

**2014
ANNUAL REPORT**



**For the fourth year in a row,
Envestra's market value increased
substantially, reflecting the enhanced
financial performance and future
prospects for our business.**





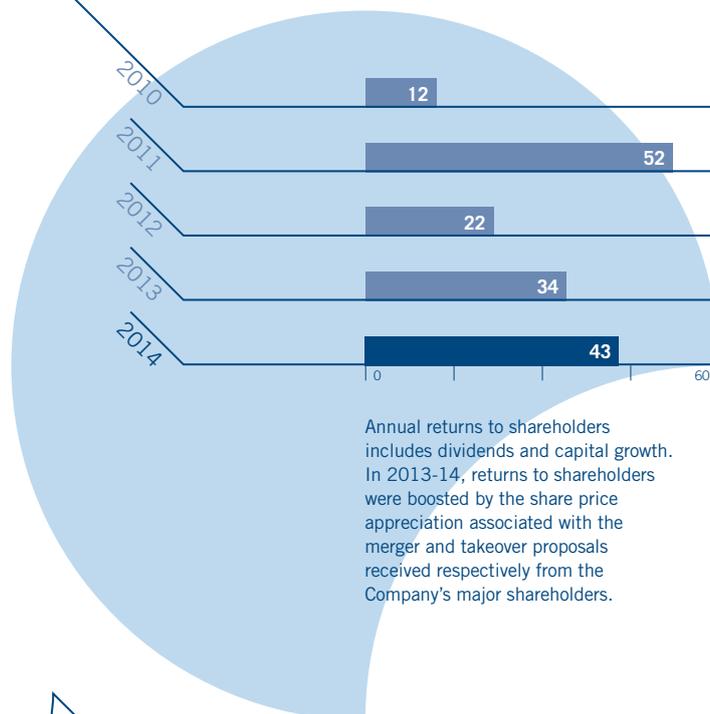
CONTENTS

02	2014 Performance
04	Chairman's and Managing Director's Review
08	Financial Review
10	Board of Directors
12	Management Team
14	Corporate Governance
22	Financial and Statutory Information
24	Directors' Report
28	Remuneration Report
37	Financial Statements
82	Network Statistics

2014 PERFORMANCE – ANOTHER YEAR OF SOLID RESULTS

ANNUAL RETURNS TO SHAREHOLDERS

% as at 30 June



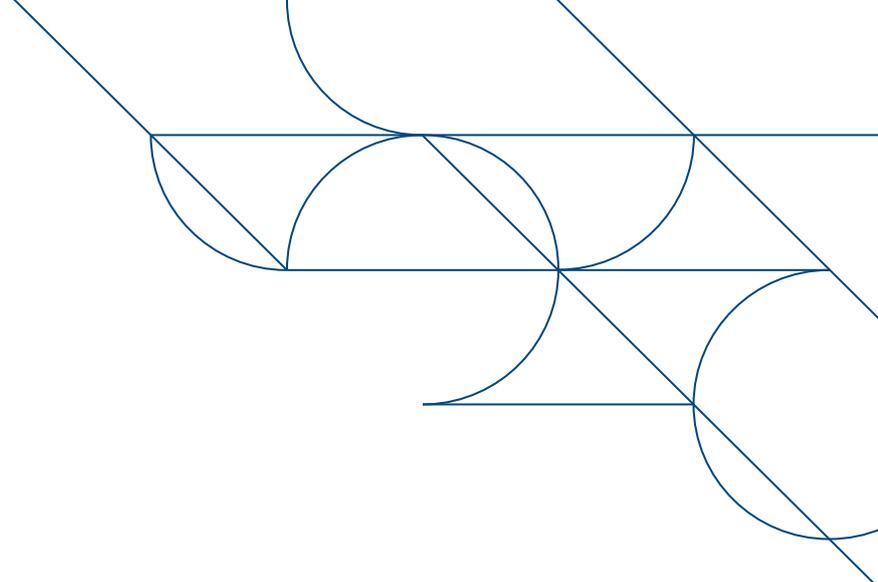
Annual returns to shareholders includes dividends and capital growth. In 2013-14, returns to shareholders were boosted by the share price appreciation associated with the merger and takeover proposals received respectively from the Company's major shareholders.

2014 EBITDA

(by State)

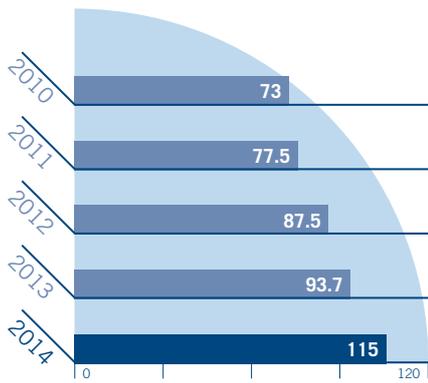


The Company's gas networks are dispersed throughout four states and the Northern Territory, with the most significant contributions in revenues and earnings arising from the southern states where cooler climates result in higher gas consumption.



TOTAL DIVIDENDS

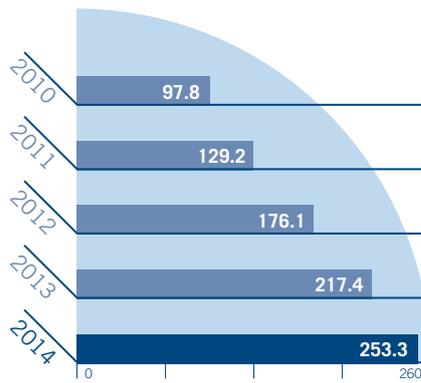
\$ million



Total dividends paid in 2013-14 of \$115 million were \$21.3 million higher than the prior year due to the increase in the dividend rate (6.4 cents, up from 5.9 cents) and also the higher number of shares on issue for the duration of the year, resulting from the significant equity raisings conducted in 2012-13.

CAPITAL EXPENDITURE

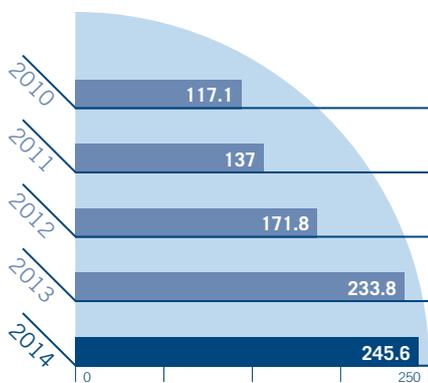
\$ million



Capital expenditure was \$253.3 million, an increase of \$35.9 million on the previous year. Around \$135 million was spent on the replacement of 'old' mains, with \$91 million spent on other growth projects. 'Stay in business' activities required a further \$27 million.

CASH FLOW (OPERATIONS)

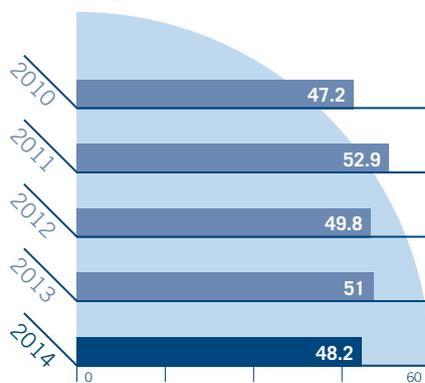
\$ million



The strong growth in operating cashflow has resulted in increased coverage of dividends and funding of the capital expenditure program which has resulted in a simultaneous reduction in the Company's gearing level over the past few years.

GAS VOLUMES (PJ)*

(< 10TJ** consumers)

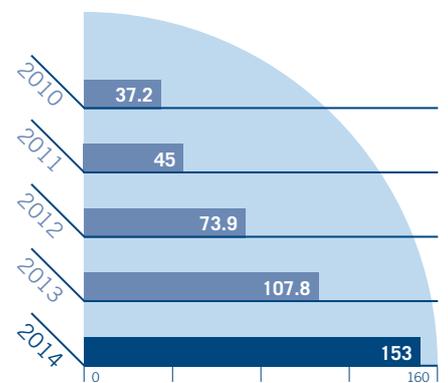


Warm weather, particularly in the second half of 2013-14 resulted in reduced volumes from the prior year, and also slightly lower than the five-year average.

* Petajoule
** Terajoule

PROFIT AFTER TAX

\$ million



Profit after tax of \$153 million was 42% higher than the 2012-13 year. Solid annual increases in profit after tax have occurred over recent years, as the Company has increased its revenues, whilst maintaining tight control of its operating and finance costs.

CHAIRMAN'S AND MANAGING DIRECTOR'S REVIEW

Our year was dominated by the need to respond to the merger/takeover proposals emanating from each of our major shareholders (or parties associated with them), the APA Group and the Cheung Kong Consortium. Despite the considerable distractions and resources associated with these activities, Envestra continued to operate its gas distribution business safely and reliably while improving the steady growth in customers connected to the networks. The Group recorded a Profit after Tax of \$153 million, a 42% improvement on the previous year.

It is the Company's second highest 'bottom line result', only exceeded in 2008 when a one-off non-cash tax benefit arose. Cashflow from Operating Activities of \$245.6 million was the highest ever achieved, \$11.8 million ahead of what had been a record in the previous year.

For the fourth year in a row, Envestra's market value increased substantially. This year it was up 37% to \$2.4 billion, with the share price moving from 99.5

cents on 1 July, 2013 to \$1.36 at 30 June, 2014. The 37% increase in share price substantially exceeded the rise in the ASX 200 (up 12% during 2013-14), no doubt in part the result of the respective merger/takeover offers made by our major shareholders, but also reflecting the enhanced profitability and future prospects for our business.

No new equity was raised during the year with the previously utilised Dividend Reinvestment Plan having been suspended for the 2013-14 year.

Total annual shareholder returns over the past four years (reflecting capital growth and dividends) have been 52%, 22%, 34% and 43% respectively.

Gas deliveries were down 4% on the previous year with 108 petajoules flowing through our networks. The decline was attributable to plant closures, or shutdowns by some of our larger industrial customers, as well as lower deliveries to households and smaller commercial customers, where we derive the vast majority of our revenue. Deliveries to households in particular were affected by relatively warmer weather in 2013-14, albeit the 4% volume decline was lessened to some degree by the success of our natural gas marketing campaign, which aims at increasing the number of customers connected to our networks. Some 21,000 new customers were connected in 2013-14, with total customer connections approaching 1.2 million at 30 June, 2014.

Overall, revenue increased 9% to \$554 million, largely reflecting the significant increases in tariffs incorporated

in the five-year Access Arrangements for the South Australian and Queensland networks approved by the Australian Energy Regulator (AER) in mid-2011. These tariff increases came into effect at the beginning of the 2013-14 financial year, but are not expected to occur in future years, when CPI adjustments will be made.

