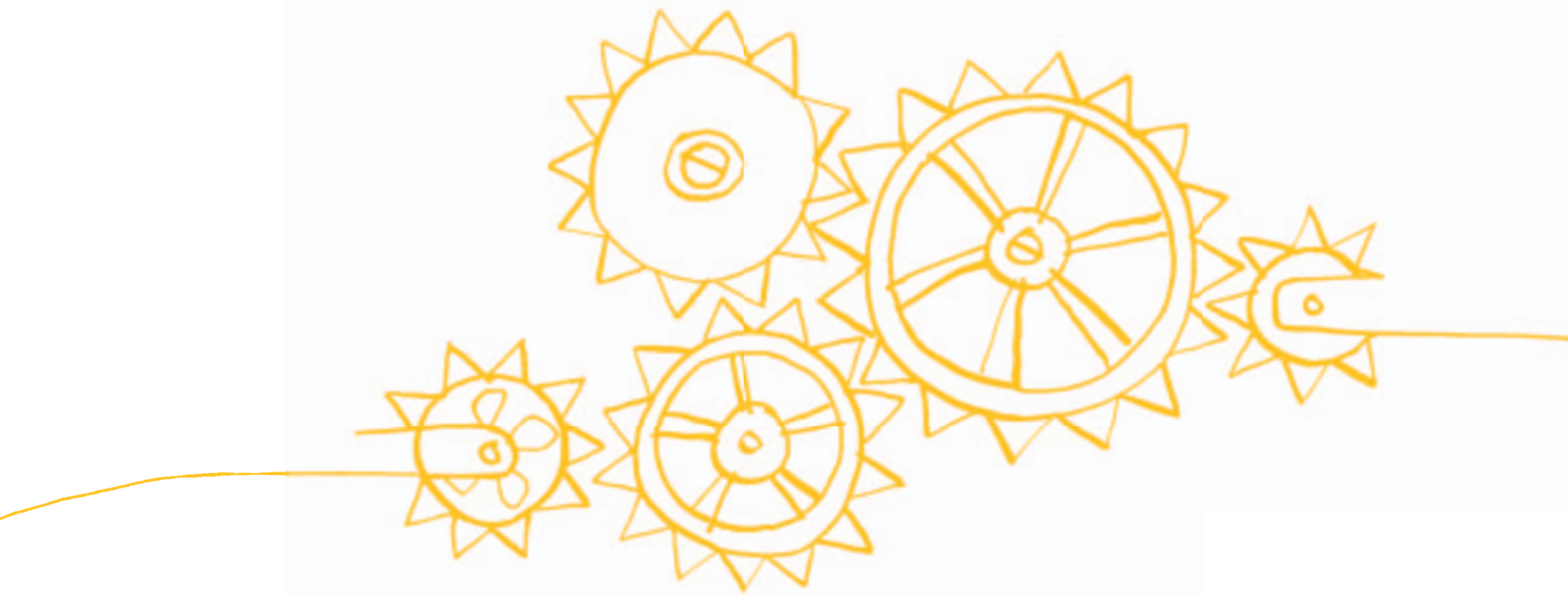
The most significant responsibilities of the Board include:

- Setting strategic objectives, long-term business plans and annual budgets.
- Regularly reviewing the operational and financial performance of the Company.
- Ensuring that the requirements are met of continuous disclosure to the investment market and security holders about the performance and activities of the Company.
- Ensuring that appropriate risk management systems are in place and reports on performance are regularly reviewed.
- Overseeing the Company's commitment to the health and safety of employees and contractors, the environment and sustainable development.
- Evaluating potential business development opportunities.
- Appointing the Managing Director and other senior executives and evaluating their performance.
- Appointing the Company's external auditors.
- Appointing the Company's internal auditors as part of its general responsibility to ensure satisfactory internal controls are maintained over the Company's key risk areas.
- Ensuring the Company's Code of Conduct and Ethics and other policies are adhered to.
- Approving the annual and half-yearly financial reports.
- Overseeing the engagement of resources to conduct the business.

**INDEPENDENCE OF BOARD MEMBERS**

Envestra's Constitution provides that Directors or their firms may act in a professional capacity for the Company, other than acting as an auditor for the Company. Disclosure of related party transactions is set out on pages 73 and 74.

APA Group entities connected with Mr M J McCormack and Mr R M Gersbach had dealings with the Company during the year. Almost all transactions were associated with the contractual arrangements under the Operating and Management Agreements entered into with Envestra. In respect to other matters which arose with the APA Group during the year, in accordance with the Board's guidelines, the APA Directors declared their interest in those dealings to the Company and, after discussion, the remaining Directors determined whether the potential conflict of interest disqualified them from being present or voting on the matter.



## RESOURCES AVAILABLE TO THE BOARD

Directors have the right of access to Company employees, advisors and records.

In relation to their duties and responsibilities, Directors have the right to seek independent professional advice at the Company's expense where the Chairman has given approval.

As approved by shareholders, the Company has entered into Deeds of Access with each Director giving them a right of access to all documents that were provided to them during their time in office for a period of 15 years after ceasing to be a Director.

## REMUNERATION OF NON-EXECUTIVE DIRECTORS

The maximum aggregate remuneration for non-executive Directors is set out in the Company's Constitution and can be varied only at a general meeting. Shareholders approved the current maximum aggregate remuneration of $750,000 per annum in November 2003.

The amount paid in 2008-09 was $720,000.

Board fees were last reviewed with effect from 1 July 2006. The Chairman's fees are $150,000 and for other Directors they are $75,000. The Chairman of the Audit and Risk Committee receives a fee of $15,000 and other members $10,000.

Details relating to the remuneration paid to non-executive Directors appear on page 35.

The Retirement Benefit Scheme for Directors, which was introduced when the Company was formed in 1997, was suspended on 30 June 2003. Under the scheme, after one year of service Directors were entitled to receive retirement benefits on a sliding scale based on the number of years served on the Board. The maximum retirement benefit was payable after 10 years' service and was calculated as three times the average annual emoluments of the Director over the three years before the date of retirement.

Superannuation was paid by the Company, in addition to the above fees, at the minimum superannuation guarantee levels required by Commonwealth legislation. The accumulated benefit arising from these superannuation payments are offset from the retirement benefit, when paid to Directors.

Superannuation contributions continue to be made for eligible Directors, but these are now deducted from the fees paid.

At 30 June 2009, the benefit payable on retirement of each non-executive Director was:

- Mr J G Allpass $175,919;
- Mr C C A Binks $30,686;
- Mr O B O'Duill $46,912.

The benefit payable on retirement is based on 10/13 of the Director's fees paid in the previous three years, but is not adjusted for the increase in years of service.

Mr F Ainsworth, Mr D Chan, Mr I Chan, Mr M McCormack and Mr R Gersbach joined the Board after the scheme was suspended, so do not participate in the Retirement Benefit Scheme.

## BOARD COMMITTEES

The Board has established two committees to assist in the execution of its duties. They are the Audit and Remuneration Committees. The committee structure and membership is reviewed annually. Other committees are formed to deal with specific issues, when required.

Each of the Audit and Remuneration Committees has its own charter setting out its role and responsibilities. The charters are approved by the Board and copies can be obtained on request from the Company or are available on the Company's website www.envestra.com.au. All recommendations of the committees are submitted to the Board for consideration.

Director appointments are relatively infrequent and are considered by the full Board. In these circumstances it has not been deemed necessary to establish a Nomination Committee. Similarly, the other roles normally undertaken by such a committee are also addressed by the full Board.

## AUDIT AND RISK COMMITTEE

Members of the Audit and Risk Committee must be non-executive Directors, and the Chairman of the Committee cannot be Chairman of the Board. The committee must consist of a majority of independent Directors.

Members of the committee are:

- Mr O B O'Duill (Chairman);
- Mr E F Ainsworth;
- Mr C C A Binks; and
- Mr R M Gersbach.

Each of the external and internal auditors, and the Managing Director and Chief Financial Officer, usually attend the meetings.

The key responsibilities of the committee are:

- Reviewing the annual and half-year financial reports and recommending their adoption by the Board.
- Reviewing other financial information distributed externally.
- Reviewing management of financial risks.
- Recommending the appointment and remuneration of the auditors, and reviewing the terms and scope of engagement and assessing their performance.
- Reviewing the effectiveness of the internal control environment.
- Approving the scope of the internal audit program.
- Overseeing the risk management program.
- Reviewing compliance with corporate policies, controls and delegated authorities.
- Reviewing compliance with the requirements of energy regulatory bodies, including the approval of regulatory accounts.
- Considering the independence of the auditor and approving non-audit services during 2008-09 provided by the audit firm.

PricewaterhouseCoopers (PwC) was appointed as external auditor in 1997. It is PwC policy to rotate audit engagement partners with listed companies at least every five years. The responsible audit partner for Envestra was rotated in 2004.

The board recognises the need to periodically review the services provided by its external auditor, as well as the cost of these services. In June 2009, the Audit and Risk Committee conducted a tender for the provision of external services. It was resolved to continue using the services of PricewaterhouseCoopers as the Group's external auditor.

KPMG was appointed as internal auditor in 2002. Their audit partner was rotated, due to his retirement, in 2006.

The internal and external auditors have direct access to the Chairman of the Audit and Risk Committee and, where necessary, the Chairman of the Board. The Audit and Risk Committee meets with the external and internal auditors without management present on an as required basis, but at least once a year.

The external auditor attends the Annual General Meeting and is available to answer questions from security holders.

## REMUNERATION COMMITTEE

Members of the Remuneration Committee must be non-executive Directors. The Managing Director is invited to attend meetings to discuss senior executives' performance and remuneration.

Members of the committee are:

- Mr J G Allpass (Chairman);
- Mr E F Ainsworth; and
- Mr O B O'Duill.

The Remuneration Committee advises the Board on remuneration policies and practices, and makes recommendations on remuneration packages and other terms of employment for the Managing Director and other senior executives, having regard to the need to attract, retain and develop appropriately skilled people.

Each member of the senior management team is employed under a contract covering a range of matters including their duties, rights, responsibilities and entitlements on termination.

The committee, having regard to personal and corporate performance and relevant comparative information, reviews remuneration of the senior management team annually. The remuneration of all senior managers is assessed at regular intervals by an external professional human resources consultant and the resultant report submitted to the committee for consideration as part of the review of packages.

Remuneration for senior executives comprises both fixed remuneration and incentives. The incentives are based on a combination of the Company's results and individual performance levels. The payment of short-term incentives is dependent upon the achievement of operating and financial targets set at the beginning of each year.

The maximum short-term incentive for the Managing Director is 30% of his total employment costs. The maximum incentive for the Chief Financial Officer and Commercial Manager is 25%, and the maximum incentive for all other senior executives is 20%.

The Managing Director and Commercial Manager have the ability to earn a long-term incentive, on a rolling basis, after three years' service. The bonus is equivalent to 50% of the short-term incentive. Payments under this incentive for the Managing Director and the Commercial Manager commenced in 2007, and 2008, respectively.

The Company does not operate an Employee Share Option Plan.

*The focus of Directors and management is to enhance the interests of shareholders and, in doing so, ensure that risks are identified and properly managed*

## RISK ASSESSMENT AND MANAGEMENT

The Company has a risk-assessment program that is monitored by the Audit and Risk Committee. The program is designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, addressed and monitored to enable the Company to achieve its business objectives.

The Managing Director, Chief Financial Officer and Company Secretary manage the Company's risk-management program in conjunction with the Executive Risk Management Committee.

The Board and Audit and Risk Committee have received an assurance from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management.

The Audit and Risk Committee receives regular reports on progress in addressing the risks. The internal auditors also carry out regular investigations into control mechanisms and report their findings, including recommendations for improvement to controls, processes and procedures, to the Audit and Risk Committee.

APA is required to operate and manage Envestra's networks in accordance with the Operating and Management Agreements and to legal and prudential standards. Envestra's management has the responsibility to monitor the risks and compliance issues associated with APA's performance and to report to the Board on these matters. As part of this process, independent engineering audits are conducted each year.

The Company has a comprehensive insurance program in place which is reviewed annually in conjunction with the Company's insurance brokers and legal advisors.

### INDEMNITIES

The Directors are indemnified under deeds against liability in the fulfilment of their duties unless the liability arises out of conduct involving a lack of good faith or wilful neglect. They are also indemnified for the costs of defending proceedings in which judgement is given in their favour, or in which they are acquitted, or the claim is withdrawn.

### CODE OF CONDUCT AND ETHICS

The code requires that, at all times, Directors and employees act with integrity, objectivity and in compliance with the letter and spirit of the law and Company policies.

The code requires employees, aware of unethical practices within the Company, to report these using the avenues available under the Company's Whistle-blowing Policy. Employees have direct access to the Managing Director or, if this would cause a conflict, the Chairman of the Audit and Risk Committee or the Chairman of the Board.

### DEALINGS IN ENVESTRA'S SECURITIES BY DIRECTORS AND EMPLOYEES

Directors and officers of the Company are prohibited from trading in Envestra securities between 1 July and the close of business on the day the Company announces its full-year results, and between 1 January and the close of business on the day the Company announces its half-year results.

Directors and officers are also subject to the provisions of the Corporations Act relating to conduct by a person in possession of inside information. A person possesses inside information if they know, or ought to reasonably know, that if the information were generally available a reasonable person would expect it to have a material effect on the price of Envestra's securities. Directors and officers in possession of inside information are prohibited from trading in Envestra's securities.

Directors must inform the Chairman, or in his absence the Chairman of the Audit and Risk Committee, and officers must inform the Managing Director, or in his absence the Company Secretary, of their intention to trade in Envestra's securities either by themselves or by an associate. Such notification must be provided at least 24 hours prior to any proposed trade.

### CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

The Company Secretary is responsible for communication with the Australian Securities Exchange (ASX). This includes ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and the Company's Continuous Disclosure Policy, and overseeing information disclosure to analysts, brokers, shareholders, the media and general public. The policy is available on the Company's website (refer below).

All information disclosed to the ASX is posted on the Company's website as soon as practicable after it is disclosed to the ASX. Material used to brief analysts on the Company's operations is released to the ASX when it provides new information and all presentation material is posted on the website.

An email alert system is operated for the benefit of shareholders and other interested parties, whereby an email is sent to registered persons when a media release or other document has been issued to the market.

Company announcements, annual and half-year reports, as well as market and Annual General Meeting presentations are available on the Company's website www.envestra.com.au.

# Financial and statutory information

# Directors' report

YOUR DIRECTORS PRESENT THEIR REPORT ON THE CONSOLIDATED ENTITY (REFERRED TO HEREAFTER AS THE GROUP) CONSISTING OF ENVESTRA LTD AND THE ENTITIES IT CONTROLLED AT THE END OF, OR DURING, THE YEAR ENDED 30 JUNE 2009 IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS.

**DIRECTORS**

The following persons were Directors of Envestra Ltd during the whole of the financial year and up to the date of this report:

John Geoffrey Allpass (Chairman)
Ian Bruce Little (Managing Director)
Eric Fraser Ainsworth AM
Charles Christopher Agar Binks
Dominic Loi Shun Chan
Ivan Kee Ham Chan
Ross Murray Gersbach
Michael Joseph McCormack
Olaf Brian O'Duill

Details of the Directors' and Company Secretary's qualifications, experience and special responsibilities appear on pages 20 to 22 of the annual report. Directors' shareholdings are disclosed on page 39 of this report.

**PRINCIPAL ACTIVITIES**

During the year the principal continuing activities of the Group consisted of:

- provision of natural gas haulage services to retailers through the transmission pipelines and distribution networks it owns and manages;
- development of the business through expansion of the existing networks and construction of new networks.

**REVIEW OF OPERATIONS**

The review of operations of the Group and the results of those operations are discussed in detail in the Chairman's and Managing Director's Review of Operations on pages 6 to 11 of the Annual Report.

**CONSOLIDATED RESULTS**

For the year ended 30 June 2009, revenue/income was $389.1 million, profit before interest on loan notes and tax was $54.7 million and profit after tax was $40.3 million. The aggregate of cash flows decreased cash on hand at 30 June 2009 by $4.6 million leaving a cash balance of $6.2 million at 30 June 2009.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 26 February 2009, the consolidation of debt packages for Envestra Ltd and Envestra Victoria Pty Ltd became effective. Under the debt consolidation, all financiers in both companies have equal security over all secured assets of the Group, and all debt covenants will be measured on a consolidated basis.

Upon payment of the May 2009 distribution, the principal of Envestra Ltd's Loan Notes was fully repaid. This resulted in the transition of Envestra's securities from stapled securities to ordinary shares.

No other changes have occurred during the year which significantly changed the state of affairs of the Group.

## ENVIRONMENTAL REGULATION

The Group's operations are conducted under the relevant Environmental Protection Acts and Regulations and associated legislation in the States of South Australia, New South Wales, Queensland and Victoria and in the Northern Territory.