Strong core business growth was again reflective of the substantial capital expenditure program over recent years, with expenditure in the current year at a record \$253 million, and follows expenditure of \$217 million in 2012-13. A large proportion of our capex program focuses on mains replacement where we are planning to have replaced most of our cast iron and unprotected steel pipelines with polyethylene pipes by 2018. A record 512 kilometres of mains were replaced during the year, up from the record 417 kilometres replaced in 2012-13.

The encouraging financial performance over recent years has led to a steady improvement in the Company's credit metrics, with a gearing level at 30 June, 2014 (based on net debt and market value of equity) of 47%, down from 54% at the beginning of the year and from 64% a year before then. The improvements to gearing and other key credit indicators, together with the outcome of the CK Consortium's takeover, has led to Standard & Poor's upgrading Envestra's rating to BBB+ on 11 August 2014.



MERGER/TAKEOVER

Our major shareholder, Australian Pipeline Ltd (“APA”) on 15 July 2013 made a formal “unsolicited, indicative, conditional, non-binding” merger proposal involving an exchange of Envestra shares for APA shares, with the merger to be effected through a Scheme of Arrangement. An Independent Committee of Envestra Directors was established to consider the proposal and on 5 August advised shareholders that the proposed merger terms were unacceptable, with the proposed offer price undervaluing Envestra’s shares.

APA subsequently made a further, improved offer, again by way of a proposed Scheme of Arrangement, on 17 December 2013. The proposal was due to be put to shareholders at an extraordinary meeting called for 13 May 2014. However, an alternative “unsolicited, indicative, conditional, non-binding” cash offer of \$1.32 per share was received by the Company on 7 May 2014 from the “CK Consortium”, a group involving our existing major shareholder, Cheung Kong Infrastructure Holdings Ltd, a subsidiary of which already owned 17.46% of Envestra’s issued capital. The competing offer necessitated an adjournment of the proposed meeting of shareholders scheduled to occur on 13 May to vote on the Scheme of Arrangement.

The CK Consortium, after completing a “due diligence” process, entered into a Bid Implementation Agreement with Envestra on 30 May 2014 effectively making a conditional, off-market takeover bid to acquire all of Envestra’s shares for a cash consideration of \$1.32 per share and entitling Envestra’s shareholders to receive a final dividend of up to 3.5 cents per share in respect to the financial year ended 30 June 2014. The updated offer allowed Envestra’s non-affiliated Directors to recommend that shareholders accept the CK Consortium’s offer and the APA Scheme of Arrangement proposal was brought to an end.

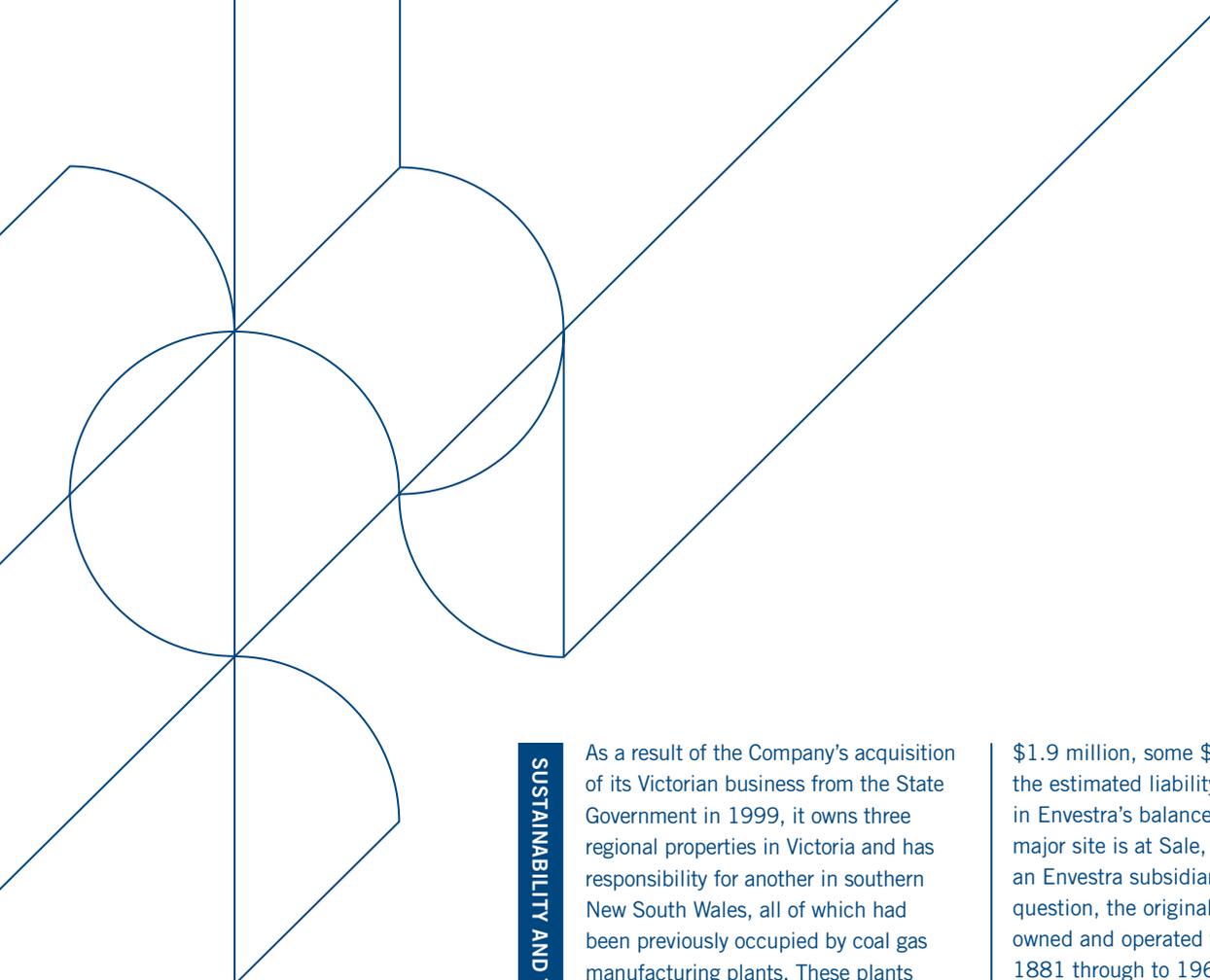
The CK Consortium waived all its conditions associated with their offer on 7 August and extended the offer period to 21 August. At 14 August, they reported that they controlled 88% of the Company’s shares and it is now expected that Envestra will be delisted from the Australian Stock Exchange before the end of 2014.

OPERATOR PERFORMANCE

APA Asset Management, as Operator of our networks, again performed well during 2013-14. Whilst overall operating costs increased 4%, costs associated with activities under APA’s responsibilities as outlined in the Operating & Management Agreements actually fell by 3%. Costs arising from gas leakage in the networks were down 13% on the previous year, as anticipated in last year’s Annual Report. We anticipate the leakage rates to further decline as the mains replacement program progresses.

The principal reason for the overall increase in operating costs relates to significant resources devoted to dealing with the merger/takeover proposals and higher marketing expenditures.

Safety performance for APA’s 1,440 employees and contractors improved with four Lost Time Injuries (LTIs) recorded compared with seven in the previous year. The reduction in LTIs reflects the continuing focus that APA management and staff have had on safety over recent years.



Envestra's natural gas distribution networks and transmission pipelines operate as regulated and unregulated monopolies in key population areas in South Australia, Victoria, Queensland, New South Wales and the Northern Territory.

SUSTAINABILITY AND THE ENVIRONMENT

As a result of the Company's acquisition of its Victorian business from the State Government in 1999, it owns three regional properties in Victoria and has responsibility for another in southern New South Wales, all of which had been previously occupied by coal gas manufacturing plants. These plants closed when natural gas was introduced to the local areas in the 1970s. The sites contain contaminants arising from the byproducts of coal gasification, including tar, some of which were buried on the sites over the course of the previous 100 years by prior operators. The contamination activities pre-date Envestra's ownership, but under State legislation, the Company can be held responsible for any "clean-up".

Envestra has been actively involved for some years with the respective State environmental protection agencies in assessing the nature and extent of the contaminant materials and whether there is a risk of harm to the local communities. The expected cost of these remediation programs was quite large, with some \$16 million having been charged to our Income Statement since first recorded in Envestra's Balance Sheet in June 2005.

Significant progress occurred on two of the sites during 2012-13, with the remediation of the Benalla site completed in January, and the Albury site completed in February 2013, both within our cost expectations. The Warragul site was addressed in the current year, with work completed in June 2014 at a cost of

\$1.9 million, some \$1.9 million below the estimated liability previously included in Envestra's balance sheet. The remaining major site is at Sale, where although an Envestra subsidiary owns the land in question, the original "polluters" (who owned and operated the gas plant from 1881 through to 1965) were other entities that we expect, despite the fact that we have recorded the remediation liability, will ultimately be responsible under relevant Victorian legislation, for remediation work and associated liabilities.

The Victorian Environmental Protection Authority (EPA) has power to direct either the land owner, or the "original polluters", to clean up such sites, and even where the land owner is so directed, they have a right of compensation under the EPA legislation from the original polluters. We have had detailed discussions with the Victorian EPA on this matter, but have encountered ongoing delays on the part of the Authority in making a decision on which party should carry out any clean-up. Should the notice be directed to the original polluters, we will be relieved of ongoing financial exposure and will reverse the associated liability provision of \$6.3 million recorded in Envestra's Financial Statements at 30 June 2014.

DIVIDEND POLICY

We have previously said that consequent to the global financial crisis and the attendant lowering of the Group's credit rating to BBB minus by Standard & Poor's, there had been a need to retain cash in the business to reduce gearing levels and assist with the funding of the Company's significant capital expenditure program. This was largely achieved by mid-2013, reflected in the credit rating upgrade to BBB Stable announced by Standard & Poor's in May, 2013.

The Board initially increased dividends in February 2013, raising the interim dividend from 2.9 to 3.0 cents per share (5.9 cents for the full-year). The Board again reviewed the dividend policy in August 2013 and decided to adjust the annual rate to 6.4 cents per share in 2013-14.

The dividend policy was further considered by the Board in July 2014, taking account of the improved profit and cashflow performance compared with that in 2012-13, together with the improving credit metrics of recent years. The Board decided to raise the final dividend for 2013-14 to 3.5 cents per share (3.2 cents per share for final dividend for 2012-13).

Dividends paid in 2013-14 were supported by cashflow per share in 2013-14 of 12.0 cents per share (that is, it is covered 1.9 times), and the \$115 million of dividends paid in 2013-14 amount to 75% of the declared Profit after Tax for 2013-14.

ORGANISATION AND STAFFING

Envestra's network operations are largely outsourced to APA Asset Management. Envestra's management team closely oversees management of those activities undertaken by some 1,440 employees and contractors working for APA. Once again, we record our appreciation of the effort and commitment given by all these people in ensuring the safe and reliable operation of the networks and the provision of the essential support services that are fundamental to the success of our business.

Envestra's management team comprises utility professionals with significant expertise across financial, regulatory, commercial and engineering disciplines. The success of the business, particularly in securing improved regulatory and commercial outcomes, managing our financial arrangements, and in driving enhanced profitability and returns to shareholders, reflects well on the dedication, substantial experience and professionalism of these employees.

We are also acutely aware of the impact that a long, drawn out acquisition process has had on our employees, with the various proposals put forward during the course of the year requiring significant additional work on the part of nearly all of Envestra's senior managers and officers, together with the Independent Directors, not only in responding to due diligence enquiries, but also in assisting with the preparation of myriad legal and other documents

involved in these processes.

We recognise the uncertainties that face employees in the circumstances of prospective ownership changes and record our appreciation of the considerable time and patience exhibited by them in dealing with the inherent difficulties such proposals entail. On behalf of the Board, we take the opportunity to thank our employees, and those of APA involved in our network business, for their contribution to ensuring Envestra continued its sound record of providing a reliable gas supply to our 1.2 million customers whilst achieving a significant improvement in profitability and returns to our shareholders during the course of 2013-14.



J G ALLPASS
Chairman



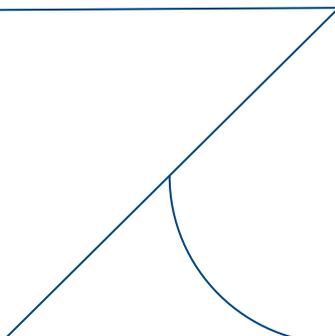
I B LITTLE
Managing Director

14 August 2014





FINANCIAL REVIEW



As anticipated, the Company recorded further increases in profitability, and cashflow during 2013-14. The Profit after Tax of \$153 million was 42% higher than the prior year. The increases in operating performance allowed the Company to continue with its significantly enhanced capital expenditure program (\$253 million spent in 2013-14, up 17% on the prior year), and also to increase dividends to shareholders (6.4 cents per share compared to 5.9 cents in the prior year). Dividends to shareholders have now increased by over 15% since the 2010-11 financial year.

Operating Revenue

Envestra's haulage revenue which is generated from the delivery of natural gas for retailers to their customers, was \$529.4 million, an increase of \$44.4 million, or 9% over the previous year. Despite the overall consumption of gas in 2013-14 being 4% below the prior year, revenue was increased due mainly to the increase in distribution tariffs under the Company's Access Arrangements, and the connection of over 21,000 new consumers to the Company's networks.

Operating Expenses

With the exception of costs incurred during the year to address the proposals from the APA Group and Cheung Kong Group Consortium (\$4.2 million in total), and also increased carbon permit costs incurred under the Clean Energy Framework (which are fully recoverable through distribution tariffs), overall operating costs were \$1.0 million lower than the prior year. Decreases in leak maintenance costs were a key factor in this overall reduction, which further emphasises the importance of the Company's mains replacement program to improve the overall efficiency of Envestra's gas networks.

Finance Costs

Net finance costs were \$121.1 million, a \$26.8 million reduction from the prior year. The prior year had also been significantly lower than the 2011-12 year when finance costs were \$171.2 million. The further decrease relates mainly to the full year impact of lower interest rates on fixed interest rate swaps put in place to coincide with the regulatory period in Victoria.

Cashflows

Cash flow from operating activities increased by \$11.8 million to \$245.6 million in 2013-14, due largely to the increases in revenue outlined above and also the tight operating cost performance. The increase also occurred despite the "one-off" working capital adjustment of over \$40 million from the implementation of the National Energy Framework legislation in South Australia which required the cessation of forward billing arrangements with retailers in that State from 1 July 2013. After dividend payments to shareholders of \$115 million, the remaining \$128.5 million of operating cashflow was used to partly fund the capital expenditure program.

Borrowings

During the year debt increased by \$134.6 million to \$2,188.5 million. The increase in debt was primarily due to the required funding for the Company's capital expenditure program. The gearing level at 30 June 2014 is 64.5%, which is broadly in line with the level at the end of the prior year. The additional debt during the year was also impacted by the need to fund the working capital adjustment resulting from the cessation of forward billing arrangements in South Australia as outlined above.

Credit Rating

During the year Standard & Poor's maintained Envestra's credit rating of BBB with a stable outlook. They upgraded the rating to BBB+ on 11 August 2014, consequent to the CK Consortium's takeover. The Moody's rating has to date been maintained at Baa2; however, a review is expected in September.

Income statement (\$M)

	2014	2013	2012	2011	2010
Revenue / income (excluding interest income)	554.4	507.5	468.6	424.2	382.7
Operating costs	(152.4)	(147.2)	(135.5)	(131.3)	(121.8)
EBITDA	402.0	360.3	333.1	292.9	260.9
Depreciation / impairment	(62.2)	(58.6)	(56.5)	(53.4)	(53.0)
Profit before net finance costs and income tax	339.8	301.7	276.6	239.5	207.9
Net finance costs	(121.1)	(147.9)	(171.2)	(174.6)	(156.3)
Profit before income tax	218.7	153.8	105.4	64.9	51.6
Income tax	(65.7)	(46.0)	(31.5)	(19.9)	(14.4)
Profit after income tax	153.0	107.8	73.9	45.0	37.2

Summary of cash flows (\$M)

	2014	2013	2012	2011	2010
Net operating cash flow before finance costs	364.7	377.6	314.6	298.0	260.5
Net finance cash outflow	(119.1)	(143.8)	(142.8)	(161.0)	(143.4)
Cash flow from operating activities	245.6	233.8	171.8	137.0	117.1
Net proceeds from sale of land / assets	-	0.9	0.1	7.8	1.0
Payments for remediation of land	(2.1)	(8.9)	(0.6)	(0.8)	-
Replacement of capital expenditure	(27.3)	(20.8)	(16.2)	(14.9)	(10.7)
Available for distribution	216.2	205.0	155.1	129.1	107.4
Distribution / dividends	(115.0)	(93.7)	(87.5)	(77.5)	(73.0)
Contribution to growth capital expenditure	101.2	111.3	67.6	51.6	34.4
Growth capital expenditure	(226.0)	(196.6)	(159.9)	(114.3)	(87.1)
Cash flow available pre debt / equity re-financing	(124.8)	(85.3)	(92.3)	(62.7)	(52.7)
Debt drawdowns/(repayments) (net)	128.0	(129.3)	19.4	130.5	21.0
Acquisition of subsidiary	-	-	-	(108.7)	-
Equity raising	-	219.0	69.6	44.3	42.3
Capital raising costs	(0.7)	(4.4)	(3.0)	(2.5)	(10.4)
Change in cash	2.5	-	(6.3)	0.9	0.2
Opening cash	1.0	1.0	7.3	6.4	6.2
Closing cash	3.5	1.0	1.0	7.3	6.4

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 and international infrastructure companies.

01



02



CHAIRMAN OF THE BOARD

01 JOHN ALLPASS

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: Schiphol Australia Pty Ltd (since November 2010). He is an alternate Director of Brisbane Airport Corporation Pty Ltd (since September 2009).

He is a former Managing Partner, KPMG (Queensland) and member, KPMG National Board and former Director, Macquarie Bank Ltd (1994-2007); Queensland Investment Corporation (1991-2008); BrisConnections Management Company Ltd (2008-2013); BUPA Australia Pty Ltd (1999-2013); and BUPA Australia Holdings Pty Ltd (2008-2013).

MANAGING DIRECTOR

02 IAN LITTLE

FCA, BCA, MBA, MAICD

Managing Director since April 2003

Chartered accountant with over 30 years' experience in the energy industry.

Other Directorships: Chairman, Australian Gas Industry Trust (Director since December 2006); Chairman, University of South Australia Business School Advisory Board (since May 2012) and member (since May 2010). He is a Director of the Energy Supply Association of Australia (since November 2012); He is a former Director and Chairman, South Australian Botanic Gardens & State Herbarium (2005-2011); and former Director Pheonix Society (2009-2012).

03 FRASER AINSWORTH AM

B Com, FAICD

*Director since February 2004 **

Member of the Audit and Risk Committee
Member of the Remuneration Committee

More than 40 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). 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), and former Non- executive Director Oil Search Ltd (2002-2010).

04 IVAN CHAN

BSc, LLB, MBA

Director since August 2007

Some 25 years' experience in banking, investment and finance. Chief Planning and Investment Officer, Cheung Kong Infrastructure Holdings Ltd; Chief Financial Officer, Power Assets Holdings Ltd.

05 DOMINIC CHAN

FCCA, FCCA

Director since July 2005

Certified Public Accountant with some 30 years' experience in the financial management and accounting professions. Executive Director and Chief Financial Officer, Cheung Kong Infrastructure Holdings Ltd; Executive Director Power Assets Holdings Ltd; Director, HK Electric Investments Manager Ltd; and Executive Director, HK Electric Investments Ltd.

Former Directorships: Spark Infrastructure; Cambridge Water PLC; ETSA Utilities; Powercor Australia Ltd and CitiPower Pty Ltd.

06 ROSS GERSBACH

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 Chief Executive, Strategy and Development, APA Group.

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

07 MICHAEL McCORMACK

B.SURV, GRAD DIP ENG, MBA, FAICD

Director since July 2007

More than 25 years' 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 former Director, Australian Pipeline Industry Association (2004-2013).

08 OLAF O'DUILL

B Comm (Hons), FAICD, SFFin

*Director since July 2000 **

Chairman of the Audit and Risk Committee
Member of the Remuneration Committee
Extensive experience in a wide range of commercial endeavours.

Former 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 non-executive Director

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). Incentives are available to APA to improve productivity, increase revenue and enhance services.



MANAGEMENT TEAM



04



05



06

01 IAN LITTLE

FCA, BCA, MBA, MAICD

Managing Director

(See details on page 10 - Board of Directors)

02 ANDREW STANIFORD

M EC

Group Manager, Commercial

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, ENA Gas Committee.

03 GREG MEREDITH

B Ec (Hons), MBA, CFTP

Group Manager, Treasury and Risk

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

04 PAUL MAY

B ACC, CA

Group Manager, Finance

Chartered Accountant with more than 15 years' experience in various corporate accounting and financial management roles with ASX-listed companies, including Santos Ltd and Henry Walker Eltin Group Ltd.

05 DES PETHERICK

PNA

Company Secretary

More than 30 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.

06 CRAIG de LAINE

B Econ, P Grad Dip Econ, M Econ

Group Manager, Regulation

Extensive industry experience, with 15 years in utility regulation including previous roles at the Essential Services Commission of South Australia, and the Productivity Commission.

CORPORATE GOVERNANCE

Envestra is committed to sound corporate governance and to this end the following policies 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 (please refer to the table on pages 20 and 21).