Through an Operating and Management Agreement, environmental management is exercised by APA Asset Management ("APA"). Envestra holds all required environmental licences and permits. There have been no material breaches of the Company's environmental obligations during the reporting period.

The Victorian Environmental Protection Authority ("Victorian EPA") has requested Vic Gas Distribution Pty Ltd (a wholly-owned subsidiary of Envestra Victoria Pty Ltd) to provide Remediation Action Plans on sites owned by the Company that were formerly used for the manufacture of town gas. Investigations and assessments are currently in process in conjunction with auditors appointed by the Victorian EPA. Provision has been made for the Company's estimated cost of possible remediation.

The NSW Environmental Protection Authority ("NSW EPA") has notified The Albury Gas Company Limited (a wholly-owned subsidiary of Vic Gas Distribution Pty Ltd) that it is required to provide a Remediation Action Plan in respect to land formerly owned by the Company and used for the manufacture of town gas. The plan has been provided to the NSW EPA and provision has been made for the estimated remediation costs. The NSW EPA is currently in the process of considering the proposed remediation plan.

The APA Group has a system to manage environmental issues. Auditing, action plan development, implementation, training, and reporting are integral parts of this system.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Information regarding future prospects and likely developments has been included in the Chairman's and Managing Director's Review of Operations on pages 6 to 11 of the Annual Report, and the Financial Review on pages 14 to 15 of the Annual Report.

## DISTRIBUTIONS – ENVESTRA LTD

The following distributions were paid during the year covered by this report:

| | *Cents per stapled security* | *Total distribution* |
|---|---|---|
| | | *$M* |
| Distribution on 30 November 2008 | 4.50 | 40.1 |
| Distribution / dividend on 31 May 2009 | 2.75 | 35.7 |
| **Total distributions for 2008-09** | **7.25** | **75.8** |

The Company announced on 22 December 2008 that as a consequence of the 2:5 Rights Issue launched on that date, that annual distributions for 2009-10 were expected to be 5.5 cents per security, with two equal payments of 2.75 cents per security.

## INDEMNITY AND INSURANCE OF OFFICERS

Each Director and Executive Officer of Envestra is indemnified against liability as such an officer, to another person (except Envestra and its related bodies corporate), unless the liability arises out of conduct involving a lack of good faith. They are also indemnified for costs of defending proceedings in which judgement is given in their favour or in which they are acquitted or the claim is withdrawn. The Directors are also indemnified under Deeds of Access, Insurance and Indemnity.

The Company has paid a premium during the period of this report under a contract which insures the officers, Directors and executives.

A condition of the insurance is that the nature of the liability indemnified, the premium payable and certain other details of the policy not be disclosed.

## NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 30.

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out in note 30, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor;
- none of the services undermines the general principles relating to auditor independence as set out in APES 110 *Code of Ethics* for Professional Accountants.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 8 July 2009, Envestra announced that it had executed agreements with a syndicate of five banks for a three-year $280 million bank facility. The facility is to be used to re-finance a $125 million bank loan and $175 million of Medium Term Notes due for repayment in the first half of 2009-10. Both these maturing facilities are held in Envestra Victoria Pty Ltd.

In addition, the Company also announced that it had reached agreement with ANZ to convert an undrawn, one-year, $50 million working capital facility held with Envestra Victoria Pty Ltd, to a three-year, $75 million term facility.

The Directors are not aware at the date of this report of any other matter of circumstance which has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

## MEETINGS OF DIRECTORS

The number of Directors meetings and meetings of committees of Directors held during the period for which each Director held office during the period 1 July 2008 to 30 June 2009, and the number of meetings attended by each Director were:

| | Full meetings of Directors | Full meetings of Directors | Special Board Meetings | Special Board Meetings | Audit Committee | Audit Committee | Remuneration Committee | Remuneration Committee |
|---|---|---|---|---|---|---|---|---|
| | *Held* | *Attended* | *Held* | *Attended* | *Held* | *Attended* | *Held* | *Attended* |
| J G Allpass | 7 | 7 | 1 | 1 | - | - | 1 | 1 |
| I B Little | 7 | 7 | 1 | 1 | - | - | - | - |
| E F Ainsworth | 7 | 7 | 1 | 1 | 5 | 5 | 1 | 1 |
| C C A Binks | 7 | 7 | 1 | 1 | 5 | 5 | - | - |
| D L S Chan | 7 | 7 | 1 | 1 | - | - | - | - |
| I K H Chan | 7 | 7 | 1 | 1 | - | - | - | - |
| R M Gersbach | 7 | 7 | 1 | 1 | 5 | 5 | - | - |
| M J McCormack | 7 | 7 | 1 | 1 | - | - | - | - |
| O B O'Duill | 7 | 7 | 1 | 1 | 5 | 5 | 1 | 1 |

# Remuneration report

The Remuneration Report is set out under the following main headings:

A) Principles used to determine the nature and amount of remuneration;

B) Details of remuneration;

C) Service agreements; and

D) Additional information.

The information provided under headings A – D includes remuneration disclosures that are required under the *Corporations Act 2001* and the *Corporations Regulations 2001.*

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001.*

**A) PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION**

The objective of the Group's executive reward framework is to ensure that reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward.

In consultation with an external remuneration consultant, the Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

The framework is aligned to shareholders' interests in that it:

- has economic performance as a core component of plan design;
- balances both short and long-term returns to shareholders; and
- attracts and aims to retain high calibre executives.

The framework is aligned to participants' interests in that it:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth and/or Group earnings;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The Board has established a Remuneration Committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive Directors, other senior executives and non-executives. The Corporate Governance Statement provides further information on the role of this Committee.

*Non-executive Directors*

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board. The Chairman's fee has been set at twice the fees of non-executive Directors. The Board has received advice from independent remuneration consultants on these fees.

*Directors' fees*

The current base remuneration was last increased with effect from 1 July 2006. The non-executive Director who chairs the Audit and Risk Committee receives additional fees and additional fees are also payable to Directors who are members of the Committee.

Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $750,000.

### *Retirement allowances for Directors*

Until June 2003, non-executive Directors were entitled to receive retirement benefits on a sliding scale based on the number of years served on the Board. The maximum retirement benefit was payable after 10 years' service and is calculated as three times the average annual emoluments of the Director over the three years before the date of retirement.

The Retirement Benefit Scheme was suspended as at 30 June 2003 and the period of service at that time was used to determine the benefit payable to the Directors as at 30 June 2003. The benefit payable at the time of retirement is calculated using 10/13 of the three-year average salary immediately preceding the date of retirement and the years of service up to 30 June 2003. The liability for the payment of this benefit is adjusted for changes in fees paid annually and incorporated in the provision in the financial statements. Only three directors are entitled to retirement benefits accrued prior to 30 June 2003.

### *Executive pay*

The executive pay and reward framework has three components:

- base pay and benefits;
- superannuation; and
- short-term performance incentives.

The combination of these comprises the executive's total remuneration. In addition, long-term performance incentives form part of the employment contract of the Managing Director and Commercial Manager.

### *Base Pay*

This is structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executive's discretion.

External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market.

There are no guaranteed base pay increases or payment of short-term incentives in the senior executives' contracts. Long-term incentives are payable, on a rolling basis, after three years' service and are linked to the short-term incentive paid in the year prior to the commencement of the three-year period.

The provision of a long-term incentive recognises the small executive team within the business and the need to retain these senior executives in order to provide management stability. It provides an incentive for them to remain with the Company for the long term.

### *Benefits*

Executives are provided with death and total disability, salary continuance insurance cover and company funded car parking. The cost of these benefits is included in the total employment cost packages outlined on the following pages. The provision of a fully maintained vehicle is at the executive's discretion, the cost of which is part of the total employment cost package.

### *Superannuation*

The Company contributes superannuation to the executive's nominated fund. The superannuation guarantee levy is included in the executive's salary package.

### *Short-term performance incentives*

Each year, the Remuneration Committee considers the appropriate targets and key performance indicators (KPIs) to link the short-term incentive plan and the level of payout if targets are met.

For the year ended 30 June 2009, the KPIs linked to short-term incentive plans were based on corporate and personal objectives. The KPIs are linked to performance against operating costs, achieving specific targets in relation to cash flow, financing costs, corporate financing outcomes, regulatory outcomes and shareholder returns, as well as other key strategic measures related to drivers of performance in future reporting periods.

The short-term bonus payments are directly related to levels of achievement against the target performance levels. The payment of bonuses is at the discretion of the Board acting on advice from the Remuneration Committee.

## B) DETAILS OF REMUNERATION

*Amounts of remuneration*

Details of the remuneration of the Directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Envestra Ltd and the Group are set out in the following tables.

The key management personnel of Envestra Ltd and the Group includes the Directors as per page 30 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

- P Ryan – Chief Financial Officer
- A Staniford – Commercial Manager
- D Petherick – Manager, Corporate Services and Company Secretary
- G Meredith – Treasurer
- P May – Financial Controller

*Key management personnel of Envestra Ltd and the Group*

| | Short-term employee benefits | | | Post-employment benefits | | |
|---|---|---|---|---|---|---|
| Name | Cash salary and fees | Cash bonus[ii] | Non-monetary benefits | Super-annuation[ii] | Retirement benefits | Total |
| ***2009*** | *$* | *$* | *$* | *$* | *$* | *$* |
| *Non-executive Directors* | | | | | | |
| J G Allpass *Chairman* | 136,500 | - | - | 13,500 | 9,419 | 159,419 |
| E F Ainsworth | 77,350 | - | - | 7,650 | - | 85,000 |
| C C A Binks | 11,500 | - | - | 73,500 | 1,468 | 86,468 |
| D L S Chan[i] | 75,000 | - | - | - | - | 75,000 |
| I K H Chan[i] | 75,000 | - | - | - | - | 75,000 |
| R M Gersbach[i] | 85,000 | - | - | - | - | 85,000 |
| M J McCormack[i] | 75,000 | - | - | - | - | 75,000 |
| O B O'Duill | 81,900 | - | - | 8,100 | 3,051 | 93,051 |
| **Sub-total non-executive Directors** | **617,250** | **-** | **-** | **102,750** | **13,938** | **733,938** |
| *Executive Director* | | | | | | |
| I B Little *Managing Director* | 376,833 | 134,500 | 13,566 | 89,833 | - | 614,732 |
| *Other key management personnel* | | | | | | |
| P Ryan | 241,692 | 27,800 | 26,310 | 23,904 | - | 319,706 |
| A Staniford | 274,051 | 73,400 | 30,846 | 3,000 | - | 381,297 |
| D Petherick | 145,263 | 32,500 | 32,027 | 70,000 | - | 279,790 |
| G Meredith | 148,987 | 19,000 | 19,675 | 25,100 | - | 212,762 |
| P May | 144,847 | 27,700 | 18,585 | 13,800 | - | 204,932 |
| **Total key management personnel compensation** | **1,948,923** | **314,900** | **141,009** | **328,387** | **-** | **2,747,157** |

(i) The Directors' fees for Mr D Chan and Mr I Chan were paid to Cheung Kong Infrastructure Holdings (Malaysian) Ltd. The fees for Mr M McCormack and Mr R Gersbach were paid to APA.

(ii) Bonus payments to key management personnel may be taken either as cash or superannuation. A long-term incentive bonus of $42,500 is included in the amount of cash bonus paid to the Managing Director, and a long-term incentive bonus of $22,000 is included in the amount of cash bonus paid to the Commercial Manager.

| Name | Short-term employee benefits | | | Post-employment benefits | | |
|---|---|---|---|---|---|---|
| | Cash salary and fees | Cash bonus[iv] | Non-monetary benefits | Super-annuation[iv] | Retirement benefits | Total |
| ***2008*** | *$* | *$* | *$* | *$* | *$* | *$* |
| *Non-executive Directors* | | | | | | |
| J G Allpass *Chairman* | 88,000 | - | - | 62,000 | 8,681 | 158,681 |
| E F Ainsworth | 77,350 | - | - | 7,650 | - | 85,000 |
| C C A Binks | 1,000 | - | - | 84,000 | 1,468 | 86,468 |
| D L S Chan[i] | 75,000 | - | - | - | - | 75,000 |
| I K H Chan[i] | 62,500 | - | - | - | - | 62,500 |
| R M Gersbach[i] | 79,518 | - | - | 4,365 | - | 83,883 |
| H L Kam[i][v] | 12,500 | - | - | - | 59,361 | 71,861 |
| G A King[v] | - | - | - | - | 94,875 | 94,875 |
| M J McCormack[i] | 75,000 | - | - | - | - | 75,000 |
| O B O'Duill | 81,900 | - | - | 8,100 | 2,740 | 92,740 |
| **Sub-total non-executive Directors** | **552,768** | **-** | **-** | **166,115** | **167,125** | **886,008** |
| *Executive Director* | | | | | | |
| I B Little *Managing Director* | 432,674 | 82,500 | - | 13,160 | - | 528,334 |
| *Other key management personnel* | | | | | | |
| P Ryan[ii] | 192,076 | - | 14,553 | 42,122 | - | 248,751 |
| A Staniford | 230,814 | - | 17,956 | 80,500 | - | 329,270 |
| D Petherick | 140,483 | - | 21,684 | 84,300 | - | 246,467 |
| G Meredith | 138,987 | 16,500 | 13,746 | 21,100 | - | 190,333 |
| N Trewartha[iii] | 66,662 | - | - | 3,499 | - | 70,161 |
| P May | 126,653 | 20,000 | 13,020 | 13,160 | - | 172,833 |
| **Total key management personnel compensation** | **1,881,117** | **119,000** | **80,959** | **423,956** | **167,125** | **2,672,157** |

(i) The Directors' fees for Mr D Chan, Mr H L Kam and Mr I Chan were paid to Cheung Kong Infrastructure Holdings (Malaysian) Ltd. The fees for Mr M McCormack were paid to APA and the fees for Mr R Gersbach were paid directly to him until January 2008 and to APA after that date.

(ii) Mr P Ryan joined the Group on 17 September 2007.

(iii) Mr N Trewartha resigned from the Group on 5 October 2007.

(iv) Bonus payments to key management personnel may be taken either as cash or superannuation. A long-term incentive bonus of $28,500 is included in the amount of cash bonus paid to the Managing Director, and a long-term incentive bonus of $15,000 is included in the amount of superannuation paid to the Commercial Manager.

(v) The retirement benefits paid to Mr Kam and Mr King were previously provided for in accordance with the Directors' Retirement Scheme.

### C) SERVICE AGREEMENTS

Remuneration and other terms of employment for the Managing Director and the other key management personnel are formalised in service agreements. The salary package is inclusive of the superannuation guarantee levy. The cost of any company provided vehicle is deducted from the employee's salary package. Each of the agreements provide for the provision of performance-related cash bonuses, other benefits including death and permanent disability, and salary continuance insurance, and the provision of a fully-maintained motor vehicle. Other major provisions of the agreements relating to remuneration are set out below.

All executive packages are reviewed annually by the Remuneration Committee. The contracts with Mr P Ryan, Mr G Meredith and Mr P May may be terminated early by either party with three months' notice, and the contracts with Mr A Staniford and Mr D Petherick may be terminated with six months' notice, subject to termination payments as detailed below.

**I Little** *Managing Director*

- Term of agreement – non-specific, commencing 28 March 2003.
- Base salary, inclusive of superannuation, for the year ended 31 August 2009 of $470,000.
- Subject to performance, an annual bonus of up to 30% of base salary is payable.
- An additional long-term retention bonus is payable, equal to 50% of the short-term bonus paid three years earlier. The first long-term incentive was paid in 2007.
- Payment of a termination benefit on termination by the Company, other than for gross misconduct, after six months' notice, equal to 12 months' base salary plus an amount equal to the last short-term incentive paid prior to the termination.

**P Ryan** *Chief Financial Officer*

- Term of agreement – commencing 17 September 2007 through to end 2009.
- Base salary, inclusive of superannuation, for the year ended 31 August 2009 of $285,000.
- Subject to performance, an annual bonus of up to 25% of base salary is payable.
- Payment of termination benefit on termination by the employer, other than for gross misconduct, equal to 12 months' base salary (including the period of notice).

**A Staniford** *Commercial Manager*

- Term of agreement – non-specific, commencing 1 August 2000.
- Base salary, inclusive of superannuation, for the year ended 31 August 2009 of $298,000.
- Subject to performance, an annual bonus of up to 25% of base salary is payable.
- An additional long-term retention bonus is payable, commencing in 2008, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the employer, other than for gross misconduct, equal to 18 months' base salary (including the period of notice).

**D Petherick** *Manager, Corporate Services and Company Secretary*

- Term of agreement – non-specific, commencing 1 September 1997.
- Base salary, inclusive of superannuation, for the year ended 31 August 2009 of $235,000.
- Subject to performance, an annual bonus of up to 20% of base salary is payable.
- Payment of termination benefit on termination by the employer, other than for gross misconduct, equal to 18 months' base salary (including the period of notice).