Consistent with the Company's approach to sound corporate governance, opportunities for improvement are regularly considered.

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.

On 7 August 2014, the takeover offer from the CK Consortium to acquire all of Envestra's shares was declared "unconditional" upon the 50% minimum acceptance level of the offer being reached. Accordingly a change of control of the Envestra Group occurred. The implication of the change of control to the CK Consortium, particularly in relation to future strategic direction and potential developments, cannot be determined at the date of this report (14 August 2014). It is expected that Envestra will be delisted from the Australian Stock Exchange before the end of 2014. The Corporate Governance report is based on circumstances existing at 14 August 2014.

(a) Board composition

The Company's Constitution requires that the minimum number of Directors

is three and the maximum is 10. The Company had two major shareholders at 30 June 2014, Australian Pipeline Ltd (APA Group) and Cheung Kong Infrastructure Holdings (Malaysian) Ltd (CKI).

The Board has determined that the appropriate number of Directors at this time is eight, based on the size and nature of the Company's business.

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

The APA Group and CKI Directors are not regarded as being independent under the ASX Corporate Governance Guidelines, as the organisations held 33.0% and 17.5% respectively of the Company's issued capital at 30 June 2014. In addition, APA Group has a significant contractual relationship with Envestra under the Operating and Management Agreements related to the Company's assets.

The existence of a shareholder with a 33% holding in the Company mitigates the non-independent status of CKI.

Envestra's Policy on Independence of Directors is available on the Company's website www.envestra.com.au.

(b) Membership of the Board comprises:

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

The Company's Constitution requires that the Chairman must be an independent Director.

To comply with the ASX guidelines on independent Directors, it would be necessary to appoint three 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, and the Managing Director is independent of the major shareholders.

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 members of the Board, their experience, qualifications and special responsibilities are set out on pages 10 and 11.

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.

Envestra's policies on Director Nominations and Appointments, and Diversity, are available on the Company's website.

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

(c) 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.

The policy on Board self-assessment is available on the Company's website.

(d) 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 ASX's requirements of continuous disclosure to the investment market and securityholders about the performance and activities of the Company are met.
- 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 workers.
- Evaluating potential business development opportunities.
- Appointing the Managing Director and 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 external resources to conduct the business.

(e) Delegated Authority

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.

(f) 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 72 and 73.

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 the remaining Directors determined whether the potential conflict of interest disqualified them from being present or voting on the matter.

(g) 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.





(h) 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 \$900,000 per annum in October 2010. The amount paid in 2013-14 was \$762,000.

Board fees were last reviewed with effect from 1 July 2010. The Chairman's fees are \$180,000 and for other Directors they are \$90,000. The Chairman of the Audit and Risk Committee receives a fee of \$18,000 and other members \$12,000. In addition, as Chairman of the Due Diligence Committee established during the year to assess the merits of the APA merger proposal (refer below), Mr F Ainsworth received a fee of \$25,000 and as a member of this Committee, Mr J Allpass received a fee of \$15,000.

Details relating to the remuneration paid to non-executive Directors appear on pages 31 and 32.

The Retirement Benefit Scheme for Directors, which was introduced when the Company was formed in 1997, was suspended in 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 is 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 2014, the benefit payable on retirement of each non-executive Director was:

- Mr J G Allpass \$204,190;
- Mr O B O'Duill \$53,383.

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.

(i) Board committees

The Board has established two committees to assist in the execution of its duties. They are the Audit and Risk, and Remuneration Committees. The committee structure and membership is reviewed annually.

Each of the Audit and Risk, and Remuneration Committees has its own Charter setting out its role and responsibilities. The charters are approved by the Board and copies are available on the Company's website. 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.

(j) 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; and
- Mr R M Gersbach.

Each of the external and internal auditors, together with the Managing Director, Company Secretary and Group Manager - Finance, 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, reviewing the terms and scope of their 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.
- Overseeing corporate governance.
- 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 provided by the audit firm.

The Audit and Risk Committee's Charter is available on the Company's website.

PricewaterhouseCoopers (PwC) was appointed as external auditor in 1997. It is PwC's policy to rotate audit engagement partners with listed companies at least every five years. The responsible audit partner for Envestra was rotated in 2011.

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 and considered proposals from other firms. It was resolved to continue with PricewaterhouseCoopers as the Group's external auditor.

KPMG was appointed as internal auditor in 2002. The responsible audit partner rotated in 2012.

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 shareholders.

(k) Remuneration Committee

Members of the Remuneration Committee must be non-executive Directors and consist of a majority of independent Directors. The Committee is chaired by an independent Director and consists of at least three 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 senior managers is assessed, in part, by reference to a remuneration survey conducted by an external professional human resources consultant to which the Company subscribes, as do a large number of other

energy infrastructure organisations. The survey is submitted by the consultant directly to the Chairman of the Committee for consideration as part of the review of packages.

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

Each employee develops a list of personal key performance indicators (KPIs), including targets against which performance is measured, in conjunction with their manager, prior to the commencement of the financial year.

The KPIs for senior executives are reviewed and agreed in conjunction with the Managing Director, before being submitted to the Remuneration Committee for consideration.

Performance against the KPIs is regularly monitored, with two formal reviews carried out at the half-year in December and at year-end in June. The June assessment is considered by the Remuneration Committee as part of its deliberations as to whether an executive is to receive a bonus. Any bonus is based on a combination of individual performance (40%) and corporate outcomes (60%). The Managing Director is assessed entirely on the corporate outcomes.

The Managing Director and the executives listed below have the ability to earn a deferred bonus, on a rolling basis, after three years' service. The deferred bonus is equivalent to 50% of the bonus awarded three years earlier.

The maximum bonus for the Managing Director is 45% (including 15% deferred). For the Company Secretary, Group Manager – Commercial, Group Manager – Finance, and the Group Manager – Treasury and Risk, it is 37.5% (including 12.5% deferred) and for all other senior executives it is 20%.

The Company does not operate an Employee Share Option Plan.

(l) Independent Board and Due Diligence Committees

During the year, the Board established Independent Board Committees (IBC) and a Due Diligence Committee (DDC) to

address firstly a merger proposal from the APA Group (received on 15 July 2013) and then a takeover offer from a Consortium related to CKI, (CK Consortium) received on 7 May 2014. Members of the IBC set up to address the APA offer were:

- Mr J Allpass (Chairman);
- Mr I Little;
- Mr F Ainsworth;
- Mr O O'Duill; and
- Mr I Chan.

Members of the IBC set up to address the CK Consortium offer were:

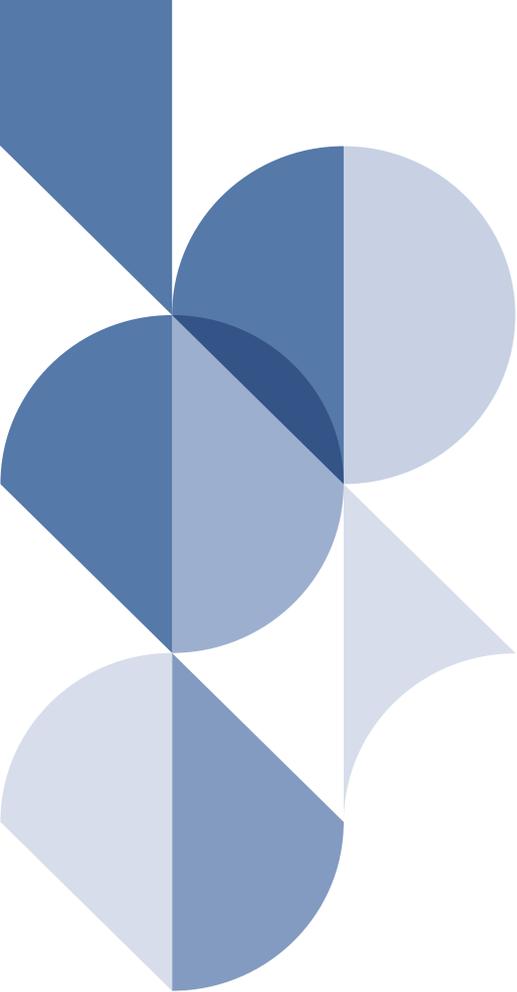
- Mr J Allpass (Chairman);
- Mr I Little;
- Mr F Ainsworth; and
- Mr O O'Duill.

Members of the DDC were:

- Mr F Ainsworth (Chairman);
- Mr J Allpass; and
- Mr I Little.

The IBCs were established to consider all aspects of the respective proposals. The DDC was established to consider due diligence matters associated with the APA Group proposal.





(m) 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 that strategic, operational, legal, financial and reputational risks are identified, assessed, addressed and monitored to enable the Company to achieve its business objectives.

The Managing Director, Group Manager – Treasury and Risk, Group Manager – Finance, 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 Group Manager – Finance that the declaration provided in accordance with section 295A of the *Corporations Act 2001* 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.

The Risk Management Policy is available on the Company's website.

(n) 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.

(o) 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 Whistleblowing 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.

(p) 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 following the day on which the Company announces its

full-year results, and between 1 January and the close of business on the day following the day on which the Company announces its half-year results.

Directors and officers are also subject to the provisions of the *Corporations Act 2001* 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.

The Share Trading Policy is available on the Company's website.

(q) 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.

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 is posted on the Company's 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.

Envestra's Communications Policy is available on the Company's website. Company announcements, annual and half-year reports, as well as market

and Annual General Meeting presentations are also available on the Company's website.

(r) Diversity

Envestra recognises the benefits arising from employee and Board diversity. To the extent practicable, the Company has implemented the recommendations of the ASX Corporate Governance Council on diversity. However, with only 15 direct employees, there are inherent constraints on Envestra's ability to comply with all aspects of the guidelines.

Progress as at 30 June 2014 is as follows:

Establish a Diversity Policy with measurable objectives for achieving greater diversity:

Envestra's Diversity Policy requires the Board to establish measurable objectives and to report progress against them on an annual basis.

Disclose the policy on the entity's website:

Envestra's Diversity Policy appears in the Corporate Governance section of the Company's website.

Disclose the measurable objectives for achieving gender diversity set by the Board and progress toward achieving them:

a) Objectives: Whenever there is a vacancy at Board and senior management level, the Company seeks to find a person with the most appropriate qualifications and experience to fulfil the role given the need to balance a range of criteria that is required for an effective Board and management team. Included in the criteria is the need to have a reasonable balance of male and female Directors and senior managers.

The Company's corporate policies will, where appropriate, recognise and promote diversity.

b) Progress: There are no females on the Board at present. Four of the seven non-executive Directors are nominees of Envestra's two largest shareholders: APA Group (33.0%) and Cheung Kong Infrastructure (17.5%). CKI has a right under Envestra's Constitution to appoint two Directors. Although these shareholders support Envestra's Diversity Policy, the ultimate responsibility for their nominees rests with APA and CKI. We aim to appoint a female Director to the Board, subject to the constraints noted above, as soon as a vacancy arises.

Of the 11 senior executives/managers in the Company, two (or 18%) are female.

Of the total 15 employees, six (or 40%) are females.

Envestra contracts the operation and maintenance of its gas networks to APA Asset Management (APA). APA had 555 employees working for Envestra as at 30 June 2014.

Of the 61 senior executives/managers within APA as at 30 June 2014, 7 or 11% were female. Across the entire APA workforce there were 146 females (or 26%).

The following corporate policies of Envestra support diversity:

- Code of Conduct and Ethics (including Equal Opportunity).
- Harassment and Discrimination Prevention.
- Employee Recruitment and Selection Procedures.
- Maternity and Paternity Leave.
- Education Assistance.
- Director Nominations and Appointments.
- Flexible Work Practices (for parents of pre-school and primary school children).

The proportion of women in the organisation in senior executive positions and on the Board is as follows:

Positions within Envestra	Number of women	%
Whole organisation (15 employees)	6	40
Senior executives/managers (11 employees)	2	18
Board (7 non-executive Directors)	0	0

The mix of skills and diversity which the Board is looking to achieve in membership of the Board is as follows:

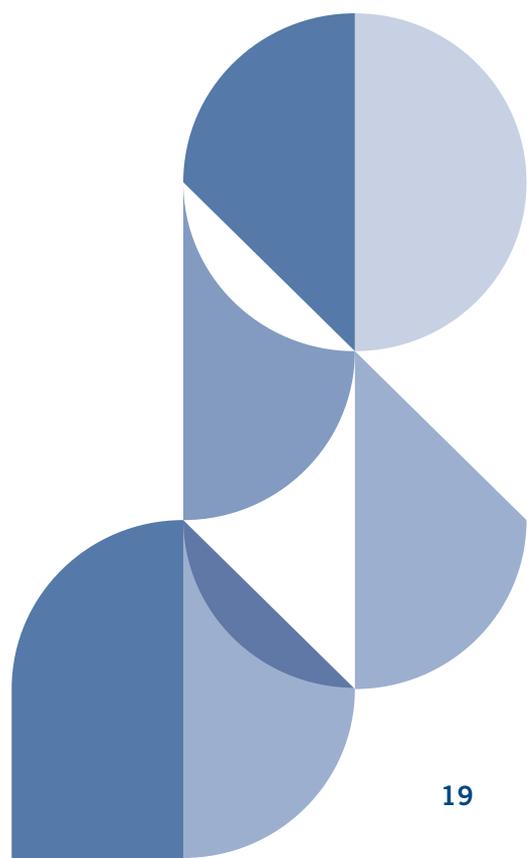
- Whenever a vacancy occurs the Board seeks to recruit a person with skills and experience to complement those of the existing Directors. In particular, skills in the areas of finance/ accounting, economics, business management/ development, regulatory management, engineering, corporate governance and legal would be highly regarded.

- As to experience, it would be expected that a new Director would have held a senior executive or professional position for at least 10 years, would ideally have utility or energy industry knowledge, been involved with a listed public company, and demonstrated strong leadership and analytical skills combined with well regarded interpersonal skills.

Key Policies

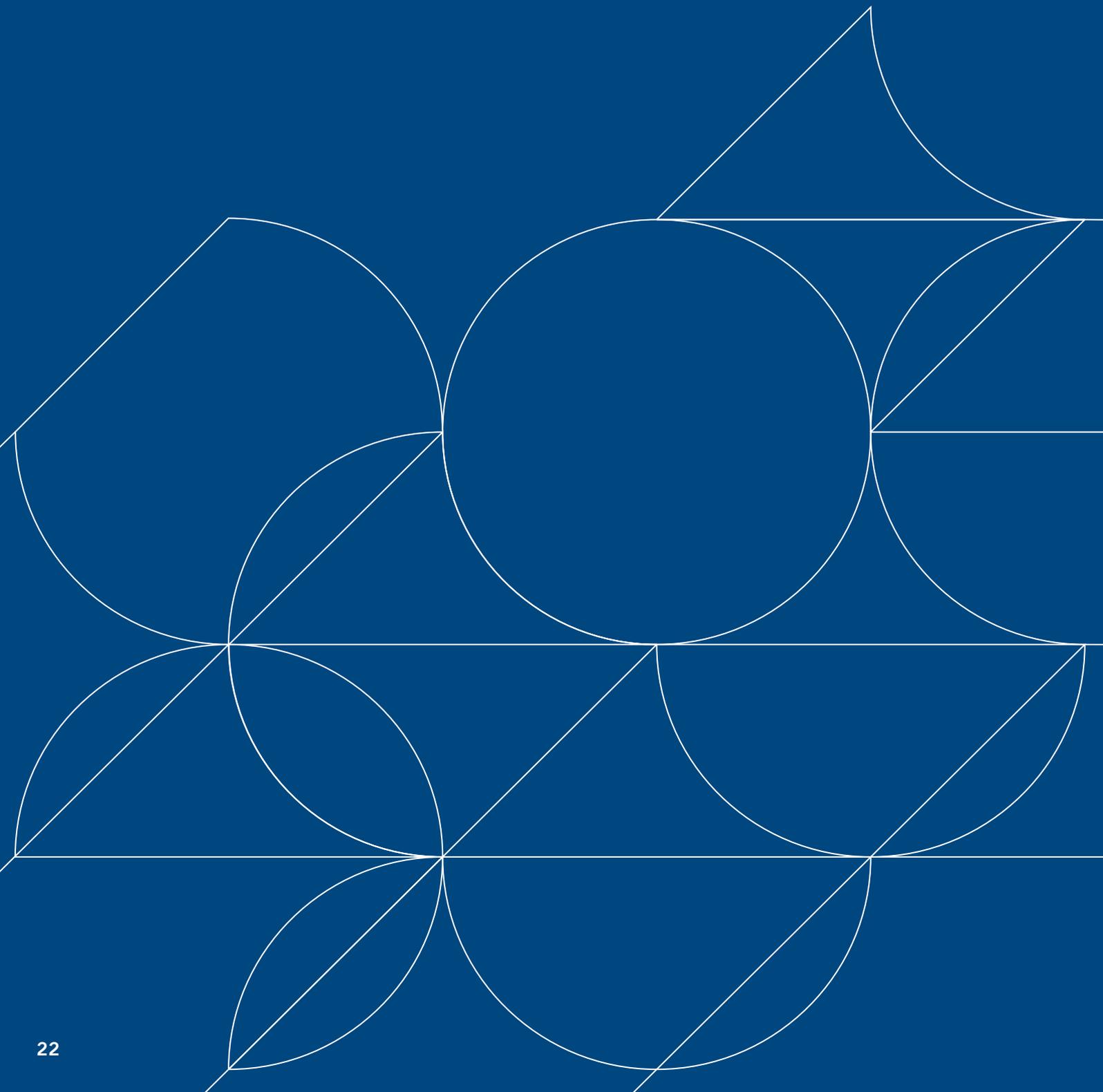
The following corporate governance policies are available on the Company's website:

- Board and Management Performance Assessment
- Code of Conduct and Ethics
- Communications
- Compliance
- Continuous Disclosure
- Director Nominations and Appointments
- Diversity
- Environment
- Fraud and Corruption Prevention
- Independence of Directors
- Risk Management
- Share Trading
- Whistleblowing.



Principle	pp 14-19 Reference	ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS
1		LAY A SOLID FOUNDATION FOR MANAGEMENT AND OVERSIGHT
1.1	(d) (e)	✓ Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.
1.2	Remuneration Report	✓ Companies should disclose the process for evaluating the performance of senior executives.
1.3	Remuneration Report	✓ Companies should provide the information indicated in the Guide to Reporting on Principle 1.
2		STRUCTURE THE BOARD TO ADD VALUE
2.1	(a) (f)	✗ A majority of the Board should be independent Directors.
2.2	(b)	✓ The chair should be an independent Director.
2.3	(b)	✓ The roles of chair and chief executive officer should not be exercised by the same individual.
2.4	(i)	✗ The Board should establish a Nomination Committee.
2.5	(c)	✓ Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.
2.6	(as above)	✓ Companies should provide the information indicated in the Guide to Reporting on Principle 2.
3		PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING
3.1	(o)	✓ Companies should establish a Code of Conduct and disclose the code or summary of the code as to: <ul style="list-style-type: none"> • The practices necessary to maintain confidence in the Company's integrity. • The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders. • The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
3.2	(r)	✓ Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.
3.3	(r)	✓ Companies should disclose in each Annual Report the measurable objectives for achieving gender diversity set by the Board in accordance with the Diversity Policy and progress towards achieving them.
3.4	(r)	✓ Companies should disclose in each Annual Report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.
3.5	(as above)	✓ Companies should provide the information indicated in the Guide to Reporting on Principle 3.
4		SAFEGUARD INTEGRITY IN FINANCIAL REPORTING
4.1	(j)	✓ The Board should establish an Audit Committee.
4.2	(j)	✓ The Audit Committee should be structured so that it: <ul style="list-style-type: none"> • Consists only of non-executive Directors. • Consists of a majority of independent Directors. • Is chaired by an independent chair, who is not chair of the Board. • Has at least three members.
4.3	(j)	✓ The Audit Committee should have a formal charter.
4.4	(as above)	✓ Companies should provide the information indicated in the Guide to Reporting on Principle 4.

Principle	pp 14-19 Reference	ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS
5		MAKE TIMELY AND BALANCED DISCLOSURE
5.1	(q)	✓ Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.
5.2	(as above)	✓ Companies should provide the information indicated in the Guide to Reporting on Principle 5.
6		RESPECT THE RIGHTS OF SHAREHOLDERS
6.1	(q)	✓ Companies should design a Communications Policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.
6.2	(as above)	✓ Companies should provide the information indicated in the Guide to Reporting on Principle 6.
7		RECOGNISE AND MANAGE RISK
7.1	(m)	✓ Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.
7.2	(m)	✓ The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material risks.
7.3	(m)	✓ The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the <i>Corporations Act 2001</i> is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.
7.4	(as above)	✓ Companies should provide the information indicated in the Guide to Reporting on Principle 7.
8		REMUNERATE FAIRLY AND RESPONSIBLY
8.1	(k)	✓ The Board should establish a Remuneration Committee.
8.2	(k)	✓ The Remuneration Committee should be structured so that it: <ul style="list-style-type: none"> • Consists of a majority of Independent Directors. • Is chaired by an independent chair. • Has at least three members.
8.3	Remuneration Report	✓ Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of Executive Directors and senior executives.
8.4	(as above)	✓ Companies should provide the information indicated in the Guide to Reporting on Principle 8.