**G Meredith** *Treasurer*

- Term of agreement – non-specific, commencing 1 August 2000.
- Base salary, inclusive of superannuation, for the year ended 31 August 2009 of $180,000.
- Subject to performance, an annual bonus of up to 20% of base salary is payable.
- Payment of termination benefit on termination by the employer, other than for gross misconduct, equal to 15 months' base salary (including the period of notice).

**P May** *Financial Controller*

- Term of agreement – non-specific, commencing 4 April 2005.
- Base salary, inclusive of superannuation, for the year ended 31 August 2009 of $175,000.
- Subject to performance, an annual bonus of up to 20% of base salary is payable.
- Payment of termination benefit on termination by the employer, other than for gross misconduct, equal to 15 months' base salary (including the period of notice).

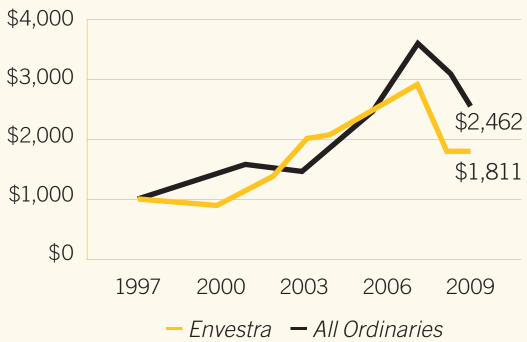
### D) ADDITIONAL INFORMATION

*Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance.*

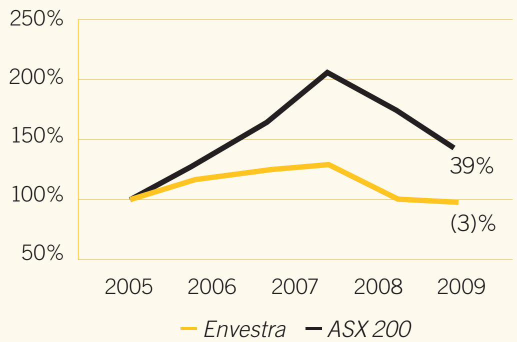
The following sets out the Group's performance over the past five years in respect of the key financial and non-financial indicators used to measure year-on-year performance, as well as historic shareholder return data.

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Gas volumes <10TJ consumers | 45,126 | 47,317 | 44,767 | 46,777 | 49,165 |
| New consumers | 20,327 | 21,398 | 21,581 | 23,692 | 23,470 |
| Total revenue / income ($m) | 317.6 | 343.0 | 347.3 | 346.0 | 389.1 |
| Net profit / (loss) after tax ($m) | (16.3) | (6.4) | (3.0) | 163.6 | 40.3 |
| Cashflow from operations ($m) | 76.2 | 99.3 | 119.2 | 94.8 | 122.3 |
| Capital expenditure ($m) | 86.8 | 92.1 | 107.8 | 108.3 | 112.5 |

*Accumulated Returns to Shareholders**




*Five-year Total Shareholder Return*




*$1,000 invested in 1997. Assumes that distributions paid are reinvested at the security price as at the end of the year and participation in the 2009 Rights issue.

### *Details of remuneration: cash bonuses*

For each short-term cash bonus included in the tables on page 35, the percentage of the available bonus paid, in the financial year, is set out below. No part of the bonuses is payable in future years.

| Name | Paid % | Name | Paid % |
|---|---|---|---|
| I Little | 65 | D Petherick | 69 |
| P Ryan | 39 | G Meredith | 79 |
| A Staniford | 69 | P May | 79 |

### *Directors' shareholdings*

Particulars of the ordinary shares held by each Director of the Company and Director related entities, as at 30 June 2009 were:

| Directors | Holding 30 June 2009 | Directors | Holding 30 June 2009 |
|---|---|---|---|
| J G Allpass | 223,727 | I K H Chan(i) | - |
| I B Little | 123,240 | O B O'Duill | 200,000 |
| E F Ainsworth | 66,000 | M J McCormack(ii) | 28,000 |
| C C A Binks | 61,232 | R M Gersbach(ii) | - |
| D L S Chan(i) | - | | |

(i) Mr D L S Chan and Mr I K H Chan are Directors of Cheung Kong Infrastructure Holdings Ltd which owns 240,489,032 (18.4%) ordinary shares in Envestra.

(ii) Mr M J McCormack and Mr R M Gersbach are Directors of the APA Group which owns 396,807,986 (30.4%) ordinary shares in Envestra.

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 40.

## ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and financial statements have been rounded off in accordance with that Class Order to the nearest million dollars, unless specifically stated otherwise.

John Allpass

John Geoffrey Allpass
Chairman

Adelaide
28 August 2009

PricewaterhouseCoopers
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## Auditor's independence declaration

As lead auditor for the audit of Envestra Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Envestra Limited and the entities it controlled during the period.

Andrew Forman
Partner
PricewaterhouseCoopers

Adelaide
28 August 2009

## INCOME STATEMENTS

| | Notes | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|---|
| | | $M | $M | $M | $M |
| *Revenue from continuing operations* | | | | | |
| Network services | | 372.9 | 331.7 | 207.1 | 182.2 |
| Interest | | 1.0 | 1.5 | 44.7 | 48.3 |
| Dividends | | - | - | 30.0 | 35.0 |
| Government grants (SA FRC revenue) | 5 | 9.1 | 9.8 | 9.1 | 9.8 |
| **Total revenue from continuing operations** | | **383.0** | **343.0** | **290.9** | **275.3** |
| Net gain on disposal of property, plant and equipment | | 5.9 | - | - | - |
| Government grants | 5 | 0.2 | 3.0 | - | - |
| **Total revenue / income** | | **389.1** | **346.0** | **290.9** | **275.3** |
| Network operating costs | | (90.5) | (89.0) | (50.7) | (49.3) |
| Gas | | (12.1) | (11.4) | (10.7) | (11.4) |
| Corporate development, property and administration costs | | (10.5) | (10.8) | (8.0) | (7.3) |
| Intercompany charges | | - | - | (90.0) | (89.4) |
| Total operating costs | | (113.1) | (111.2) | (159.4) | (157.4) |
| **Earnings before interest, tax, depreciation and amortisation** | | **276.0** | **234.8** | **131.5** | **117.9** |
| Depreciation / Impairment | 6 | (61.5) | (57.9) | (0.8) | (0.9) |
| Amortisation of capital raising and formation costs | 6 | (1.5) | (1.8) | (1.1) | (1.3) |
| **Profit before borrowing costs and tax** | | **213.0** | **175.1** | **129.6** | **115.7** |
| Amortisation of borrowing costs | | (3.7) | (3.5) | (1.6) | (1.6) |
| Interest and indexation | | (154.6) | (141.3) | (82.8) | (80.5) |
| Total borrowing costs (excluding interest on loan notes) | 6 | (158.3) | (144.8) | (84.4) | (82.1) |
| **Profit before interest on loan notes and income tax expense** | | **54.7** | **30.3** | **45.2** | **33.6** |
| Interest on loan notes | 6 | (2.3) | (10.8) | (2.3) | (10.8) |
| **PROFIT BEFORE INCOME TAX EXPENSE** | | **52.4** | **19.5** | **42.9** | **22.8** |
| Income tax (expense) / revenue | 7 | (12.1) | 144.1 | (13.3) | (10.1) |
| **NET PROFIT AFTER TAX** | | **40.3** | **163.6** | **29.6** | **12.7** |
| Basic and diluted earnings per share (cents) | 38 | 3.8 | 18.9 | | |

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

## BALANCE SHEETS

| | Notes | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|---|
| | | $M | $M | $M | $M |
| *Current assets* | | | | | |
| Cash and cash equivalents | 8 | 6.2 | 10.8 | 2.2 | 10.4 |
| Receivables | 9 | 56.4 | 50.5 | 21.5 | 19.9 |
| Other current assets | 11 | 2.3 | 2.3 | 17.1 | 11.8 |
| Total current assets | | 64.9 | 63.6 | 40.8 | 42.1 |
| *Non-current assets* | | | | | |
| Receivables | 12 | 5.1 | - | 1,135.0 | 974.4 |
| Other financial assets | 13 | - | - | 833.5 | 833.5 |
| Property, plant and equipment | 14 | 1,995.6 | 1,943.0 | 42.7 | 37.5 |
| Intangible assets | 16 | 585.6 | 585.6 | - | - |
| Deferred tax assets | 15 | - | - | 65.9 | 36.6 |
| Derivative financial instruments | 10 | - | - | - | 23.0 |
| Other non-current assets | 17 | 0.5 | 0.6 | - | - |
| Total non-current assets | | 2,586.8 | 2,529.2 | 2,077.1 | 1,905.0 |
| **Total assets** | | **2,651.7** | **2,592.8** | **2,117.9** | **1,947.1** |
| *Current liabilities* | | | | | |
| Payables | 18 | 25.9 | 29.9 | 15.1 | 15.3 |
| Borrowings | 19 | 329.7 | 167.4 | 10.0 | 62.5 |
| Provisions | 20 | 0.2 | 0.2 | 0.2 | 0.2 |
| Other current liabilities | 21 | 42.6 | 50.6 | 35.3 | 41.4 |
| Total current liabilities | | 398.4 | 248.1 | 60.6 | 119.4 |
| *Non-current liabilities* | | | | | |
| Borrowings | 22 | 1,581.0 | 1,796.0 | 1,742.4 | 1,637.7 |
| Provisions | 24 | 17.4 | 11.7 | 0.6 | 0.5 |
| Derivative financial instruments | 10 | 119.6 | 51.7 | 26.2 | - |
| Deferred tax liabilities | 23 | 55.6 | 75.5 | - | - |
| Other non-current liabilities | 25 | 0.7 | - | - | - |
| Total non-current liabilities | | 1,774.3 | 1,934.9 | 1,769.2 | 1,638.2 |
| **Total liabilities** | | **2,172.7** | **2,183.0** | **1,829.8** | **1,757.6** |
| **Net assets** | | **479.0** | **409.8** | **288.1** | **189.5** |
| *Equity* | | | | | |
| Contributed equity | 26 | 495.0 | 366.9 | 495.0 | 366.9 |
| Reserves | 27(a) | (55.5) | 19.1 | (18.4) | 16.1 |
| Retained earnings / (accumulated losses) | 27(b) | 39.5 | 23.8 | (188.5) | (193.5) |
| **Total equity** | | **479.0** | **409.8** | **288.1** | **189.5** |
| *Equity and loan notes* | | | | | |
| Total equity | | 479.0 | 409.8 | 288.1 | 189.5 |
| Loan notes | | - | 42.6 | - | 42.6 |
| **Total equity and loan notes** | | **479.0** | **452.4** | **288.1** | **232.1** |

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

## STATEMENTS OF CHANGES IN EQUITY

| | Notes | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|---|
| | | $M | $M | $M | $M |
| **Total equity at the beginning of the financial year** | | **409.8** | **209.6** | **189.5** | **145.9** |
| Changes in the fair value of cash flow hedges, net of tax | | (74.6) | 12.5 | (34.5) | 6.8 |
| **Net income recognised directly in equity** | | **(74.6)** | **12.5** | **(34.5)** | **6.8** |
| **Profit for the financial year** | | **40.3** | **163.6** | **29.6** | **12.7** |
| **Total recognised income and expense for the year** | | **(34.3)** | **176.1** | **(4.9)** | **19.5** |
| Contributions of equity, net of transaction costs | 26 | 128.1 | 32.1 | 128.1 | 32.1 |
| Dividends paid | 28 | (24.6) | (8.0) | (24.6) | (8.0) |
| | | 103.5 | 24.1 | 103.5 | 24.1 |
| **Total equity at the end of the financial year** | | **479.0** | **409.8** | **288.1** | **189.5** |

The above statements of changes in equity should be read in conjunction with the accompanying notes.

## CASH FLOW STATEMENTS

| | Notes | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|---|
| | | *$M* | *$M* | *$M* | *$M* |
| *Cash flows from operating activities* | | | | | |
| Receipts from customers (inclusive of Goods and Services Tax) | | 407.1 | 371.8 | 229.8 | 200.7 |
| Payments to suppliers and employees (inclusive of Goods and Services Tax) | | (149.7) | (141.6) | (89.3) | (84.4) |
| | | **257.4** | **230.2** | **140.5** | **116.3** |
| Interest received | | 1.0 | 1.5 | 39.2 | 39.8 |
| Borrowing costs | | (136.1) | (136.9) | (57.6) | (66.5) |
| **Net cash inflow from operating activities** | 36 | **122.3** | **94.8** | **122.1** | **89.6** |
| *Cash flows from investing activities* | | | | | |
| Payments for property, plant and equipment | | (112.5) | (108.3) | (6.0) | (1.3) |
| Proceeds from sale of property, plant and equipment | | 1.0 | - | - | - |
| **Net cash outflow from investing activities** | | **(111.5)** | **(108.3)** | **(6.0)** | **(1.3)** |
| *Cash flows from financing activities* | | | | | |
| Proceeds from issue of stapled securities | | 133.9 | 34.6 | 133.9 | 34.6 |
| Proceeds from borrowings | | 180.7 | 300.4 | 78.1 | 83.8 |
| Loans (to)/from related parties | | - | - | (158.0) | (69.3) |
| Repayment of borrowings | | (250.9) | (240.1) | (100.0) | (45.7) |
| Distributions paid | 28 | (75.8) | (81.7) | (75.8) | (81.7) |
| Debt and capital raising costs | | (3.3) | (0.3) | (2.5) | - |
| **Net cash inflow/(outflow) from financing activities** | | **(15.4)** | **12.9** | **(124.3)** | **(78.3)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(4.6)** | **(0.6)** | **(8.2)** | **10.0** |
| Cash and cash equivalents at the beginning of the financial year | | 10.8 | 11.4 | 10.4 | 0.4 |
| **Cash and cash equivalents at the end of the financial year** | 8 | **6.2** | **10.8** | **2.2** | **10.4** |

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

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Envestra Ltd as an individual entity and the consolidated entity consisting of Envestra Ltd and its subsidiaries. The financial report is presented in the Australian currency.

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

The financial statements were approved by the Board of Directors on 28 August 2009.

*Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Envestra Ltd complies with International Financial Reporting Standards (IFRS).

*Accounting convention*

While certain assets and liabilities are presented in accordance with the historical cost convention, certain financial assets and liabilities (including derivative instruments) are recorded at fair value through the income statement and cash flow hedge reserve.

*Working capital deficiency*

The Group had current liabilities in excess of current assets at 30 June 2009 amounting to $333.5 million. This deficiency largely relates to bank loans and Medium Term Notes due for repayment in August and November 2009, refinancing for which was put in place on 7 July 2009 through the execution of a $280 million syndicated loan.

*Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

### (b) Principles of consolidation

The consolidated financial statements incorporate the activities and affairs of Envestra Ltd and its controlled entities (the 'Group'):

- Envestra Natural Gas Networks Ltd ACN 008 181 066
- Envestra (SA) Ltd ACN 008 139 204
- Envestra (QLD) Ltd ACN 009 760 883
- Envic Holdings 1 Pty Ltd ACN 085 882 337
- Envic Holdings 2 Ltd ACN 085 882 364
- Envestra Victoria Pty Ltd ACN 085 882 373
- Vic Gas Distribution Pty Ltd ACN 085 899 001
- The Albury Gas Company Ltd ACN 000 001 249
- Envestra Transmission Holdings 1 Pty Ltd ACN 108 315 957
- Envestra Transmission Holdings 2 Pty Ltd ACN 108 316 249
- Envestra Transmission Pty Ltd ACN 108 316 007.

Envestra Victoria Pty Ltd ('Envestra Victoria'), a wholly owned subsidiary of Envestra, has entered into a Business Management Agreement (BMA) with Vic Gas. Under the BMA, Envestra Victoria becomes entitled to and exposed to the full economic rewards and risks of operating the business. Under the BMA, Envestra Victoria is appointed by Vic Gas Distribution to operate and manage, or procure the operation and management of the Victorian and NSW networks. Envestra Victoria is paid a management fee equal to the excess of Vic Gas' net revenue over its interest expense and has provided a guarantee that Vic Gas will have sufficient funds to meet its interest payment obligations.

The effects of transactions between the entities within the Envestra Group are eliminated on consolidation.

Investments in subsidiaries are accounted for at cost in the parent entity's financial statements.

**(c) Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling on that date. Foreign exchange differences arising on translation are recognised in the income statement.

**(d) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Service revenue represents revenue earned from the provision of gas distribution haulage services and is recognised when the service is provided. Customer contributions are made in relation to various capital projects and are recognised when the customers are invoiced and work has been substantially completed. Interest revenue includes interest income on money invested on the money market and is recognised when the interest is earned. Dividends are recognised as revenue when the right to receive payment is established.

**(e) Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

**(f) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and for unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets and deferred tax liabilities associated with indefinite life intangibles are measured on the basis that these assets are not depreciated.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

*Tax consolidation legislation*

Envestra Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. Vic Gas Distribution Pty Ltd and The Albury Gas Company Ltd joined the Envestra tax consolidated group on 2 July 2007.

The head entity, Envestra Ltd, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Envestra Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note 7.

**(g) Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation, or depreciation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

**(h) Cash and cash equivalents**

Cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts.

Envestra Ltd holds a deposit at call account in New Zealand which is translated into A$ using the spot rate at balance date. The account is held for the purpose of distribution payments to New Zealand shareholders.

**(i) Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

The Access Arrangements covering the South Australia networks require the retailer to prepay for haulage services. The initial prepayment is an estimate of two months haulage charges. An adjustment is made each month for variances between the actual charges and the prepaid estimate and includes an estimate of a further month's charges. No provision has been raised for doubtful debts in respect of these arrangements because no debts are considered doubtful. The Access Arrangement covering the Queensland network requires the retailer to pay for gas delivered within 30 days. No provision has been raised for doubtful debts because no debts are considered doubtful.

The Access Arrangements covering the Victorian networks require distributors to charge retailers when the end user is billed. Although haulage charges in respect of the Victorian networks are paid after the service is provided, no provision for doubtful debts has been raised because no debts are considered doubtful. A provision for doubtful debts is recorded based on historical evidence of credit recovery in relation to invoices raised for miscellaneous items, such as costs to repair damage to the network caused by a third party.

**(j) Derivatives**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised liabilities (fair value hedge); or (2) Hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 10. Movements in the hedging reserve in shareholders' equity are shown in note 27. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

*(i) 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, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

*(ii) Cash flow hedge*

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

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time 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 reported in equity is immediately transferred to the income statement.

*(iii) 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 instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

**(k) Property, plant and equipment**

Property, plant and equipment is stated at cost less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

| Category | Useful life (years) |
|---|---|
| Buildings | 40 |
| Furniture, fittings and computer equipment | 3-10 |
| *Gas mains and inlets:* | |
| Polyethylene | 60 |
| Steel | 100 |
| Cast iron | 120 |
| Gas meters | 25 |
| Regulators | 50 |
| Gate stations | 50 |
| Telemetry equipment | 10 |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

**(l) Intangible assets**

The distribution licence held by Vic Gas Distribution Pty Ltd, which is valued in the financial statements at $586m (refer Note 16), in the opinion of the Directors has an indefinite life. Therefore no amortisation charge has been included in the financial statements. An assessment of the recoverable amount of the licence is made at the time of preparing the half yearly and annual financial reports to ensure it is not below the carrying amount of the licence.

**(m) Trade and other payables**

Trade accounts payable, including accruals not yet billed, are recognised when the Envestra Group becomes obliged to make future payments as a result of a purchase of assets or services. Trade accounts payable are generally settled within 30 days.

**(n) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

**(o) Borrowing costs**

Borrowing costs include:

- interest and indexation on borrowings;
- amortisation of debt establishment costs;
- ancillary costs, including fees; and
- ineffective derivatives.

**(p) Employee benefits**

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

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised as current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. No provision for sick leave has been included in the financial statements.

*(ii) Long service leave*

A liability for long service leave is recognised and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on Australian government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

*(iii) Other*

The number of employees in the Envestra Group was 14 as at 30 June 2009 (14 as at 30 June 2008). The operational activities of the Group are undertaken by APA Asset Management and associated subcontractors.

**(q) Stapled securities**

Envestra Ltd previously had issued stapled securities, each of which comprised a loan note and a fully paid ordinary share. The two components of the stapled security could not be traded separately.

At 30 June 2009 there is no outstanding principal on each loan note (2008: 4.9 cents).

The loan notes are classified in the balance sheets as current and non-current liabilities because they are principally a debt instrument. However, as loan notes cannot be traded separately, the balance sheets also disclose the combined amount of equity and loan notes.

Upon payment of the final balance of principal in May 2009, Envestra's securities became ordinary shares.

Distributions to security holders previously comprised interest paid on the loan notes, repayment of loan note principal, and return of capital and dividends. Distributions in future will simply comprise dividends.

**(r) Earnings per share**

*(i) Basic earnings per share*

Basic earnings per share is determined by dividing the profit or loss after income tax attributable to members of the company by the weighted average number of ordinary shares outstanding during the financial year.

*(ii) Diluted earnings per share*

The diluted earnings per share is the same as the basic earnings per share.

**(s) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out as follows:

*(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group will adopt AASB 8 for the year ended 30 June 2010. Application of AASB 8 is not expected to result in different segments, segment results or different types of information being reported in the segment note of the financial report.

*(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]*

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as it has been Group policy to capitalise borrowing costs relating to qualifying assets.

*(iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101*

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

*(iv) Revised AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 July 2009)*

In July 2008, the AASB approved amendments to AASB 1 First-time Adoption of International Financial Reporting Standards and AASB 127 Consolidated and Separate Financial Statements. After 1 July 2009, all dividends received from investments in subsidiaries, jointly controlled entities or associates are to be recognised as revenue, even if they are paid out of pre-acquisition profits, and the investments need to be tested for impairment as a result of the dividend payment.

There are no other new accounting standards or UIG interpretations that have been published to date that are likely to have a significant impact on the Group's financial statements in the future.

**(t) Environmental remediation expenditure**

Provisions for future environmental remediation are recognised where sites, whether owned, or previously owned and subject to the relevant state Environmental Protection Acts' liability provisions, are known to be contaminated, and it is probable that an outflow of economic benefits will be required to remediate the site. The estimated future outflows are the best estimate of the expenditure required to remediate the sites. Future remediation costs are reviewed annually and any changes are reflected in the present value of the land management costs provision at the end of the reporting period, with a corresponding change in the cost of the associated asset.

**(u) Leases**

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 39). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, re-financing and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as currency and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, that is, not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include cash flow forecasting analysis in the case of interest rate and other price risks and ageing analysis for credit risk.

Risk management is carried out in accordance with policies approved by the Board of Directors. The Treasurer identifies, evaluates and hedges financial risks in close co-operation with the Group's Chief Financial Officer. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity. The Board formally reviews and approves the Treasury Policy and Risk Management Policy annually.

### (a) Market risk

*(i) Foreign exchange risk*

Foreign exchange transaction risk arises from the possibility that Envestra's cash flows could be adversely affected by movements in exchange rates. The main source of Envestra's foreign exchange transaction exposures are interest and principal payments on US dollar denominated debt.

The Group's risk management policy is to hedge 100% of the foreign exchange rate risk associated with non-Australian dollar denominated debt to protect the cash flows of the business.

The Group and parent entity's exposure to foreign exchange risk at the reporting date was as follows:

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *US $M* | *US $M* | *US $M* | *US $M* |
| Borrowings | 175.0 | 175.0 | - | - |

*(ii) Price risk*

The Group and parent entity is exposed to CPI index price risk. This arises from Capital Indexed Bonds and CPI indexed interest rate swaps held by the Group.

The Group's exposure to movements in the CPI index through its Capital Indexed Bonds is partially offset by the annual resetting of haulage revenue tariffs in line with the CPI index, together with the re-setting of the regulatory asset base at five-yearly intervals to reflect changes in the CPI index.

The following table demonstrates the estimated sensitivity to a 1% increase/decrease in the CPI index, with all other variables held constant, on after-tax profit and equity, caused by indexation movements on the Capital Indexed Bonds and interest expense movements on the CPI indexed interest rate swaps.

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| *Impact on after-tax profit and equity* | | | | |
| CPI index +1% | (3.2) | (3.1) | (2.3) | (2.2) |
| CPI index -1% | 3.2 | 3.1 | 2.3 | 2.2 |

*(iii) Cash flow and fair value interest rate risk*

As the Group has relatively minor interest-bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. At the year-end, 25% (2008: 24%) of borrowings (excluding loan notes) were at fixed rates. Group policy is to maintain between 80% and 100% of borrowings at fixed rates using interest rate swaps to achieve this.

As at reporting date, the Group had the following variable rate borrowings (excluding CIBs) and interest rate swap contracts (excluding $100 million of forward starting interest rate swaps) outstanding (excluding borrowing costs):

| | Weighted average interest rate 30 June 2009 | Balance 30 June 2009 | Weighted average interest rate 30 June 2008 | Balance 30 June 2008 |
|---|---|---|---|---|
| | % | $M | % | $M |
| Interest bearing debt | 4.0 | 1,485.1 | 8.5 | 1,555.1 |
| Interest rate swaps | 6.8 | (1,406.1) | 6.8 | (1,301.1) |
| **Net exposure to cash flow interest rate risk** | | **79.0** | | **254.0** |

An analysis by maturities is provided in (c) below.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that match the rates used in the relevant regulatory determination for a term matched to the relevant regulatory period. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

Based upon the balance of gross debt at 30 June, if interest rates changed by +/-1%, with all other variables held constant, and taking account of the hedging in place at 30 June, the estimated impact on after-tax profit and equity is set out below. The after-tax impact on profit of the parent entity includes the effect of a loan from a related party.

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| *Impact on after-tax profit* | | | | |
| Interest rates +1% | (0.4) | (1.8) | (5.4) | (5.4) |
| Interest rates -1% | 0.4 | 1.8 | 5.4 | 5.4 |
| *Impact on equity* | | | | |
| Interest rates +1% | 21.1 | 18.4 | 1.9 | 3.2 |
| Interest rates -1% | (21.7) | (17.8) | (2.0) | (3.5) |

**(b) Credit risk**

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers.

Refer to note 9 for further details of credit risk in relation to receivables. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution. Counterparty limits and risks for investments and hedging transactions are measured by reference to transaction limits set by the Board against the different external credit ratings.

At balance sheet date there were no significant concentrations of credit risk within the Group. The maximum exposure to credit risk is represented by the carrying amount of financial assets of the Group which have been recognised on the balance sheet.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. It is also associated with planning for unforeseen events which may curtail cash flows and cause pressure on liquidity. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows. Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Refer to note 22(e) for further details on the Group's approach to liquidity risk management.

*(i) Net current liability position*

At 30 June 2009 current liabilities for the Group exceed current assets by $333.5 million. However, the Group has undrawn committed bank facilities of $236.0 million to fund short-term liabilities. Current liabilities include $29.9m of commercial paper due in July 2009, $125.0m of bank loans due in August 2009 and $174.8 million of medium term notes due in November 2009. A syndicated bank loan was executed on 5 July 2009 to re-finance the maturing August and November bank loans.

*(ii) Maturities of financial liabilities*

The Group's strategy is to extend the duration of its debt portfolio, to arrange refinancing at least six months prior to maturity and limit annual repayments to 15% of the debt portfolio, albeit conditions in financial markets do not always enable the targets to be met at all times.

The table below analyses the Group's financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including principal and interest obligations).

| | Less than 1 year | Between 1 and 5 years | Between 5 and 15 years | Over 15 years |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| *Consolidated* | | | | |
| **At 30 June 2009** | | | | |
| Medium Term Notes | 208.0 | 254.2 | 268.8 | 622.1 |
| Capital Indexed Bonds | 17.6 | 266.8 | 101.6 | 413.0 |
| Commercial Paper | 30.0 | - | - | - |
| Bank loans | 131.7 | 148.4 | - | - |
| US Private Placement Notes | 12.1 | 48.3 | 253.4 | 110.3 |
| Interest rate swaps | 51.9 | 101.1 | - | - |
| | **451.3** | **818.8** | **623.8** | **1,145.4** |
| **At 30 June 2008** | | | | |
| Medium Term Notes | 172.5 | 567.2 | 554.8 | 700.7 |
| Capital Indexed Bonds | 16.9 | 272.8 | 97.7 | 420.3 |
| Commercial Paper | 40.1 | - | - | - |
| Bank loans | 21.6 | 255.9 | - | - |
| US Private Placement Notes | 24.6 | 98.5 | 334.8 | 150.7 |
| Loan notes | 49.0 | - | - | - |
| Interest rate swaps | (14.6) | (36.9) | - | - |
| | **310.1** | **1,157.5** | **987.3** | **1,271.7** |

| | Less than 1 year | Between 1 and 5 years | Between 5 and 15 years | Over 15 years |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| *Parent*[(i)] | | | | |
| **At 30 June 2009** | | | | |
| Medium Term Notes | 22.0 | 88.1 | 220.2 | 622.1 |
| Capital Indexed Bonds | 12.1 | 126.8 | 101.6 | 413.0 |
| Commercial Paper | 10.0 | - | - | - |
| Bank loans | 1.9 | 50.7 | - | - |
| Interest rate swaps | 18.9 | 18.9 | - | - |
| | **64.9** | **284.5** | **321.8** | **1,035.1** |
| **At 30 June 2008** | | | | |
| Medium Term Notes | 50.3 | 201.4 | 503.4 | 700.7 |
| Capital Indexed Bonds | 11.6 | 129.0 | 97.7 | 420.3 |
| Commercial Paper | 20.1 | - | - | - |
| Bank loans | 5.2 | 72.0 | - | - |
| Loan notes | 49.0 | - | - | - |
| Interest rate swaps | (9.1) | (17.7) | - | - |
| | **127.1** | **384.7** | **601.1** | **1,121.0** |

(i) The Parent entity liquidity risk analysis excludes intercompany borrowings of $797.7 million (2008: $695.2 million). These borrowings are at commercial terms and conditions.

**(d) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement, and for disclosure purposes.

The fair value of financial liabilities traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial liabilities that are not traded in an active market is determined using valuation techniques. The fair value of interest rate and cross currency swaps is calculated as the present value of the estimated future cash flows.

The carrying value of trade receivables and payables is a reasonable approximation of their fair values due to their short-term nature.

## 3 CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The key estimates and assumptions are discussed below.

*(i) Estimated impairment of intangibles*

The Group tests annually whether intangible assets have suffered any impairment in accordance with the accounting policy stated in note 1(l). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 16 for details of these assumptions.

*(ii) Useful lives of property, plant and equipment*

Management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. These estimates are based on the concept that the effective lives should truly reflect the profile of the loss of economic benefits to the Group. Refer to note 1(k) for details of the estimated useful lives used by the Group.

## 4 SEGMENT INFORMATION

### (a) Description of segments

*Geographical segments*

The Envestra Group operates gas distribution networks and transmission pipelines in various states and the Northern Territory within Australia. The segments are based on geographical location, which is consistent with the management reporting segments for the Group.

| (b) Primary reporting format – geographical segments | Victoria and New South Wales | South Australia | Queensland and other | Unallocated | Consolidated |
|---|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* | *$M* |
| ***2009*** | | | | | |
| Total revenue from continuing operations | 166.1 | 155.8 | 60.1 | - | 382.0 |
| Other revenue/income | 6.1 | - | - | 1.0 | 7.1 |
| Total segment revenue/income | 172.2 | 155.8 | 60.1 | 1.0 | 389.1 |
| Profit before net interest | 93.7 | 81.1 | 33.5 | - | 208.3 |
| Net interest (including interest on loan notes, excluding amortisation of borrowing costs) | | | | | (155.9) |
| Profit before income tax | | | | | 52.4 |
| Income tax expense | | | | | (12.1) |
| **Net profit after tax** | | | | | **40.3** |
| Segment assets | 1,450.3 | 840.2 | 354.1 | 7.1 | 2,651.7 |
| Segment liabilities | 29.8 | 42.1 | 4.0 | 2,096.8 | 2,172.7 |
| Acquisitions of property, plant and equipment | 48.2 | 36.6 | 25.2 | - | 110.0 |
| Depreciation expense | 21.9 | 26.0 | 8.8 | - | 56.7 |
| Other non-cash expenses | 8.1 | 2.7 | - | - | 10.8 |
| ***2008*** | | | | | |
| Total revenue from continuing operations | 148.5 | 141.2 | 51.8 | - | 341.5 |
| Other revenue/income | 3.0 | - | - | 1.5 | 4.5 |
| Total segment revenue/income | 151.5 | 141.2 | 51.8 | 1.5 | 346.0 |
| Profit before net interest | 77.5 | 67.5 | 25.1 | - | 170.1 |
| Net interest (including interest on loan notes, excluding amortisation of borrowing costs) | | | | | (150.6) |
| Profit before income tax | | | | | 19.5 |
| Income tax revenue | | | | | 144.1 |
| **Net profit after tax** | | | | | **163.6** |
| Segment assets | 1,414.3 | 831.1 | 336.5 | 10.9 | 2,592.8 |
| Segment liabilities | 26.2 | 38.2 | 3.7 | 2,114.9 | 2,183.0 |
| Acquisitions of property, plant and equipment | 55.2 | 38.1 | 18.3 | - | 111.6 |
| Depreciation expense | 23.2 | 24.9 | 8.5 | - | 56.6 |
| Other non-cash expenses | 3.7 | 2.9 | - | - | 6.6 |

### (c) Secondary reporting format – business segments

The Envestra Group operates predominantly in one business; namely, the provision of natural gas haulage services to consumers through the transmission pipelines and distribution networks it owns and manages. As a result, no secondary segment information is disclosed.