FINANCIAL AND STATUTORY INFORMATION

CONTENTS

- 24 Directors' Report
- 28 Remuneration Report
- Financial Report**
- 37 Consolidated Income Statement
- 37 Consolidated Statement of Comprehensive Income
- 38 Consolidated Balance Sheet
- 39 Consolidated Statement of Changes in Equity
- 40 Consolidated Cash Flow Statement
- 41 Notes to the Financial Statements
- 79 Directors' Declaration
- 80 Independent Audit Report to the members

DIRECTORS' REPORT

The 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 2014 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)	Ivan Kee Ham Chan
Ian Bruce Little (Managing Director)	Ross Murray Gersbach
Eric Fraser Ainsworth AM	Michael Joseph McCormack
Dominic Loi Shun Chan	Olaf Brian O'Duill

Details of the Directors' and Company Secretary's qualifications, experience and special responsibilities appear on pages 10 to 11 of this report. Directors' shareholdings are disclosed on page 35 of this report.

Principal activities

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

- (a) Provision of natural gas haulage services to retailers and industrial customers through the transmission pipelines and distribution networks it owns and manages.
- (b) Development of the business through expansion of the existing networks.

Operating and financial review

REVIEW OF OPERATIONS

Envestra's natural gas distribution networks and transmission pipelines operate as regulated and unregulated monopolies in key population areas in South Australia, Victoria, Queensland, New South Wales and the Northern Territory. Envestra generates its revenue by delivering natural gas through its networks to almost 1.2 million domestic, commercial and industrial customers.

Envestra's revenue and income, which is generated mainly from retailers for delivering natural gas to their customers, was \$554.4 million in 2013-14, up \$46.9 million (or 9%) on 2012-13.

The improvement in revenue was mainly due to increases in distribution tariffs which came into effect on 1 July 2013 and which were incorporated in the South Australia and Queensland five-year Access Arrangements approved by the Australian Energy Regulator ("AER") in 2011. There was an overall 4% decrease in gas distribution volumes to 108.2 PJ compared with 113.0 PJ in 2012-13, due to a decrease in volumes delivered to industrial and large commercial (>10 TJ) customers as a result of several plant closures, and decreased volumes from domestic and smaller customers (48.2 PJ vs 51.0 PJ in the prior year) as a result of warmer weather in the current year. Envestra earns the majority of its revenues from domestic (<10 TJ) customers.

Operating expenses of \$152.4 million were \$5.2 million higher than the previous year. The increase was largely due to higher Carbon Permit costs of \$2.0 million resulting from a permit cost increase under the *Clean Energy Act 2011* legislation from \$23.00/tonne to \$24.15/tonne, and an adjustment to the carbon costs relating to the 2012-13 financial year (these additional costs are fully recoverable through haulage tariffs). In addition, \$4.2 million of costs associated with the proposed Envestra merger/takeover process were incurred during 2013-14. Excluding these "one-off" and "pass-through" costs, operating costs decreased by \$1.0 million. This included lower leak maintenance and system use gas cost savings of \$4.7 million.

Net finance costs were \$121.1 million, \$26.8 million lower than the previous year. The main contributing factors to the decrease were lower floating interest rates on unhedged debt, and the full-year impact of lower rates on fixed interest rate swaps.

For the year ended 30 June 2014, Profit after Tax was \$153.0 million, which compares with a Profit after Tax of \$107.8 million in 2012-13 (up 42%).

Cash flow from operating activities was \$245.6 million, up \$11.8 million (or 5%) on 2012-13, due mainly to the increased revenues and lower financing costs outlined above. This more than covered the \$115.0 million of dividends, contributing \$128.5 million to the funding of the \$253.3 million capital expenditure program. Operating cashflow in 2013-14 was reduced by \$44.7 million as a result of a “one-off” adjustment when forward billing arrangements in South Australia ceased on 1 July 2013. This change occurred as a result of the introduction of the new National Energy Customer Framework (“NECF”) in South Australia.

Capital expenditure paid in 2013-14 was \$35.9 million higher than the previous year. A large proportion of the expanded capex program focused on the replacement of ageing cast iron and steel gas mains (\$135.2 million). The Group is aiming to replace most of these old pipelines with polyethylene pipes over the next few years. During the year 512km of mains were replaced, a 23% increase on the 417km of the previous year.

Around 21,300 new customers were added to the networks (23,200 in 2012-13). Capital expenditure of \$55.0 million associated with the new connections was recorded in 2013-14 (\$60.0 million in 2012-13).

A steady improvement in the Company's credit metrics has occurred over recent years, with a gearing level at 30 June 2014 (based on net debt and market value of equity) of 47% down from 54% at the beginning of the year and from 64% a year before then. The improvement to gearing and other key credit indicators has been reflected in Standard and Poor's and Moody's respective BBB+ and Baa2 credit ratings, with the Standard and Poor's rating being upgraded from BBB on 11 August 2014, following the Cheung Kong Consortium (“CK Consortium”) offer being declared “unconditional” on 7 August 2014 (refer following page).

The Group's revenues are dependent on regulatory determinations made by the AER every five years. The current Access Arrangements in South Australia and Queensland expire on 30 June 2016, while those in Victoria and New South Wales expire on 31 December 2017. In April 2014, the Company announced the decision by the NSW Minister for Resources and Energy to remove regulatory coverage of the Company's Wagga Wagga gas distribution network. The revocation will not materially affect the Group's revenue or financial performance.

For the 2013-14 financial year Envestra's market value increased by 37% to over \$2.4 billion, with the share price moving from 99.5 cents on 1 July 2013 to \$1.36 at 30 June 2014. The increase was in part the result of the respective merger/takeover offers made by our major shareholders (refer following page), but also reflecting the enhanced profitability and future prospects for our business.

No new equity was raised during the year with the previously utilised Dividend Reinvestment Plan having been suspended for the 2013-14 year.

Total annual return to shareholders (reflecting capital growth and dividends) for 2013-14 was 43% (2012-13: 34%).

Dividends paid to shareholders in 2013-14 were 6.4 cents per fully paid ordinary share (5.9 cents per share in 2012-13). A final dividend of 3.5 cents was declared on 11 July 2014 and paid on 25 July 2014, and is therefore not included in the 2013-14 financial statements.

The 2013-14 dividends were supported by cashflow per share of 12.0 cents per share (that is, the dividend coverage ratio was 1.9 times) and the \$115.0 million of dividends paid in 2013-14 amounts to 75% of the declared Profit after Tax for 2013-14.

Envestra had a provision in its June 2013 financial statements for the remediation of contaminated sites. During the year the remediation project at Warragul was completed at a total cost of \$1.9 million which was below cost expectations. At 30 June 2014, \$6.3 million remains in the provision to cover the estimated clean-up costs at Sale, Victoria.

The Group's net assets increased by 2%, to \$861.0 million during the year. This increase is attributable to the increase in retained earnings arising from the excess of the year's earnings over dividends distributed to shareholders partially offset by the movement in the cash flow hedge reserve.

LIKELY DEVELOPMENTS, EXPECTED RESULTS AND RISK FACTORS

On a “business as usual” basis the Company expects profitability in 2014-15 to be broadly in line with the result in 2013-14 but this guidance is subject to changes that may arise as a result of transfer of control to the CK Consortium (refer following page), the impact of any abnormal items that may occur and excludes final financial advisory transaction and related fees associated with the CK Consortium takeover offer.

Beyond the risk to the Company's revenues from fluctuations in weather, the main risks to achieving the above profit result in 2014-15 are unforeseen variations in operating and borrowing costs. Whilst these costs are not expected to materially fluctuate from expectations implicit in the above profit forecast, some variation in these costs is possible particularly in the area of system use gas and leak maintenance costs, and also interest costs from unhedged debt (the Company's policy is to hedge between 80% and 100% of variable rate debt).

Further impacts on the income statement from "hedge accounting ineffectiveness" (\$2.6 million profit recorded in 2013-14 – refer note 9) may also provide variation to the net profit result.

The capital expenditure program in 2014-15 will again be focussed on capacity enhancements, mains replacement and several major projects to be undertaken during the year which will connect new areas to the network as well as increasing supply to high demand areas. In total, around 455km of mains are expected to be replaced.

CK Consortium takeover proposal

On 15 July 2013, the Envestra Group received a proposal from APA Group to acquire all issued capital which it did not currently own through a Scheme of Arrangement. After the Envestra Independent Board Committee (IBC) formed by Envestra to consider the proposal rejected this initial offer, on 17 December 2013 Envestra received a revised proposal from APA Group, and the IBC resolved by majority to proceed with the steps necessary to put the revised proposal before Envestra shareholders for their consideration. On 4 March 2014 Envestra entered into a Scheme Implementation Agreement with APA Group. A shareholder Scheme Meeting was arranged for 13 May 2014.

On 7 May 2014, Envestra received an alternative, indicative, non-binding and conditional takeover proposal from the CK Consortium to acquire all of Envestra's shares for a cash consideration of \$1.32 per share. As a result the Scheme Meeting was adjourned to allow the IBC to consider the alternative offer. On 30 May 2014 Envestra entered into a Bid Implementation Agreement with the CK Consortium and unanimously recommended the offer to shareholders. The Scheme Implementation Agreement with APA Group was terminated on this day.

The CK Consortium offer to shareholders opened on 4 July 2014.

On 7 August 2014 the offer was declared "unconditional" upon the 50% minimum acceptance level of the offer being reached. Accordingly a change of control of the Envestra Group occurred.

The implication of the change in control to the CK Consortium, particularly in relation to future strategic direction and potential developments, cannot be determined at the date of this report. The CK Consortium's intentions regarding future operations are broadly outlined in the Bidders Statement sent to shareholders on 4 July 2014.

Significant changes in the state of affairs

No changes other than the CK Consortium offer referred to above, have occurred during the year which significantly changes the state of affairs of the Group.

Environmental regulation

A Voluntary Risk Assessment has been prepared and submitted to the Victorian Environmental Protection Authority ("EPA") in respect of the sites owned by the Group at Sale and Warragul that were formerly used for the manufacture of town gas. Remedial work for the site owned at Warragul was undertaken and completed during the year.

In respect to the site at Sale, under Victorian law, the ultimate liability for remediation costs potentially lies with the original polluter. The contamination is believed to have occurred when the site was owned and operated as a coal gas plant by two third parties. Whilst it is possible that these remediation costs will either be assumed by the third parties, or alternatively recovered from them, the matter is yet to be determined. Accordingly, the estimated liability continues to be recorded in the financial statements at 30 June 2014.

Dividends – Envestra Ltd

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

	Cents per ordinary share	Total dividend
	Cents	\$M
Dividend on 31 October 2013	3.2	57.5
Dividend on 30 April 2014	3.2	57.5
Total dividends paid in 2013-14	6.4	115.0

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 and Officers (Senior Executives) 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.