## 5 OTHER INCOME

### (a) Government grants

$9.1 million of grants (2008: $9.8 million) were recognised as revenue from continuing operations by the Group during the financial year, which represented the 2008-09 portion of the grant received from the South Australian Government in June 2004 ($54.6 million) to compensate for the development of systems to support the introduction of full retail contestability in South Australia.

Grants received from the Victorian Government of $0.2 million (2008: $3.0 million) in respect of works associated with the Victorian regional towns projects were recognised as other income. The Group did not benefit directly from any other forms of government assistance.

## 6 EXPENSES

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| Profit before income tax includes the following specific expenses: | | | | |
| **Depreciation and impairment** | | | | |
| Buildings | 0.1 | 0.2 | - | - |
| Plant and equipment | 56.6 | 56.4 | 0.8 | 0.9 |
| Impairment | 4.8 | 1.3 | - | - |
| **Total depreciation and impairment** | **61.5** | **57.9** | **0.8** | **0.9** |
| **Amortisation** | | | | |
| Capital raising/formation costs | 1.5 | 1.8 | 1.1 | 1.3 |
| **Other charges against assets** | | | | |
| Asset retirements | 0.4 | 1.0 | - | - |
| Bad and doubtful debts – trade debtors | - | - | - | - |
| **Borrowing costs** | | | | |
| Interest and indexation excluding interest on loan notes | 153.3 | 140.4 | 82.3 | 80.4 |
| Fees on financing facilities | 1.3 | 0.9 | 0.5 | 0.1 |
| Amortisation of debt establishment and AAA credit insurance costs | 3.7 | 3.5 | 1.6 | 1.6 |
| | **158.3** | **144.8** | **84.4** | **82.1** |
| Interest on loan notes | 2.3 | 10.8 | 2.3 | 10.8 |
| **Borrowing costs expensed** | **160.6** | **155.6** | **86.7** | **92.9** |
| Employee benefits expense | 3.8 | 3.5 | 3.8 | 3.5 |
| Land management provision expense | 0.8 | - | - | - |

## 7 INCOME TAX EXPENSE

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| *(a) Income tax expense* | | | | |
| Deferred tax | 12.1 | (144.1) | 13.3 | 10.1 |
| Attributable to: | | | | |
| Profit from continuing operations | 12.1 | (144.1) | 13.3 | 10.1 |
| Deferred income tax expense included in income tax expense comprises: | | | | |
| Decrease/(increase) in deferred tax assets (note 15) | (25.3) | (25.5) | 12.0 | 8.9 |
| Increase/(decrease) in deferred tax liabilities (note 23) | 37.4 | (118.6) | 1.3 | 1.2 |
| | **12.1** | **(144.1)** | **13.3** | **10.1** |
| *(b) Numerical reconciliation of income tax expense to prima facie tax payable* | | | | |
| Profit from continuing operations before income tax expense | 52.4 | 19.5 | 42.9 | 22.8 |
| Tax at the Australian tax rate of 30% (2008 – 30%) | 15.7 | 5.9 | 12.9 | 6.9 |
| *Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:* | | | | |
| Interest on loan notes not deductible | 0.7 | 3.2 | 0.7 | 3.2 |
| Reset of asset tax bases | - | (153.2) | - | - |
| Investment allowance | (4.6) | - | (0.3) | - |
| Sundry items | 0.3 | - | - | - |
| **Total income tax expense** | **12.1** | **(144.1)** | **13.3** | **10.1** |
| *(c) Amounts recognised directly in equity* | | | | |
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity | | | | |
| Net deferred tax debited/(credited) directly to equity | (32.0) | 5.3 | (14.8) | 2.9 |
| *(d) Unrecognised temporary differences* | | | | |
| Deferred tax assets not recognised | 2.1 | 2.4 | - | - |

*(e) Tax consolidation legislation*

Envestra Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. Vic Gas Distribution Pty Ltd and The Albury Gas Company Ltd joined the Envestra Tax Consolidated Group on 2 July 2007. The accounting policy in relation to this legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Envestra Ltd.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Envestra Ltd for any current tax payable assumed and are compensated by Envestra Ltd for any current tax receivable and deferred tax assets relating to unused tax losses, or unused tax credits that are transferred to Envestra Ltd under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreements are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist, where applicable, with its obligations to pay tax instalments. The funding amounts are recognised as intercompany receivables or payables. No funding obligations have arisen to date as no tax payments have been made.

## 8 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| Cash at bank and on hand | 1.3 | 0.8 | 0.6 | 0.4 |
| Deposits at call | 4.9 | 10.0 | 1.6 | 10.0 |
| | **6.2** | **10.8** | **2.2** | **10.4** |

### (a) Cash at bank

These are interest bearing.

### (b) Deposits at call

The deposits are bearing floating interest rates between 2.95% and 3.15% (2008 – 7.53%). The deposits matured at various dates in July 2009.

## 9 CURRENT ASSETS – RECEIVABLES

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| Trade receivables | 55.5 | 50.6 | 21.5 | 19.9 |
| Other receivables | 1.0 | - | - | - |
| Provision for doubtful receivables | (0.1) | (0.1) | - | - |
| | **56.4** | **50.5** | **21.5** | **19.9** |

### (a) Past due and impaired trade receivables

A loss of $21,531 (2008: $17,600) for the Group and $14,419 (2008: $10,323) for the Parent has been recognised in the income statement in respect of bad and doubtful trade receivables during the year ended 30 June 2009.

As of 30 June 2009, trade receivables of $126,789 (2008: $572,662) for the Group and $99,218 (2008: $32,684) for the Parent were past due but not impaired. The ageing analysis of these trade receivables is as follows:

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| 31 to 60 days | 0.1 | 0.5 | 0.1 | - |
| 61 to 90 days | - | 0.1 | - | - |
| Over 90 days | - | - | - | - |
| | **0.1** | **0.6** | **0.1** | **-** |

Movements in the provision for impairment of receivables are as follows:

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| *Movement in provision for doubtful receivables:* | | | | |
| Balance at the beginning of the year | (0.1) | (0.1) | - | - |
| Balance at the end of the year | (0.1) | (0.1) | - | - |

### (b) Significant terms and conditions

Haulage revenue receivable in respect of the SA and NT networks is due within 30 days. Haulage revenue receivable from retailers in respect of Queensland consists of billed and unbilled revenue related to gas deliveries. Payment is due for gas delivered in a month within 30 days. Haulage revenue receivable from the Victorian and NSW retailers consists of billed revenue due within 14 days and unbilled revenue which has been estimated and is expected to be billed over the following two months.

Interest is receivable from the major banks that hold deposits at call for Envestra and is generally settled within a few days after the end of the month.

**(c) Effective interest rates and credit risk**

Envestra's customers using the SA and NT networks pay for haulage services in advance. Retailers using the Queensland network are required to pay for gas delivered within 30 days. Credit risk is centred on the large retailers but contracts and the associated Queensland Access Regime limit such risks. Retailers using the Victorian networks pay in arrears for haulage services, and credit risk is centred on the large Victorian retailers, though contracts and the associated Victorian Access Regime limit such risks. During the 2008-09 financial year, Envestra Ltd has exercised its right under the various haulage revenue contracts with Victorian retailers to demand bank guarantees or credit insurance from certain retailers who do not possess investment grade credit ratings. Interest is receivable from major banks and no significant credit risk is perceived in relation to this amount. Refer to note 2 for more information on the risk management policy of the Group.

**(d) Fair value**

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

## 10 DERIVATIVE FINANCIAL INSTRUMENTS

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| *Non-current assets* | | | | |
| Interest rate swaps – cashflow hedges | - | 33.7 | - | 23.0 |
| **Total derivative financial instrument assets** | **-** | **33.7** | **-** | **23.0** |
| *Non-current liabilities* | | | | |
| Interest rate swaps - cash flow hedges | 88.5 | - | 26.2 | - |
| Cross-currency swap contracts – fair value and cashflow hedges | 31.1 | 85.4 | - | - |
| **Total derivative financial instrument liabilities** | **119.6** | **85.4** | **26.2** | **-** |
| **Net derivatives** | **(119.6)** | **(51.7)** | **(26.2)** | **23.0** |

**(a) Instruments used by the Group**

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 2).

*(i) Interest rate swap contracts – cash flow hedges*

The Group has entered into interest rate swap contracts that entitle it to receive interest at floating rates on notional principal amounts and oblige it to pay interest at fixed rates on the same amounts. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

The tables below include all swaps in place at the end of the financial year (excluding $100.0 million of forward starting interest rate swaps).

At 30 June 2009, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

| Maturity | 2009 | 2008 |
|---|---|---|
| | *$M* | *$M* |
| Less than 1 year | - | 20.0 |
| 1-2 years | 605.0 | - |
| 2-3 years | - | 530.0 |
| 3-4 years | 801.1 | - |
| 4-5 years | - | 751.1 |
| | **1,406.1** | **1,301.1** |

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in income immediately. In the year ended 30 June 2009, the ineffective portion was $0.6 million of loss (2008: $0.3 million loss).

*Group*

At balance date these contracts were liabilities with fair value of $88.5 million (2008: assets of $33.7 million). In the year ended 30 June 2009 there was a decrease in fair value of $122.2 million (2008: increase of $17.6 million) due to the fall in interest rates that has occurred since the hedges were put in place. This decrease in fair value will reverse over the next three to four years as these instruments reach maturity.

*Parent entity*

At balance date these contracts were liabilities with fair value of $26.2 million (2008: assets of $23.0 million). In the year ended 30 June 2009 there was an decrease in fair value of $49.2 million during the year (2008: increase of $9.8 million).

*(ii) Cross currency swaps – fair value and cashflow hedges*

The Group has entered into cross currency swap contracts in order to swap the US$ debt principal and interest repayments from US$ fixed coupon to A$ floating rates.

The notional principal amounts and periods of expiry of the cross currency swap contracts are as follows:

| Maturity | 2009 | 2008 |
|---|---|---|
| | *$M* | *$M* |
| Greater than 5 years | 266.1 | 266.1 |

The gain or loss from remeasuring hedging instruments used in fair value hedges, to fair value is recorded in the income statement.

*Group*

At balance date these contracts were liabilities with fair value of $31.1 million (2008: $85.4 million). In the year ended 30 June 2009 there was an increase in fair value of $54.3 million during the year (2008: decrease of $5.1 million). Fair value hedge movements offset against the hedged item were $5.2 million (2008: $5.1 million).

**(b) Credit risk exposures**

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises with amounts receivable from unrealised gains on derivative financial instruments. At balance date, $88.5 million would potentially be payable (2008: $33.7 million was potentially receivable) (Australian dollar equivalents) by the Group for interest rate swap contracts and therefore no credit exposure existed.

The Group undertakes 100% of its transactions in foreign exchange and interest rate contracts with financial institutions. Management has established limits such that, at any time, no more than $550.0 million of notional principal amounts are with any individual counterparty.

**(c) Interest rate risk exposures**

Refer to note 2 for the Group's exposure to interest rate risk on interest rate swaps.

## 11 CURRENT ASSETS – OTHER CURRENT ASSETS

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| Intercompany interest receivable | - | - | 16.5 | 11.1 |
| GST receivable | 0.3 | 1.1 | 0.1 | 0.6 |
| Deferred licence fee | 1.1 | 1.1 | - | - |
| Prepayments | 0.9 | 0.1 | 0.5 | 0.1 |
| | **2.3** | **2.3** | **17.1** | **11.8** |

## 12 NON-CURRENT ASSETS – RECEIVABLES

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| Receivable on land sale | 5.1 | - | - | - |
| Receivable from wholly-owned entities | - | - | 1,135.0 | 974.4 |
| | 5.1 | - | 1,135.0 | 974.4 |

**(a) Past due and impaired receivables**

None of the non-current receivables is impaired or past due but not impaired.

**(b) Fair values and credit risk**

The carrying amount of non-current receivables approximates their fair value and reflects the maximum exposure to credit risk. The parent does not hold any collateral as security.

The receivable on land sale is due to be paid in two instalments in September 2009 and 2010. Envestra has maintained title over the property and received a deposit of $1.0 million in September 2008.

## 13 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

| *Other (non-traded) investments* | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| Shares in subsidiaries (note 32) | - | - | 833.5 | 833.5 |

## 14 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

| | Freehold land | Freehold buildings | Plant and equipment | Total |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| *Consolidated* | | | | |
| **At 1 July 2007** | | | | |
| Cost | 3.3 | 4.8 | 2,262.0 | 2,270.1 |
| Accumulated depreciation | - | (1.4) | (379.9) | (381.3) |
| **Net book amount** | **3.3** | **3.4** | **1,882.1** | **1,888.8** |
| **Year ended 30 June 2008** | | | | |
| Opening net book amount | 3.3 | 3.4 | 1,882.1 | 1,888.8 |
| Additions | - | - | 111.6 | 111.6 |
| Depreciation charge | - | (0.2) | (56.4) | (56.6) |
| Other | 0.2 | - | - | 0.2 |
| Retirements | - | - | (1.0) | (1.0) |
| **Closing net book amount** | **3.5** | **3.2** | **1,936.3** | **1,943.0** |
| **At 30 June 2008** | | | | |
| Cost | 3.5 | 4.8 | 2,372.5 | 2,380.8 |
| Accumulated depreciation | - | (1.6) | (436.2) | (437.8) |
| **Net book amount** | **3.5** | **3.2** | **1,936.3** | **1,943.0** |
| **Year ended 30 June 2009** | | | | |
| Opening net book amount | 3.5 | 3.2 | 1,936.3 | 1,943.0 |
| Additions | - | - | 110.0 | 110.0 |
| Depreciation charge | - | (0.1) | (56.6) | (56.7) |
| Disposals | (0.3) | - | - | (0.3) |
| Retirements | - | - | (0.4) | (0.4) |
| **Closing net book amount** | **3.2** | **3.1** | **1,989.3** | **1,995.6** |
| **At 30 June 2009** | | | | |
| Cost | 3.2 | 4.8 | 2,482.1 | 2,490.1 |
| Accumulated depreciation | - | (1.7) | (492.8) | (494.5) |
| **Net book amount** | **3.2** | **3.1** | **1,989.3** | **1,995.6** |

| | Plant and equipment | Total |
|---|---|---|
| | $M | $M |
| *Parent* | | |
| **At 1 July 2007** | | |
| Cost | 42.1 | 42.1 |
| Accumulated depreciation | (5.6) | (5.6) |
| **Net book amount** | **36.5** | **36.5** |
| **Year ended 30 June 2008** | | |
| Opening net book amount | 36.5 | 36.5 |
| Additions | 1.9 | 1.9 |
| Depreciation charge | (0.9) | (0.9) |
| Closing net book amount | 37.5 | 37.5 |
| **At 30 June 2008** | | |
| Cost | 44.0 | 44.0 |
| Accumulated depreciation | (6.5) | (6.5) |
| **Net book amount** | **37.5** | **37.5** |
| **Year ended 30 June 2009** | | |
| Opening net book amount | 37.5 | 37.5 |
| Additions | 6.0 | 6.0 |
| Depreciation charge | (0.8) | (0.8) |
| Closing net book amount | 42.7 | 42.7 |
| **At 30 June 2009** | | |
| Cost | 50.0 | 50.0 |
| Accumulated depreciation | (7.3) | (7.3) |
| **Net book amount** | **42.7** | **42.7** |

**(a) Valuation of land and buildings**

An independent valuation of land and buildings was undertaken during the 2006-07 year by registered valuers. The market valuations of these properties were in excess of the carrying values at that time by approximately $15.4 million. The valuation of the properties has not taken into account any potential remediation costs. A remediation provision of $11.4 million (2008: $6.7 million) has been included in the financial statements at 30 June 2009 in relation to freehold land.

The Directors have decided to continue to carry land and buildings at cost.

**(b) Non-current assets pledged as security**

Refer to note 22 for information on non-current assets pledged as security by the parent entity and its controlled entities.

## 15 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| The balance comprises temporary differences attributable to: | | | | |
| Accrued expenses | 0.6 | 0.1 | 0.3 | 0.1 |
| Employee benefits | 0.3 | 0.2 | 0.2 | 0.2 |
| Equity and debt raising | - | 0.2 | - | 0.2 |
| Deferred revenue | 0.7 | 2.7 | 0.7 | 2.7 |
| Derivatives | 23.9 | 0.1 | 7.9 | - |
| Tax losses | 102.4 | 75.5 | 67.5 | 49.7 |
| | 127.9 | 78.8 | 76.6 | 52.9 |
| Set-off of deferred tax liabilities pursuant to set-off provisions (note 23) | (127.9) | (78.8) | (10.7) | (16.3) |
| Net deferred tax assets | - | - | 65.9 | 36.6 |
| *Movements* | | | | |
| Opening balance at 1 July | 78.8 | 53.2 | 52.9 | 36.6 |
| Credited/(charged) to the income statement (note 7) | 25.3 | 25.5 | (12.0) | (8.9) |
| Credited to equity | 23.8 | 0.1 | 7.9 | - |
| Deferred tax assets relating to tax losses transferred | - | - | 27.8 | 25.2 |
| **Closing balance at 30 June** | **127.9** | **78.8** | **76.6** | **52.9** |

## 16 NON-CURRENT ASSETS – INTANGIBLE ASSETS

| | Distribution licence | Total |
|---|---|---|
| | *$M* | *$M* |
| *Consolidated* | | |
| **At 1 July 2007** | | |
| Cost | 585.6 | 585.6 |
| Accumulated depreciation | - | - |
| **Net book amount** | **585.6** | **585.6** |
| **Year ended 30 June 2008** | | |
| Opening net book amount | 585.6 | 585.6 |
| Closing net book amount | 585.6 | 585.6 |
| **At 30 June 2008** | | |
| Cost | 585.6 | 585.6 |
| Accumulated depreciation | - | - |
| **Net book amount** | **585.6** | **585.6** |
| **Year ended 30 June 2009** | | |
| Opening net book amount | 585.6 | 585.6 |
| Closing net book amount | 585.6 | 585.6 |
| **At 30 June 2009** | | |
| Cost | 585.6 | 585.6 |
| Accumulated depreciation | - | - |
| **Net book amount** | **585.6** | **585.6** |

### (a) Key assumptions used for value-in-use calculations

*Victorian distribution licence*

The recoverable amount of the Victorian cash-generating unit is based on value in use calculations. Those calculations use cash flow projections based on current and expected regulatory outcomes for gas distributors. Cash flow projections are estimated for a period of 20 years, with a terminal value, recognising the long-term nature of the assets. The pre-tax discount rate used was 9.5% (2008: 9.3%).

## 17 NON-CURRENT ASSETS – OTHER NON-CURRENT ASSETS

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| Deferred licence fees | 0.5 | 0.6 | - | - |

## 18 CURRENT LIABILITIES – PAYABLES

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| Trade payables | 25.9 | 29.9 | 15.1 | 15.3 |

## 19 CURRENT LIABILITIES – BORROWINGS

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| *Secured* | | | | |
| Commercial paper | 29.9 | 39.8 | 10.0 | 19.9 |
| Bank loans | 125.0 | - | - | - |
| Medium term notes | 174.8 | 85.0 | - | - |
| Total secured current borrowings | 329.7 | 124.8 | 10.0 | 19.9 |
| *Unsecured* | | | | |
| Loan notes | - | 42.6 | - | 42.6 |
| Total unsecured current borrowings | 329.7 | 42.6 | - | 42.6 |
| **Total current borrowings** | **329.7** | **167.4** | **10.0** | **62.5** |

### (a) Risk exposures

Details of the Group's exposure to interest rate changes on borrowings are set out in note 2.

### (b) Fair value disclosures

Details of the fair value of borrowings for the Group are set out in note 22.

### (c) Refinancing

The bank loans and Medium Term Notes listed above as current liabilities are due for repayment in August and November 2009. Re-financing for these borrowings was put in place on 7 July 2009 through the execution of a $280 million syndicated loan.

## 20 CURRENT LIABILITIES – PROVISIONS

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| Employee benefits | 0.2 | 0.2 | 0.2 | 0.2 |

## 21 CURRENT LIABILITIES – OTHER CURRENT LIABILITIES

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| Prepayments from energy retailers | 29.2 | 27.0 | 29.2 | 27.0 |
| Interest accrued on loan notes | - | 1.6 | - | 1.6 |
| Accrued costs | 3.2 | 1.5 | 1.8 | 0.8 |
| Other interest accrued | 6.9 | 6.5 | 2.1 | 1.8 |
| Refunds due to customers | 1.1 | 3.8 | - | - |
| Other deferred income | 2.2 | 1.1 | 2.2 | 1.1 |
| Government grant deferred income | - | 9.1 | - | 9.1 |
| | **42.6** | **50.6** | **35.3** | **41.4** |

## 22 NON-CURRENT LIABILITIES – BORROWINGS

The Envestra Group is focused on the ownership of gas distribution networks and transmission pipelines. Whilst the assets generally have very long lives, the financing of those assets is undertaken using a range of instruments with varying terms, including capital markets debt and bank loans, with maturities spread over the next 24 years to promote liquidity and minimise refinancing risk.

The loan portfolio is expected to be rolled over at regular intervals in the normal course of the Group's operations.

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| *Secured* | | | | |
| Bank loans | 138.5 | 238.8 | 47.0 | 59.0 |
| Capital Indexed Bonds | 439.8 | 421.1 | 313.4 | 300.1 |
| Medium term notes | 777.9 | 950.7 | 584.3 | 583.4 |
| US Private Placement Notes | 224.8 | 185.4 | - | - |
| Total secured non-current borrowings | 1,581.0 | 1,796.0 | 944.7 | 942.5 |
| *Unsecured* | | | | |
| Payable to wholly owned entities | - | - | 797.7 | 695.2 |
| Total unsecured non-current borrowings | - | - | 797.7 | 695.2 |
| **Total non-current borrowings** | **1,581.0** | **1,796.0** | **1,742.4** | **1,637.7** |

### (a) Total secured liabilities

Book values of total secured liabilities (current and non-current) are as follows:

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| Bank loans | 263.5 | 238.8 | 47.0 | 59.0 |
| Commercial Paper | 29.9 | 39.8 | 10.0 | 19.9 |
| Capital Indexed Bonds | 439.8 | 421.1 | 313.4 | 300.1 |
| Medium term notes | 952.7 | 1,035.7 | 584.3 | 583.4 |
| US Private Placement Notes | 224.8 | 185.4 | - | - |
| **Total secured liabilities** | **1,910.7** | **1,920.8** | **954.7** | **962.4** |

**(b) Assets pledged as security**

The carrying amounts of assets pledged as security for current and non-current borrowings are:

| | Notes | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|---|
| | | *$M* | *$M* | *$M* | *$M* |
| Current | | | | | |
| *Floating charge* | | | | | |
| Cash and cash equivalents | 8 | 6.2 | 10.8 | 2.2 | 10.4 |
| Receivables | 9 | 56.4 | 50.5 | 21.5 | 19.9 |
| Other current assets | 11 | 2.3 | 2.3 | 17.1 | 11.8 |
| **Total current assets pledged as security** | | **64.9** | **63.6** | **40.8** | **42.1** |
| Non-current | | | | | |
| *Floating charge* | | | | | |
| Receivables | 12 | 5.1 | - | - | - |
| Property, plant and equipment | 14 | 1,995.6 | 1,943.0 | 42.7 | 37.5 |
| Distribution licence | 16 | 585.6 | 585.6 | - | - |
| **Total non-current assets pledged as security** | | **2,586.3** | **2,528.6** | **42.7** | **37.5** |
| **Total assets pledged as security** | | **2,651.2** | **2,592.2** | **83.5** | **79.6** |

**(c) Significant terms and conditions**

The bank loans, Capital Indexed Bonds, Commercial Paper, Medium Term Notes and US Private Placement Notes are secured by charges over the respective networks owned by the Envestra Group. Various interest service and balance sheet covenants must be maintained by the Envestra Consolidated Group, otherwise certain restrictions apply with respect to the payment of distributions and funding of capital expenditure. At 30 June 2009, all covenants had been satisfied and it is expected that they will continue to be satisfied.

**(d) Group funding and liability structure**

The Envestra Group's total interest bearing debt as at 30 June 2009 was $1,910.7 million comprising a range of financial instruments with varying maturities which have been issued under the Group's treasury management program with a view to diversifying funding sources, increasing future refinancing options and lowering overall borrowing costs.

The existing debt instruments include:

*Bank loans*

Bank loans are committed facilities from major banks generally for terms up to six years.

*Commercial Paper*

The Envestra Group had Commercial Paper on issue at 30 June 2009 of $29.9 million (2008: $39.8 million). Commercial Paper is expected to be issued from time to time by the Group in the future largely as interim funding for the ongoing capital expenditure program, and also to minimise financing costs.

The Commercial Paper and Medium Term Note program is supported by undrawn committed bank facilities of $236.0 million.

*Capital Indexed Bonds*

These bonds were issued for varying terms, and as at 30 June 2009 had terms to maturity of two to 16 years. The principal component is indexed by the quarterly movement in the CPI.

*Medium Term Notes*

Medium Term Notes totalling $952.7 million (2008: $1,035.7 million) are instruments issued under the Medium Term Note Program for varying terms and as at 30 June 2009 had terms to maturity of up to 17 years. The Medium Term Notes on issue have varying maturity dates and are classified as either current or non-current in accordance with these dates.

*US Private Placement Notes*

Notes totalling A$224.8 million (2008: A$185.4 million) are issued in the United States of America for terms ending in 2015, 2018 and 2033. There are cross-currency swaps in place to swap both the principal and interest payments from the US$ fixed coupon to A$ floating rate for the term of the note.

**(e) Financing arrangements**

Unrestricted access was available at balance date to the following lines of credit:

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| *Bank loan facilities* | | | | |
| Total facilities | 500.0 | 405.0 | 120.0 | 120.0 |
| Used at balance date | 264.0 | 239.0 | 47.0 | 59.0 |
| **Unused at balance date** | **236.0** | **166.0** | **73.0** | **61.0** |

**(f) Fair values**

The fair value of current borrowings approximates their carrying amount. The fair value of non-current borrowings is based upon market prices where a market exists, or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

The carrying amounts and fair values of borrowings at balance date are:

| | Carrying amount 2009 | Fair value 2009 | Carrying amount 2008 | Fair value 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| **Consolidated** | | | | |
| *Non-traded financial liabilities* | | | | |
| Bank loans | 263.5 | 264.0 | 238.8 | 239.0 |
| Notes - US Private Placement | 224.8 | 226.3 | 185.4 | 187.0 |
| Loan notes | - | - | 42.6 | 44.0 |
| *Traded financial liabilities* | | | | |
| Capital Indexed Bonds | 439.8 | 400.1 | 421.1 | 392.1 |
| Medium Term Notes | 952.7 | 970.0 | 1,035.7 | 1,055.0 |
| Commercial Paper | 29.9 | 29.9 | 39.8 | 39.8 |
| | **1,910.7** | **1,890.3** | **1,963.4** | **1,956.9** |
| **Parent** | | | | |
| *Non-traded financial liabilities* | | | | |
| Bank loans | 47.0 | 47.0 | 59.0 | 59.0 |
| Loan notes | - | - | 42.6 | 44.0 |
| Payable to wholly owned entities | 797.7 | 797.7 | 695.2 | 695.2 |
| *Traded financial liabilities* | | | | |
| Capital Indexed Bonds | 313.4 | 274.5 | 300.1 | 270.6 |
| Medium Term Notes | 584.3 | 600.0 | 583.4 | 600.0 |
| Commercial Paper | 10.0 | 10.0 | 19.9 | 19.9 |
| | **1,752.4** | **1,729.2** | **1,700.2** | **1,688.7** |

**(g) Risk exposures**

Information about the Group's and parent entity's exposure to interest rate and foreign currency changes is provided in note 2.

## 23 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| *The balance comprises temporary differences attributable to:* | | | | |
| Equity and debt raising | 6.7 | 6.4 | 5.7 | 4.7 |
| Other | 0.6 | 0.5 | 0.2 | - |
| Derivatives | - | 8.2 | - | 6.9 |
| Provisions | (5.0) | (3.4) | - | - |
| Depreciation | 181.2 | 142.6 | 4.8 | 4.7 |
| | 183.5 | 154.3 | 10.7 | 16.3 |
| Set-off of deferred tax assets pursuant to set-off provisions (note 15) | (127.9) | (78.8) | (10.7) | (16.3) |
| Net deferred tax liabilities | 55.6 | 75.5 | - | - |
| *Movements:* | | | | |
| Opening balance at 1 July | 154.3 | 267.5 | 16.3 | 12.2 |
| Charged/(credited) to the income statement (note 7) | 37.4 | (118.6) | 1.3 | 1.2 |
| Charged to equity | (8.2) | 5.4 | (6.9) | 2.9 |
| **Closing balance at 30 June** | **183.5** | **154.3** | **10.7** | **16.3** |

## 24 NON-CURRENT LIABILITIES – PROVISIONS

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| Long service leave | 0.4 | 0.3 | 0.4 | 0.3 |
| Other employee and Director entitlements | 0.2 | 0.2 | 0.2 | 0.2 |
| Land management costs | 16.8 | 11.2 | - | - |
| | **17.4** | **11.7** | **0.6** | **0.5** |

**Land management costs**

Provisions for future environmental remediation are recognised where there is a present obligation as a result of activities associated with the manufacture of gas from coal having been undertaken at various sites in the past, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs required to remediate the sites.

*(a) Movements in provisions*

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

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| *Land management costs* | | | | |
| Carrying amount at beginning of the year | 11.2 | 9.9 | - | - |
| Additional provision recognised | 5.6 | 1.5 | - | - |
| Payments made from provision | - | (0.2) | - | - |
| **Carrying amount at end of year** | **16.8** | **11.2** | **-** | **-** |

## 25 NON-CURRENT LIABILITIES – OTHER NON-CURRENT LIABILITIES

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| Deferred income | 0.7 | - | - | - |

## 26 CONTRIBUTED EQUITY

| | Parent entity 2009 | Parent entity 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *Securities* | *Securities* | *$M* | *$M* |
| *(a) Share capital* | | | | |
| Ordinary shares | | | | |
| Issued and paid up capital | 1,307,029,746 | 891,377,475 | 494.8 | 366.7 |
| *(b) Other equity components* | | | | |
| Deferred tax liability component | | | 0.2 | 0.2 |
| **Total contributed equity** | | | **495.0** | **366.9** |

| *(c) Movements in ordinary share capital* | Date | Number of securities | Issue price | Cost |
|---|---|---|---|---|
| | | | *$* | *$M* |
| Opening balance | 1-7-2007 | 852,278,514 | | 334.6 |
| Distribution reinvestment plan | 30-11-2007 | 20,434,114 | 0.98 | 18.5 |
| Distribution reinvestment plan | 31-5-2008 | 18,664,847 | 0.78 | 13.6 |
| | | | | 366.7 |
| Less: Transaction costs on share issues | | | | - |
| **Closing balance** | **30-6-2008** | **891,377,475** | | **366.7** |
| Opening balance | 1-7-2008 | 891,377,475 | | 366.7 |
| Distribution reinvestment plan | 30-11-2008 | 36,093,753 | 0.52 | 18.5 |
| Share rights issue | 12-2-2009 | 370,988,492 | 0.30 | 108.3 |
| Distribution reinvestment plan | 31-5-2009 | 8,570,026 | 0.45 | 3.8 |
| | | | | 497.3 |
| Less: Transaction costs on share issues | | | | (2.5) |
| **Closing balance** | **30-6-2009** | **1,307,029,746** | | **494.8** |

*(d) Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

*(e) Distribution / dividend reinvestment plan ("DRP")*

The Company has established a DRP under which holders of ordinary securities may elect to have all or part of their distribution entitlements satisfied by the issue of new ordinary securities rather than by being paid in cash. Securities have been issued under the DRP at a 2.5% discount to the market price.

*(f) Capital risk management*

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or alter the capital structure, the Group may adjust the amount of dividends paid to shareholders, or issue new shares to reduce debt.

The Group and the parent entity monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total non-cash assets. Net debt is calculated as total borrowings (excluding loan notes) less cash and cash equivalents. A market value of equity gearing ratio is also used and is calculated as net debt divided by net debt plus market value of equity.

The gearing ratios at 30 June 2009 and 30 June 2008 were as follows:

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| Total borrowings (note 22(a)) | 1,910.7 | 1,920.8 | 954.7 | 962.4 |
| Add back unamortised fees | 31.0 | 33.8 | 26.4 | 29.4 |
| Add back hedges impact on borrowings | 39.9 | 79.1 | - | - |
| **Total borrowings** | **1,981.6** | **2,033.7** | **981.1** | **991.8** |
| Less: cash and cash equivalents | (6.2) | (10.8) | (2.2) | (10.4) |
| **Net debt** | **1,975.4** | **2,022.9** | **978.9** | **981.4** |
| Total assets (excluding intercompany balances) | 2,651.7 | 2,592.8 | 982.9 | 972.7 |
| Less: cash and cash equivalents | (6.2) | (10.8) | (2.2) | (10.4) |
| **Total assets** | **2,645.5** | **2,582.0** | **980.7** | **962.3** |
| Ordinary shares (number) | 1,307,029,746 | 891,377,475 | 1,307,029,746 | 891,377,475 |
| Share price at 30 June ($) | 0.49 | 0.64 | 0.49 | 0.64 |
| Market value of equity ($M) | 633.9 | 570.5 | 633.9 | 570.5 |
| Book Value Gearing Ratio | 74.7% | 78.3% | 99.8% | 102.0% |
| Economic Value Gearing Ratio | 75.7% | 78.0% | 60.7% | 63.2% |

*(g) Rights issue*

On 6 January 2009 the Company invited its shareholders to subscribe to a rights issue of 371,000,000 stapled securities at an issue price of $0.30 per security on the basis of 2 securities for every 5 held, with such securities to be issued on, and rank for distributions, after 12 February 2009. The final number of securities issued was 370,988,492.