In addition to this and in accordance with the Bid Implementation Agreement between the CK Consortium, Directors' and Officers' Liability Insurance seven year "run-off" cover was implemented upon the CK Consortium offer being declared "unconditional" on 7 August 2014.

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 23.

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 23, 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 undermine 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

The status of the offer from the CK Consortium has been reported under "CK Consortium takeover proposal" on page 26 of the Directors' Report.

The Directors are not aware at the date of this report of any other matter or circumstance which has arisen since 30 June 2014 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 between 1 July 2013 to 30 June 2014, and the number of meetings attended by each Director were:

	Meetings of Directors		Meetings of committees							
	Full meetings ⁽ⁱⁱⁱ⁾		Independent Board		Due Diligence		Audit and Risk		Remuneration	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
J G Allpass ⁽ⁱ⁾	12	12	33	33	8	8	-	-	-	-
I B Little ⁽ⁱ⁾	12	12	33	33	8	8	-	-	-	-
E F Ainsworth	12	12	33	33	8	8	4	4	2	2
D L S Chan	12	10	-	-	-	-	-	-	-	-
I K H Chan ^{(i) (ii)}	12	12	22	18	-	-	-	-	-	-
R M Gersbach	8	8	-	-	-	-	4	4	-	-
M J McCormack	8	8	-	-	-	-	-	-	-	-
O B O'Duill	12	11	33	27	-	-	4	4	2	2

⁽ⁱ⁾ Mr J G Allpass and Mr I B Little attended four Audit and Risk Committee and two Remuneration Committee meetings, and Mr I K H Chan attended two Audit and Risk Committee meetings.

⁽ⁱⁱ⁾ Mr I K H Chan was a conflicted Director following the CK Consortium takeover proposal, and the Independent Board Committee was reconstituted on 9 May 2014.

⁽ⁱⁱⁱ⁾ Includes four concurrent meetings of the Board and Independent Board Committee.

REMUNERATION REPORT

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 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 to market practice for delivery of reward.

The Group has structured an executive remuneration framework that is market competitive and complementary to the strategy of the organisation.

The framework caters for shareholders' interests in that it:

- Has economic performance as a core component of plan design.
- Takes into consideration returns to shareholders.
- Attracts and aims to retain high calibre executives.

The framework caters for employees' interests in that it:

- Rewards capability and experience.
- Rewards contribution to growth in shareholder wealth and/or Group earnings.
- Provides a clear structure for earning rewards.
- Provides recognition of individuals' contributions.

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 provided by an external professional human resources consultant, reviews remuneration of the senior management team annually.

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

Each employee has a list of personal key performance indicators (KPIs) set by the Managing Director and reviewed by the Remuneration Committee, against which performance is measured.

Performance against the KPIs is considered by the Managing Director and the Remuneration Committee as part of their deliberations as to individual bonuses. Any bonus is based on a combination of individual performance (40%) and corporate outcomes (60%). The Managing Director is assessed entirely on the corporate outcomes.

The maximum bonus for the Managing Director is 45% (including 15% deferred) of his base salary. The maximum bonus for the Company Secretary, Group Manager – Commercial, Group Manager – Finance, Group Manager – Treasury and Risk is 37.5% (including 12.5% deferred), and for the Group Manager – Regulation is 20%. For all other senior executives the maximum bonus is 20% of their base salaries.

The Managing Director, Company Secretary, Group Manager – Commercial, Group Manager – Finance, and Group Manager – Treasury and Risk are entitled to payment of the deferred portion of their bonus after three years' service following the year in which the initial bonus was awarded. The deferred bonus is equivalent to 50% of the bonus awarded three years earlier.

The Company does not operate an Employee Share Option Plan.

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.

DIRECTORS' FEES

The current base remuneration was last increased with effect from 1 July 2010. The non-executive Director who chairs the Audit and Risk Committee as well as other members of the Committee receive additional fees for their services.

In addition, Mr Fraser Ainsworth and Mr John Allpass received additional fees (\$25,000 and \$15,000, respectively) for their membership of the Due Diligence Committee established during 2013-14 to assess aspects of the merger proposal from APA Group.

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 \$900,000.

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 of 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 two Directors are entitled to retirement benefits accrued prior to 30 June 2003. They are Mr John Allpass and Mr Olaf O'Duill.

EXECUTIVE PAY

The executive pay and reward framework has three components:

- Base pay and benefits.
- Superannuation.
- Performance incentives (bonuses).

BASE PAY

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

The Remuneration Committee received information from Geoff Nunn and Associates (GNA) through the annual survey conducted in April 2014 of remuneration packages in the utilities sector. The advice was used to ensure base pay reflects the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executives' pay is competitive with the market.

The Board's decisions on senior executives' packages are made independently using the advice provided by GNA and having regard to Envestra's financial circumstances.

BENEFITS

Executives are provided with death and total disability insurance cover, salary continuance insurance cover and company funded car parking. The cost of these benefits is taken into consideration when determining the total employment cost packages as 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. All superannuation contributions are treated as part of the executive's salary package.

SHORT-TERM PERFORMANCE BONUS

Each year, the Remuneration Committee considers the performance against the Company's strategic business plans and KPIs to assist in determining bonuses. The payment of bonuses is at the discretion of the Board acting on advice from the Remuneration Committee.

For the year ended 30 June 2014, the KPI targets reflect performance against profit after tax, cash flow, management of the proposed APA merger and subsequently the CK Consortium proposed takeover of Envestra, capital expenditure, the management of environmental activities and shareholder returns, as well as other key strategic measures related to drivers of performance in future reporting periods.

Further details on these corporate objectives and performance against them are as follows:

FINANCIAL MEASURES

Objective: Profit after Tax, and cash flow available for dividends.

Outcome: A 42% increase in Profit after Tax to \$153.0 million was recorded and cash flow per share available for dividends was 12.0 cents (12.6 cents in 2012-13).

COMMERCIAL AND REGULATORY MEASURES

Objective: Resolve APA Group's merger proposal in a manner satisfactory to the Independent Board Committee.

Outcome: the proposed Scheme of Arrangement with APA Group was not implemented after an offer from the CK Consortium was received on 7 May 2014. The CK Consortium offer of \$1.32 per Envestra share implied an enterprise value for the Company of around \$4.5 billion and a market capitalisation of around \$2.4 billion.

Envestra's Independent Board Committee unanimously recommended this transaction to shareholders.

Objective: Resolve remediation of the former gasworks site in Sale (Victoria).

Outcome: Due to significant delays caused by the Victorian Environment Protection Authority limited progress was made in resolving which party would be responsible for any future clean-up of the site. However, remediation was completed at another Victorian site.

Objective: Customer connections are to exceed 24,000, complete 460 kilometres of mains replacement and complete the \$275 million capital expenditure program.

Outcome: Customer connections were 21,317, a total of 512 kilometres of gas mains were replaced and a total of \$253.3 million of capital expenditure was undertaken.

TOTAL SHAREHOLDER RETURNS (TSR)

Objective: Achieve a TSR in excess of 10% for the year (includes movement in market prices of the securities).

Outcome: The market price of the Company's shares rose 36.7% over the 12 months to 30 June 2014, and shareholders holding shares at 1 July 2013 received a dividend yield of 6.4%. Total shareholder return was 43.1%. This outcome was significantly influenced by the proposed APA Group merger and subsequent CK Consortium takeover proposal.

Sound results were achieved across a range of corporate measures in addition to those outlined above. Each of the executives performed to a high standard against their personal KPIs, while several executives were heavily involved in responding to the merger and takeover proposals.

DEFERRED BONUSES

Deferred bonuses are payable, on a rolling basis, after three years' service and are linked to the bonus paid in the year prior to the commencement of the three-year period. The provision of a deferred bonus recognises the need to ensure short-term targets are not achieved at the expense of the longer-term success of the business. Although executives are entitled to these further payments on completion of three years' service, the amount of any bonus in that third year will reflect any potential change in performance that has occurred as a result of inappropriate short-term bonus focus in previous years. The deferred bonus also recognises the small executive team within the business and the need to retain these senior executives in order to provide management stability.

The structuring of the deferred bonus such that it is linked to the short-term bonus earned three years previously provides an additional compensation mechanism that acts as an incentive for the executives to remain with the Group for the long term. Deferred bonuses are payable to the Managing Director, Company Secretary, Group Manager – Commercial, Group Manager – Finance, and Group Manager – Treasury and Risk.

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 24 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

- A Staniford – Group Manager – Commercial
- D Petherick – Company Secretary
- G Meredith – Group Manager – Treasury and Risk
- P May – Group Manager – Finance
- C de Laine – Group Manager – Regulation

KEY MANAGEMENT PERSONNEL OF ENVESTRA LTD AND THE GROUP

Name	Cash salary and fees	Short-term employee benefits			Post-employment benefits		Total
		Cash bonus ⁽ⁱ⁾ STI	Non-monetary benefits	Super- annuation ⁽ⁱⁱ⁾	Retirement benefits		
	\$	\$	\$	\$	\$	\$	\$
<i>Non-executive Directors</i>							
J G Allpass <i>Chairman</i>	177,225	-	-	-	17,775	(3,214)	191,786
E F Ainsworth	115,253	-	-	-	11,748	-	127,001
D L S Chan ⁽ⁱ⁾	90,000	-	-	-	-	-	90,000
I K H Chan ⁽ⁱ⁾	90,000	-	-	-	-	-	90,000
R M Gersbach ⁽ⁱ⁾	102,000	-	-	-	-	-	102,000
M J McCormack ⁽ⁱ⁾	90,000	-	-	-	-	-	90,000
O B O'Duill	98,010	-	-	-	9,990	(1,354)	106,646
Sub-total non-executive Directors	762,488	-	-	-	39,513	(4,568)	797,433
<i>Executive Director</i>							
I B Little <i>Managing Director</i>	573,442	142,600	62,050	21,084	17,775	-	816,951
<i>Other key management personnel</i>							
A Staniford	318,087	73,000	35,800	37,374	19,275	-	483,536
D Petherick ^(iv)	282,833	62,300	22,650	15,398	27,000	-	410,181
G Meredith ^(iv)	241,979	57,400	18,500	28,053	24,086	-	370,018
P May ^(iv)	245,375	57,400	18,500	30,075	17,775	-	369,125
C de Laine ⁽ⁱⁱⁱ⁾	195,823	35,000	-	6,769	19,960	-	257,552
Total key management personnel compensation	2,620,027	427,700	157,500	138,753	165,384	(4,568)	3,504,796

(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 Australian Pipeline Ltd.

(ii) Short term incentive (STI) and Deferred short term incentive (DSTI). Bonus payments to key management personnel may be taken either as cash or superannuation.

(iii) Mr de Laine was not included in key management personnel in the prior financial year.

(iv) Included in 'cash salary and fees' is an additional remuneration amount in relation to work carried out as part of the APA Group/CK Consortium merger/takeover process.