## 27 RESERVES AND RETAINED EARNINGS

| **(a) Reserves** | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| Hedging reserve – cash flow hedges | (55.5) | 19.1 | (18.4) | 16.1 |
| Movements | | | | |
| Opening balance at 1 July | 19.1 | 6.6 | 16.1 | 9.3 |
| Fair value movements | (106.6) | 17.8 | (49.3) | 9.7 |
| Deferred tax | 32.0 | (5.3) | 14.8 | (2.9) |
| **Closing balance at 30 June** | **(55.5)** | **19.1** | **(18.4)** | **16.1** |
| **(b) Retained earnings** | | | | |
| Movements in retained earnings were as follows: | | | | |
| Retained earnings/(accumulated losses) at the beginning of the financial year | 23.8 | (131.8) | (193.5) | (198.2) |
| Profit for the year | 40.3 | 163.6 | 29.6 | 12.7 |
| Dividend paid | (24.6) | (8.0) | (24.6) | (8.0) |
| **Retained earnings/(accumulated losses) at the end of the financial year** | **39.5** | **23.8** | **(188.5)** | **(193.5)** |

**(c) Nature and purpose of reserves**

*(i) Hedging reserve – cash flow hedges*

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(j).

## 28 DISTRIBUTIONS/DIVIDENDS

| | Parent entity 2009 | Parent entity 2008 |
|---|---|---|
| | *$M* | *$M* |
| *(a) Stapled securities* | | |
| Amounts paid in November (cents per stapled security) | | |
| Interest on loan notes: 0.37 cents (2009); 0.90 cents (2008) | 3.3 | 7.6 |
| Unfranked dividend: nil (2009); 0.93 cents (2008) | - | 8.0 |
| Principal on loan notes: 4.13 cents (2009); 3.87 cents (2008) | 36.8 | 33.0 |
| | **40.1** | **48.6** |
| Amounts paid in May (cents per stapled security) | | |
| Interest on loan notes: 0.05 cents (2009); 0.61 cents (2008) | 0.6 | 5.3 |
| Unfranked dividend: 1.89 cents (2009); nil (2008) | 24.6 | - |
| Principal on loan notes: 0.81 cents (2009); 3.19 cents (2008) | 10.5 | 27.8 |
| | **35.7** | **33.1** |
| *Total annual distribution: 7.25 cents (2009); 9.5 cents (2008)* | | |
| Interest on loan notes: 0.42 cents (2009); 1.51 cents (2008) | 3.9 | 12.9 |
| Unfranked dividend:1.89 cents (2009); 0.93 cents (2008) | 24.6 | 8.0 |
| Principal on loan notes: 4.94 cents (2009); 7.06 cents (2008) | 47.3 | 60.8 |
| | **75.8** | **81.7** |

*(b) Dividends not recognised at year end*

In addition to the above dividends, since year end the Directors have recommended the payment of a final unfranked dividend of 2.75 cents per fully paid ordinary share. The aggregate amount of the proposed dividend expected to be paid on 31 October 2009, but not recognised as a liability at year end, is $35.9 million.

## 29 KEY MANAGEMENT PERSONNEL DISCLOSURES

**(a) Key management personnel compensation**

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$* | *$* | *$* | *$* |
| Short-term employee benefits | 2,404,832 | 2,081,076 | 2,404,832 | 2,081,076 |
| Post-employment benefits | 342,325 | 591,081 | 342,325 | 591,081 |
| | 2,747,157 | 2,672,157 | 2,747,157 | 2,672,157 |

Detailed remuneration disclosures are provided in sections A - D of the remuneration report on pages 33 to 39.

**(b) Equity instrument disclosures relating to key management personnel**

*(i) Share holdings*

The numbers of shares in the Company held during the financial year by each Director of Envestra Ltd and key management personnel of the consolidated entity, including their personally-related entities, are set out below. There were no shares granted during the reporting period as remuneration.

*Ordinary shares 2009*

| Name | Balance at the start of the year | Changes during the year | Balance at the end of the year |
|---|---|---|---|
| Directors of Envestra Ltd | | | |
| J G Allpass | 138,606 | 85,121 | 223,727 |
| I B Little | 88,028 | 35,212 | 123,240 |
| E F Ainsworth | 45,000 | 21,000 | 66,000 |
| C C A Binks | 43,737 | 17,495 | 61,232 |
| O B O'Duill | 55,000 | 145,000 | 200,000 |
| M J McCormack | 20,000 | 8,000 | 28,000 |
| Other key management personnel of the Group | | | |
| D Petherick | 51,917 | 155,768 | 207,685 |
| G Meredith | 4,000 | 10,000 | 14,000 |

*Ordinary shares 2008*

| Name | Balance at the start of the year | Changes during the year | Balance at the end of the year |
|---|---|---|---|
| Directors of Envestra Ltd | | | |
| J G Allpass | 130,987 | 7,619 | 138,606 |
| I B Little | 33,000 | 55,028 | 88,028 |
| E F Ainsworth | 45,000 | - | 45,000 |
| C C A Binks | 23,737 | 20,000 | 43,737 |
| O B O'Duill | 55,000 | - | 55,000 |
| M J McCormack | - | 20,000 | 20,000 |
| Other key management personnel of the Group | | | |
| D Petherick | 31,917 | 20,000 | 51,917 |
| G Meredith | 4,000 | - | 4,000 |

## 30 REMUNERATION OF AUDITORS

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

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| *(a) Audit services* | | | | |
| PricewaterhouseCoopers Australian firm | | | | |
| Audit of financial statements provided to regulators | 38,700 | 37,100 | 1,600 | 2,100 |
| Audit and review work and other audit work under the *Corporations Act 2001* | 245,675 | 228,205 | 122,838 | 114,102 |
| **Total remuneration for audit services** | **284,375** | **265,305** | **124,438** | **116,202** |
| *(b) Non-audit services* | | | | |
| *Taxation services* | | | | |
| PricewaterhouseCoopers Australian firm | | | | |
| Tax services | 84,855 | 117,900 | 45,825 | 41,020 |
| **Total remuneration for taxation services** | **84,855** | **117,900** | **45,825** | **41,020** |
| *Other services* | | | | |
| PricewaterhouseCoopers Australian firm | | | | |
| Management advisory | 56,315 | 119,149 | 33,482 | 42,688 |
| **Total remuneration for other services** | **56,315** | **119,149** | **33,482** | **42,688** |
| **Total remuneration for non-audit services** | **141,170** | **237,049** | **79,307** | **83,708** |
| | **425,545** | **502,354** | **203,745** | **199,910** |

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax compliance, auditing of regulatory statements and assistance with regulatory submissions .

## 31 RELATED PARTY TRANSACTIONS

### (a) Parent entity

The ultimate parent entity within the Group is Envestra Ltd.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 32.

### (c) Key management personnel compensation

Disclosures relating to key management personnel are set out in note 29.

### (d) Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| *Expenses* | | | | |
| Costs incurred to use gas distribution networks owned by controlled entities | - | - | 90,000,000 | 89,380,000 |
| Payments for operation and management of the networks | 89,364,000 | 89,878,000 | 50,310,000 | 49,229,000 |
| Payments for capital expenditure relating to the networks[i] | 110,570,000 | 111,840,000 | 62,097,000 | 56,484,000 |

(i) Parent payments include payments for capital expenditure on behalf of Envestra (SA) Ltd and Envestra (Qld) Ltd.

| **(d) Transactions with related parties** *(continued)* | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| *Interest revenue* | | | | |
| Subsidiaries | - | - | 44,149,000 | 47,536,000 |
| *Dividend revenue* | | | | |
| Subsidiaries | - | - | 30,000,000 | 35,000,000 |
| *Interest expense* | | | | |
| Subsidiaries | - | - | 12,317,000 | 14,991,000 |

| **(e) Loans to/from related parties** | Parent entity 2009 | Parent entity 2008 |
|---|---|---|
| | $ | $ |
| *Net loans to subsidiaries* | | |
| Beginning of the year | 279,200,000 | 297,664,000 |
| Loans advanced | 195,800,000 | 13,125,000 |
| Loan repayments received/amounts drawn | (137,700,000) | (31,589,000) |
| **End of the year** | **337,300,000** | **279,200,000** |

### (f) Terms and conditions

All other transactions were made on normal commercial terms and conditions and at market rates.

Outstanding balances are unsecured and are repayable in cash.

## 32 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

| Name of entity | Country of incorporation | Class of shares | Equity holding of Envestra Ltd 2009 | Equity holding of Envestra Ltd 2008 |
|---|---|---|---|---|
| | | | % | % |
| Envestra Natural Gas Networks Ltd(vi) | Australia | Ordinary | 100 | 100 |
| Envestra (SA) Ltd(ii)(vi) | Australia | Ordinary | - | - |
| Envestra (Qld) Ltd(vi) | Australia | Ordinary | 100 | 100 |
| EnVic Holdings 1 Pty Ltd(iii) | Australia | Ordinary | 100 | 100 |
| EnVic Holdings 2 Ltd(iv) | Australia | Ordinary | - | - |
| Envestra Victoria Pty Ltd(v) | Australia | Ordinary | - | - |
| Vic Gas Distribution Pty Ltd(i) | Australia | Ordinary | - | - |
| The Albury Gas Company Ltd(i) | Australia | Ordinary | - | - |
| Envestra Transmission Pty Ltd | Australia | Ordinary | 100 | 100 |
| Envestra Transmission Holdings 1 Pty Ltd | Australia | Ordinary | 100 | 100 |
| Envestra Transmission Holdings 2 Pty Ltd | Australia | Ordinary | 100 | 100 |

(i) Vic Gas Distribution Pty Ltd is a subsidiary of Envestra Victoria Pty Ltd. The Albury Gas Company Ltd is a subsidiary of Vic Gas Distribution Pty Ltd.

(ii) Envestra (SA) Ltd is a subsidiary of Envestra Natural Gas Networks Ltd.

(iii) The book value of the investment in EnVic Holdings 1 Pty Ltd is $100.

(iv) EnVic Holdings 2 Ltd is a subsidiary of EnVic Holdings 1 Pty Ltd.

(v) Envestra Victoria Pty Ltd is a subsidiary of EnVic Holdings 2 Ltd.

(vi) These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 33.

## 33 DEED OF CROSS GUARANTEE

Envestra Ltd, Envestra Natural Gas Networks Ltd, Envestra (SA) Ltd and Envestra (Qld) Ltd are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others. By entering into the Deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

**(a) Consolidated income statement and a summary of movements in consolidated retained earnings**

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Envestra Ltd, they also represent the 'Extended Closed Group'.

Set out below is a consolidated income statement and a summary of movements in consolidated retained earnings for the year ended 30 June 2009 of the Closed Group consisting of Envestra Ltd, Envestra Natural Gas Networks Ltd, Envestra (SA) Ltd and Envestra (Qld) Ltd.

| | 2009 | 2008 |
|---|---|---|
| *Income Statement* | *$M* | *$M* |
| Revenue from continuing activities | 256.1 | 234.1 |
| Network operating costs | (50.6) | (49.3) |
| Gas | (10.7) | (11.4) |
| Administration costs | (8.4) | (8.2) |
| Depreciation | (34.7) | (33.5) |
| Amortisation | (1.1) | (1.3) |
| Loan note interest | (2.3) | (10.8) |
| Other borrowing costs | (72.1) | (67.3) |
| **Profit before income tax** | **76.2** | **52.3** |
| Income tax expense | (21.1) | (18.9) |
| **Profit for the year** | **55.1** | **33.4** |
| *Summary of movements in consolidated retained earnings* | | |
| Retained earnings at the beginning of the financial year | 93.8 | 68.4 |
| Profit for the year | 55.1 | 33.4 |
| Dividends paid | (24.6) | (8.0) |
| **Retained profits at the end of the financial year** | **124.3** | **93.8** |

**(b) Balance sheet**

Set out below is a consolidated balance sheet as at 30 June 2009 of the Closed Group consisting of Envestra Ltd, Envestra Natural Gas Networks Ltd, Envestra (SA) Ltd and Envestra (Qld) Ltd.

| | 2009 | 2008 |
|---|---|---|
| | *$M* | *$M* |
| *Current assets* | | |
| Cash and cash equivalents | 2.2 | 10.4 |
| Receivables | 21.5 | 19.9 |
| Other current assets | 17.1 | 11.8 |
| **Total current assets** | **40.8** | **42.1** |
| *Non-current assets* | | |
| Receivables | 518.0 | 420.3 |
| Derivative financial instruments | - | 23.0 |
| Property, plant and equipment | 1,172.7 | 1,146.1 |
| **Total non-current assets** | **1,690.7** | **1,589.4** |
| **Total assets** | **1,731.5** | **1,631.5** |

| | 2009 | 2008 |
|---|---|---|
| | $M | $M |
| *Current liabilities* | | |
| Payables | 15.1 | 15.2 |
| Borrowings | 10.0 | 62.5 |
| Provisions | 0.2 | 0.2 |
| Other current liabilities | 35.3 | 41.6 |
| **Total current liabilities** | **60.6** | **119.5** |
| *Non-current liabilities* | | |
| Borrowings | 1,005.7 | 973.0 |
| Provisions | 0.6 | 0.5 |
| Derivatives | 26.2 | - |
| Deferred tax liabilities | 37.5 | 61.7 |
| **Total non-current liabilities** | **1,070.0** | **1,035.2** |
| **Total liabilities** | **1,130.6** | **1,154.7** |
| **Net assets** | **600.9** | **476.8** |
| *Equity* | | |
| Contributed equity | 495.0 | 366.9 |
| Reserves | (18.4) | 16.1 |
| Retained earnings | 124.3 | 93.8 |
| **Total equity** | **600.9** | **476.8** |

## 34 ECONOMIC DEPENDENCY

The Envestra Group has two major customers. They are:

- Origin Energy Retail Ltd, a subsidiary of Origin Energy Ltd; and
- TRU Energy Pty Ltd.

The Envestra Group has a contract with APA Asset Management to carry out the operation and maintenance functions of the networks.

## 35 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 8 July 2009, Envestra announced that it had executed agreements with a syndicate of five banks for a three-year $280 million bank facility. The facility is to be used to refinance a $125 million bank loan and $175 million of Medium Term Notes due for repayment in the first half of 2009-10. Both these maturing facilities are held in Envestra Victoria Pty Ltd.

In addition, the Company also announced that it had reached agreement with ANZ to convert an undrawn, one-year, $50 million working capital facility held with Envestra Victoria Pty Ltd, to a three-year, $75 million term facility.

There have been no other significant events that have occurred after the balance sheet date.

## 36 RECONCILIATION OF PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| Profit after income tax | 40.3 | 163.6 | 29.6 | 12.7 |
| Depreciation and amortisation | 61.9 | 61.9 | 3.5 | 3.8 |
| Indexation of Capital Indexed Bonds | 17.6 | 12.4 | 12.6 | 8.9 |
| Interest on loan notes | 2.3 | 10.8 | 2.3 | 10.8 |
| Asset retirements | 0.4 | 1.0 | - | - |
| Government grants recognised as income | (9.1) | (9.8) | (9.1) | (9.8) |
| Refunds due to customers | (2.7) | 3.8 | - | - |
| Other deferred revenue | 1.1 | - | 1.1 | - |
| Intercompany dividend | - | - | (30.0) | (35.0) |
| Intercompany charges | - | - | 102.3 | 98.1 |
| Gain on disposal of land | (5.9) | - | - | - |
| *Change in operating assets and liabilities* | | | | |
| Decrease/(increase) in trade debtors | (4.1) | 1.7 | (6.5) | - |
| Increase in other operating assets | (0.3) | (0.4) | (0.4) | - |
| Increase/(decrease) in trade creditors and other liabilities | 8.7 | (6.1) | 3.4 | (10.0) |
| Increase/(decrease) in provision for deferred income tax | 12.1 | (144.1) | 13.3 | 10.1 |
| **Net cash inflow from operating activities** | **122.3** | **94.8** | **122.1** | **89.6** |

## 37 NON-CASH INVESTING AND FINANCING ACTIVITIES

Distributions satisfied by the issue of shares under the Distribution Reinvestment Plan are shown in note 28.

Dividends were paid to the parent entity by Envestra (SA) Ltd by way of a reduction in the intercompany loan accounts.

## 38 EARNINGS PER SHARE

| **(a) Basic earnings per share** | Consolidated 2009 | Consolidated 2008 |
|---|---|---|
| | *Cents* | *Cents* |
| Profit from continuing operations attributable to the ordinary equity holders of the Company | 3.8 | 18.9 |

**(b) Diluted earnings per share**

The diluted earnings per share are the same as the basic earnings per share.

| **(c) Weighted average number of shares used as the denominator** | Consolidated 2009 | Consolidated 2008 |
|---|---|---|
| | *Number* | *Number* |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 1,053,310,046 | 865,700,404 |

## 39 COMMITMENTS

### Operating leases

Envestra has leased a property at Kidman Park in Adelaide, which is being used by APA Asset Management as its works depot. A sub-lease has been entered into with APA Asset Management.

The lease commenced on 1 July 2006 and is for an initial term of nine years, with options to extend for a further 15 years.

The rent is subject to CPI adjustment on an annual basis.

| | Consolidated 2009 | Consolidated 2008 | Parent entity 2009 | Parent entity 2008 |
|---|---|---|---|---|
| | *$M* | *$M* | *$M* | *$M* |
| *Commitment for minimum lease payments in relation to non-cancellable operating leases are payable as follows:* | | | | |
| Within one year | 1.0 | 0.9 | 0.1 | 0.9 |
| Later than one year but not later than five years | 2.7 | 3.0 | 2.7 | 3.0 |
| Later than five years | 0.7 | 1.5 | 0.7 | 1.5 |
| | 4.4 | 5.4 | 4.4 | 5.4 |
| Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases | 4.4 | 5.4 | 4.4 | 5.4 |

## ENVESTRA LTD DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 41 to 78 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulation 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 30 June 2009 and of their performance, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that Envestra Ltd will be able to pay its debts as and when they become due and payable; and

(c) the audited remuneration disclosures set out on pages 33 to 39 of the Directors' Report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

(d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 33 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in note 33.

The Directors have been given the declaration by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

John Geoffrey Allpass
Chairman

Adelaide
28 August 2009

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
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# Independent auditor's report to the members of Envestra Limited

## Report on the financial report

We have audited the accompanying financial statements of Envestra Limited (the company), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Envestra Limited and the Envestra Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

## 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 controls 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 1, 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.

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## Independent auditor's report to the members of Envestra Limited *(continued)*

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

### Independence

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 Envestra 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 30 June 2009 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 financial report also complies with International Financing Reporting Standards as disclosed in Note 1.

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 33 to 39 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Auditor's opinion

In our opinion, the Remuneration Report of Envestra Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Forman
Partner

Adelaide
28 August 2009

# SHAREHOLDER INFORMATION

## Number of shareholders

At 28 August 2009, there were 18,323 shareholders

| Sharegrouping | Number of shareholders | Stapled securities held | Percentage |
|---|---|---|---|
| 1 - 1,000 | 394 | 225,165 | 0.02 |
| 1,001 - 5,000 | 2,421 | 8,524,312 | 0.65 |
| 5,001 - 10,000 | 3,583 | 28,883,351 | 2.21 |
| 10,001 - 100,000 | 11,372 | 328,469,836 | 25.13 |
| 100,001 and over | 553 | 940,927,082 | 71.99 |
| **Total** | **18,323** | **1,307,029,746** | **100.00** |
| Shareholders holding less than a marketable parcel of 398 shares | | | |

## Twenty largest shareholders

The percentage of the total holdings held by or on behalf of the 20 largest holders of shares at 28 August 2009 was as follows:

| Organisation | Shares | Percentage of shares |
|---|---|---|
| Australian Pipeline Ltd | 396,807,986 | 30.36 |
| Cheung Kong Infrastructure Holdings (Malaysian) Ltd | 240,489,032 | 18.40 |
| HSBC Custody Nominees (Australia) Ltd | 48,361,257 | 3.70 |
| J P Morgan Nominees Australia Ltd | 38,144,109 | 2.92 |
| National Nominees Ltd | 26,543,903 | 2.03 |
| Citicorp Nominees Pty Ltd | 24,248,229 | 1.86 |
| Bond Street Custodians Ltd | 10,352,117 | 0.79 |
| ANZ Nominees Ltd | 8,634,859 | 0.66 |
| Sellers Holdings Pty Ltd | 6,025,000 | 0.46 |
| Argo Investments Ltd | 5,545,412 | 0.42 |
| Corporate Positioning Pty Ltd | 4,250,000 | 0.33 |

| Organisation | Shares | Percentage of shares |
|---|---|---|
| Queensland Investment Corporation | 3,773,190 | 0.29 |
| RBC Dexia Investor Services Australia Nominees Pty Ltd | 3,327,122 | 0.25 |
| Ramsleigh Pty Ltd | 3,000,000 | 0.23 |
| UBS Wealth Management Australia Nominees Pty Ltd | 2,631,831 | 0.20 |
| Mr Andrew Bruce & Mrs Wendy Bruce | 2,600,000 | 0.20 |
| National Exchange Pty Ltd | 2,425,000 | 0.19 |
| Questor Financial Services Ltd | 2,402,022 | 0.18 |
| Australian Executor & Trustees | 2,364,066 | 0.18 |
| AMP Life Ltd | 2,072,691 | 0.16 |
| **Total for top 20** | **833,997,826** | **63.81** |

## Substantial shareholders

Substantial shareholder notices have been received as follows:

| Organisation | Shares | Percentage of shares |
|---|---|---|
| Australian Pipeline Ltd | 396,807,986 | 30.36 |
| Cheung Kong Infrastructure Holdings (Malaysian) Ltd | 240,489,032 | 18.40 |

## Summary of distributions

| Date paid | Repayment of loan note[i] | Interest[i] | Dividends | Total payment[i] | Loan note balance |
|---|---|---|---|---|---|
| | *Cents* | *Cents* | *Cents* | *Cents* | *Cents* |
| 28 November 1997 | 3.77 | 0.88 | - | 4.65 | 66.23 |
| 29 May 1988 | 1.45 | 1.65 | - | 3.10 | 64.78 |
| **Total** | **5.22** | **2.53** | **-** | **7.75** | **-** |
| 27 November 1998 | 3.06 | 1.83 | - | 4.89 | 61.72 |
| 28 May 1999 | 1.54 | 1.72 | - | 3.26 | 60.18 |
| **Total** | **4.60** | **3.55** | **-** | **8.15** | **-** |
| 26 November 1999 | 3.59 | 1.81 | - | 5.40 | 56.59 |
| | 3.59[ii] | 0.09[ii] | - | 3.68[ii] | 56.59 |
| 26 May 2000 | 1.90 | 1.70 | - | 3.60 | 54.69 |
| **Total** | **5.49** | **3.51** | **-** | **9.00** | **-** |
| | **5.49[ii]** | **1.79[ii]** | **-** | **7.28[ii]** | **-** |
| 24 November 2000 | 3.77 | 1.78 | - | 5.55 | 50.92 |
| 25 May 2001 | 2.05 | 1.65 | - | 3.70 | 48.87 |
| **Total** | **5.82** | **3.43** | **-** | **9.25** | **-** |
| 26 November 2001 | 3.98 | 1.72 | - | 5.70 | 44.89 |
| 29 April 2002 | 2.23 | 1.57 | - | 3.80 | 42.66 |
| | 2.23[iii] | 0.20 | - | 2.43[iii] | 42.66 |
| **Total** | **6.21** | **3.29** | **-** | **9.50** | **-** |
| | **2.23[iii]** | **0.20** | **-** | **2.43[iii]** | **-** |
| 25 November 2002 | 3.99 | 1.71 | - | 5.70 | 38.67 |
| 29 April 2003 | 2.26 | 1.54 | - | 3.80 | 36.41 |
| **Total** | **6.25** | **3.25** | **-** | **9.50** | **-** |
| 28 November 2003 | 3.87 | 1.83 | - | 5.70 | 32.54 |
| 30 April 2004 | 2.18 | 1.62 | - | 3.80 | 30.36 |
| **Total** | **6.05** | **3.45** | **-** | **9.50** | **-** |
| 30 November 2004 | 3.87 | 1.83 | - | 5.70 | 26.49 |
| 29 April 2005 | 2.21 | 1.59 | - | 3.80 | 24.28 |
| **Total** | **6.08** | **3.42** | **-** | **9.50** | **-** |
| 30 November 2005 | 3.87 | 1.83 | - | 5.70 | 20.41 |
| 26 May 2006 | 2.27 | 1.53 | - | 3.80 | 18.14 |
| **Total** | **6.14** | **3.36** | **-** | **9.50** | **-** |
| 30 November 2006 | 3.87 | 1.36 | 0.47 | 5.70 | 14.27 |
| 31 May 2007 | 2.27 | 1.07 | 0.46 | 3.80 | 12.00 |
| **Total** | **6.14** | **2.43** | **0.93** | **9.50** | **-** |
| 30 November 2007 | 3.87 | 0.90 | 0.93 | 5.70 | 8.13 |
| 30 May 2008 | 3.19 | 0.61 | - | 3.80 | 4.94 |
| **Total** | **7.06** | **1.51** | **0.93** | **9.50** | **-** |
| 28 November 2008 | 4.13 | 0.37 | - | 4.50 | 0.81 |
| 29 May 2009 | 0.81 | 0.05 | 1.89 | 2.75 | nil |
| **Total** | **4.94** | **0.42** | **1.89** | **7.25** | **-** |

(i) Interest paid on the loan note is taxable income. The repayment of principal on the loan note reduces the cost base of the loan note component of the stapled security and this is taken into account for taxation purposes in calculating whether a capital gain or loss occurred on disposal of the stapled security. Shareholders should consult their taxation adviser when preparing their tax return.

(ii) Securities issued 24 September 1999.

(iii) Securities issued 8 March 2002.

### Voting rights

The voting rights attached to each share at a meeting of shareholders of the Company are one vote per share on a poll and one vote per shareholder on a show of hands.

### Payment of distributions/dividends

Distributions/dividends are paid directly to bank, building society or credit union accounts in Australia. The payments are electronically credited on the distribution payment date and confirmed by payment advices sent through the mail. Instructions received remain in force until amended or cancelled in writing.

### Tax file numbers, Australian business numbers or exemptions

Australian taxpayers who do not provide their tax file number to the share registry will have the top marginal personal tax rate plus Medicare levy applied to their distributions. It is therefore in the interest of shareholders to ensure that this information is provided. Forms are available from the share registry to notify your tax file number, Australian business number or tax exemption details.

### Annual Report mailing list

Shareholders wishing to receive the annual report should advise the share registry in writing so that their names can be added to the mailing list. Alternatively, you can advise the registry via their website: www.linkmarketservices.com.au.

The annual report is available on the Company's website: www.envestra.com.au. You can elect via the share registry's website to be notified by email when the report is posted to the Company's website.

### Change of address

Shareholders should notify any change of address to the share registry promptly in writing quoting their shareholder reference number, previous address and new address.

### Share trading

Envestra Limited shares are traded on the Australian Securities Exchange under the symbol ENV.

### 2009 Annual General Meeting

The Annual General Meeting of Envestra will be held at 10:00am on Wednesday, 28 October 2009 at the Adelaide Convention Centre, North Terrace, Adelaide. Details of the business of the meeting are contained in the separate Notice of Meeting sent to shareholders.

### Dividend Reinvestment Plan

The Company operates a Dividend Reinvestment Plan ('DRP'), which is a convenient and cost-effective way of increasing your holding of Envestra shares by reinvesting all or part of your dividend payments without incurring brokerage or other transaction costs.

New shares allotted under the DRP may be issued at a discount to the weighted average market price of the securities over a period determined by the Directors. DRP registration forms are available from Link Market Services.

### Information on Envestra

The annual and half-year reports are the main source of information for shareholders. Other information is available via the Company's website: www.envestra.com.au. Shareholders can register with the share registry via its website: www.linkmarketservices.com.au to receive email advice each time the Company makes a public announcement.

# Glossary

### AIFRS
Australian equivalents to International Financial Reporting Standards.

### Access Arrangement
Access Arrangements set out the terms and conditions under which third parties (retailers and large-volume consumers) may use Envestra's networks to deliver natural gas.

### APA
Australian Pipelines Group and APA Asset Management.

### Gigajoule (GJ)
Joules are a measure of energy. A gigajoule is equal to one joule multiplied by $10^9$.

### Joule (J)
Joules are a measure of energy.

### Lost Time Injury
An injury that results in one full day or more off work.

### National Access Code
National Third Party Access Code for Natural Gas Pipeline Systems.

### Petajoule (PJ)
Joules are a measure of energy. A petajoule is equal to one joule multiplied by $10^{15}$.

### Regulator
On 1 July 2008, responsibility for regulation of gas distribution networks was transferred to the Australian Energy Regulator. The State Regulators that formerly had this responsibility are:

- Victoria (Essential Services Commission)
- South Australia (Essential Services Commission of South Australia)
- Queensland (Queensland Competition Authority).

### System Use Gas (SUG)
System Use Gas (also referred to as Unaccounted For Gas) is the difference between the amount of gas that was metered into the networks and the amount metered to consumers.

### Tariffs (Access Charges)
The tariffs that Envestra charges retailers and large volume consumers for the service of transporting natural gas through the Company's distribution networks and transmission pipelines to their customers or premises.

### Terajoule (TJ)
Joules are a measure of energy. A terajoule is equal to one joule multiplied by $10^{12}$.

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## Enquiries
Shareholders who wish to enquire about their holdings in Envestra should contact the Company's share registry.

**Link Market Services Ltd**
Locked Bag A14, Sydney South
New South Wales, 1235
Telephone (02) 8280 7788
Facsimile (02) 9287 0303
www.linkmarketservices.com.au

Any other enquiries relating to the Company's operations may be directed to:
Des Petherick
Company Secretary and Manager, Corporate Services

**Envestra Limited**
Level 10, 81 Flinders Street
Adelaide, South Australia 5000
Telephone (08) 8227 1500
Facsimile (08) 8227 1511
des.petherick@envestra.com.au
www.envestra.com.au

| **Consumers** | Victoria | | South Australia | | Queensland | | New South Wales | | Northern Territory | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Domestic | 513,243 | 500,472 | 383,610 | 376,432 | 79,146 | 76,476 | 22,267 | 21,806 | 950 | 947 | 999,216 | 976,133 |
| Industrial & commercial <10TJ | 22,746 | 22,620 | 10,011 | 9,839 | 3,255 | 3,172 | 1,097 | 1,088 | 96 | 99 | 37,205 | 36,818 |
| Industrial & commercial >10TJ | 237 | 234 | 181 | 179 | 77 | 79 | 12 | 11 | 1 | 1 | 508 | 504 |
| **Total consumers**(i)(ii) | 536,226 | 523,326 | 393,802 | 386,450 | 82,478 | 79,727 | 23,376 | 22,905 | 1,047 | 1,047 | 1,036,929 | 1,013,455 |

(i) Total consumers does not include properties supplied with bulk hot water via hot water meters.
(ii) QLD 2008 includes Wide Bay customers.

| **Gas Delivered (TJ)** | Victoria | | South Australia | | Queensland | | New South Wales | | Northern Territory | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Domestic, industrial & commercial <10TJ | 34,540 | 32,922 | 11,072 | 10,435 | 2,242 | 2,148 | 1,248 | 1,203 | 63 | 69 | 49,165 | 46,777 |
| Industrial & commercial >10TJ | 21,088 | 22,519 | 24,916 | 25,615 | 14,255 | 14,320 | 2,319 | 2,472 | 3,212 | 3,115 | 65,790 | 68,041 |
| **Total gas delivered** | 55,628 | 55,441 | 35,988 | 36,050 | 16,497 | 16,468 | 3,567 | 3,675 | 3,275 | 3,184 | 114,955 | 114,818 |

| **Assets** | Victoria | | South Australia | | Queensland | | New South Wales | | Northern Territory | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| New mains (km) | 181 | 203 | 76 | 93 | 28 | 29 | 12 | 8 | 1 | 0 | 298 | 333 |
| New inlets | 13,215 | 13,528 | 8,350 | 9,224 | 2,461 | 3,151 | 461 | 544 | 0 | 0 | 24,487 | 26,447 |
| Replacement mains (km) | 28 | 55 | 65 | 102 | 21 | 21 | 0 | 0 | 0 | 0 | 114 | 178 |
| Total mains (km) | 9,474 | 9,267 | 7,804 | 7,709 | 2,512 | 2,480 | 608 | 595 | 38 | 37 | 20,436 | 20,087 |
| Transmission pipelines (km) | 212 | 208 | 372 | 372 | 284 | 284 | 20 | 20 | 153 | 147 | 1,041 | 1,031 |

Envestra's long-life natural gas infrastructure provides a low-carbon solution and a sound investment for a sustainable future

Envestra