Name	Cash salary and fees	Short-term employee benefits			Post-employment benefits		Total
		Cash bonus ⁽ⁱ⁾		Non-monetary benefits	Super-annuation ⁽ⁱⁱ⁾	Retirement benefits	
		STI	DSTI				
	\$	\$	\$	\$	\$	\$	
<i>Non-executive Directors</i>							
J G Allpass <i>Chairman</i>	163,800	-	-	-	16,200	10,735	190,735
E F Ainsworth	92,820	-	-	-	9,180	-	102,000
D L S Chan ⁽ⁱ⁾	90,000	-	-	-	-	-	90,000
I K H Chan ⁽ⁱ⁾	90,000	-	-	-	-	-	90,000
R M Gersbach ⁽ⁱ⁾	102,000	-	-	-	-	-	102,000
M J McCormack ⁽ⁱ⁾	90,000	-	-	-	-	-	90,000
O B O'Duill	98,280	-	-	-	9,720	2,711	110,711
Sub-total non-executive Directors	726,900	-	-	-	35,100	13,446	775,446
<i>Executive Director</i>							
I B Little <i>Managing Director</i>	557,936	137,400	36,750	19,216	15,928	-	767,230
<i>Other key management personnel</i>							
A Staniford	309,912	72,000	21,950	38,724	17,000	-	459,586
D Petherick	254,242	60,200	14,650	16,793	19,425	-	365,310
G Meredith	210,810	53,400	11,600	25,190	23,305	-	324,305
P May	213,697	53,400	13,000	28,480	16,470	-	325,047
Total key management personnel compensation	2,273,497	376,400	97,950	128,403	127,228	13,446	3,016,924

(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 Australian Pipeline Ltd.

(ii) Short term incentive (STI) and Deferred short term incentive (DSTI). Bonus payments to key management personnel may be taken either as cash or superannuation.

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. 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. The cost of any company provided vehicle is deducted from the employee's salary package. Other major provisions of the agreements relating to remuneration are set out below. Executive remuneration is reviewed annually by the Remuneration Committee.

I Little, *Managing Director*

- Term of agreement – non-specific, commencing 28 March 2003.
- Base salary, inclusive of superannuation, for the year ended 31 August 2014 of \$594,100.
- Subject to performance, an annual bonus of up to 30% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, after six months' notice (subject to certain conditions), equal to 12 months' base salary plus an amount equal to the last short-term bonus paid prior to the termination.

A Staniford, *Group Manager – Commercial*

- Term of agreement – non-specific, commencing 1 August 2000.
- Base salary, inclusive of superannuation, for the year ended 31 August 2014 of \$359,200.
- Subject to performance, an annual bonus of up to 25% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, equal to 18 months' base salary (including six months' period of notice).

D Petherick, *Company Secretary*

- Term of agreement – non-specific, commencing 1 September 1997.
- Base salary, inclusive of superannuation, for the year ended 31 August 2014 of \$283,200.
- Subject to performance, an annual bonus of up to 25% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, equal to 12 months' base salary (including three months' period of notice).

G Meredith, *Group Manager – Treasury and Risk*

- Term of agreement – non-specific, commencing 1 August 2000.
- Base salary, inclusive of superannuation, for the year ended 31 August 2014 of \$261,000.
- Subject to performance, an annual bonus of up to 25% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, equal to 12 months' base salary (including three months' period of notice).

P May, *Group Manager – Finance*

- Term of agreement – non-specific, commencing 4 April 2005.
- Base salary, inclusive of superannuation, for the year ended 31 August 2014 of \$261,000.
- Subject to performance, an annual bonus of up to 25% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, equal to 12 months' base salary (including three months' period of notice).

C de Laine, *Group Manager – Regulation*

- Term of agreement – non-specific, commencing 24 October 2005.
- Base salary, inclusive of superannuation, for the year ended 31 August 2014 of \$220,000.
- Subject to performance, an annual bonus of up to 20% of base salary is payable.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, equal to 12 months' base salary (including three months' period of notice).

D) Additional information

PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION: RELATIONSHIP BETWEEN REMUNERATION AND COMPANY PERFORMANCE

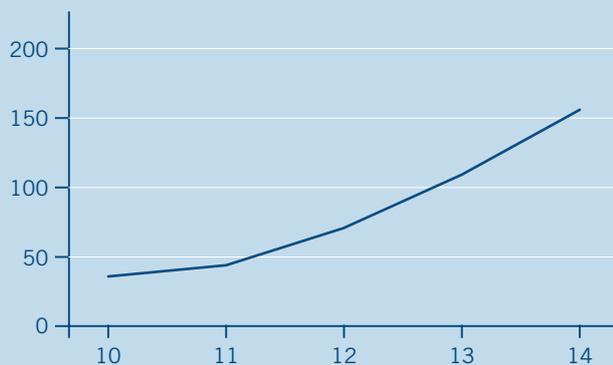
The following table sets out the Group's performance over the past five years in respect of the key financial and non-financial indicators used to measure year-on-year performance, as well as historic shareholder return data.

	2010	2011	2012	2013	2014
Gas volumes <10TJ consumers	47,228	52,878	49,847	51,020	48,189
New consumers ⁽ⁱ⁾	24,101	26,712	25,760	23,246	21,317
Total revenue and income (\$m) ⁽ⁱⁱ⁾	382.7	424.2	468.6	507.5	554.4
Net profit after tax (\$m)	37.2	45.0	73.9	107.8	153.0
Cash flow available for dividends (\$m)	107.4	129.1	155.1	205.0	216.2
Capital expenditure (\$m)	97.8	129.2	176.1	217.4	253.3
Return to shareholders (%)	12.3	52.0	22.2	34.5	43.1
Earnings per share (cents)	2.8	3.2	4.9	6.6	8.5

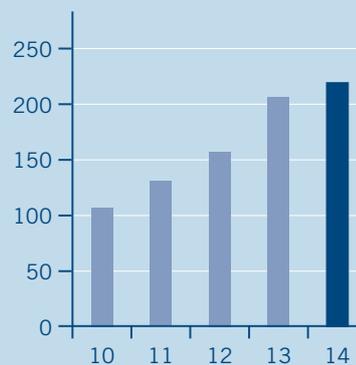
(i) 2011 data excludes customers in Envestra (NSW) Pty Ltd acquired through business acquisition on 29 October 2010.

(ii) Excludes interest income.

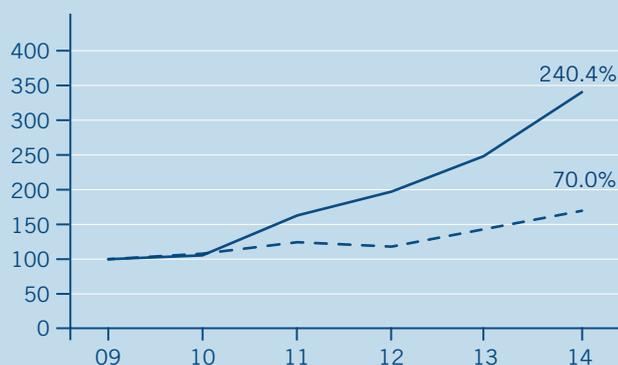
PROFIT AFTER TAX \$M



CASHFLOW AVAILABLE FOR DIVIDENDS \$M

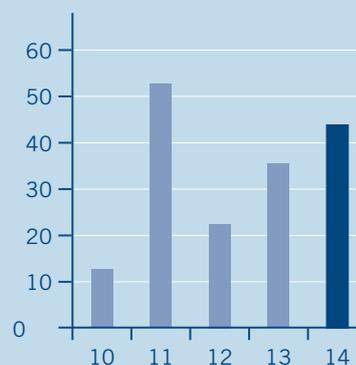


FIVE YEAR TOTAL SHAREHOLDER RETURN (TSR) - CUMULATIVE %



— ENVESTRA
 - - - ASX 200

ANNUAL RETURN TO SHAREHOLDERS % *



* Returns to shareholders includes dividend and capital growth / (loss)

DETAILS OF REMUNERATION: CASH BONUSES

For each short-term cash bonus included in the tables on pages 31 and 32, the percentage of the available bonus paid, in the financial year, is set out below.

Name	Maximum bonus (excluding deferred)	Bonus paid	Percentage of maximum bonus	Deferred Bonus	Total 2014	Total 2013
	%	\$	%	\$	\$	\$
I Little	30	142,600	80	62,050	204,650	174,150
A Staniford	25	73,000	81	35,800	108,800	93,950
D Petherick	25	62,300	88	22,650	84,950	74,850
G Meredith	25	57,400	88	18,500	75,900	65,000
P May	25	57,400	88	18,500	75,900	66,400
C de Laine	20	35,000	80	-	35,000	N/A

The bonus can be taken as cash and/or a contribution to superannuation.

DIRECTORS' SHAREHOLDINGS

Particulars of the ordinary shares held by each Director of the Company and Director related entities, as at 30 June 2014 were:

Director	Holding 30 June 2013	Movement during the year	Holding 30 June 2014
J G Allpass	399,632	-	399,632
I B Little	151,362	-	151,362
E F Ainsworth	66,000	-	66,000
D L S Chan ⁽ⁱ⁾	-	-	-
I K H Chan ⁽ⁱ⁾	-	-	-
O B O'Duill	231,923	-	231,923
M J McCormack ⁽ⁱⁱ⁾	66,681	-	66,681
R M Gersbach ⁽ⁱⁱ⁾	-	-	-

(i) Mr D L S Chan and Mr I K H Chan are representatives of Cheung Kong Infrastructure Holdings (Malaysian) Ltd which at 30 June 2014 owned 313,645,693 (17.46%) ordinary shares in Envestra.

(ii) Mr M J McCormack and Mr R M Gersbach are representatives of the APA Group which at 30 June 2014 owned 593,755,789 (33.05%) ordinary shares in Envestra.

(iii) Each Director who held shares in Envestra at 30 June 2014 accepted the CK Consortium takeover offer for all the issued shares in Envestra Ltd. The offer became "unconditional" on 7 August 2014.

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 36.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, 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 G Allpass
Chairman

Adelaide 14 August 2014



Auditor's Independence Declaration

As lead auditor for the audit of Envestra Ltd for the year ended 30 June 2014 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 Ltd and the entities it controlled during the year.

A handwritten signature in black ink, appearing to read 'Andrew Forman', written in a cursive style.

Andrew Forman
Partner
PricewaterhouseCoopers

Adelaide
14 August 2014

PricewaterhouseCoopers, ABN 52 780 433 757
Level 11, 70 Franklin Street, ADELAIDE SA 5000, GPO Box 418, ADELAIDE SA 5001
T +61 8 8218 7000, F +61 8 8218 7999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation

CONSOLIDATED INCOME STATEMENT

	Notes	2014	2013
		\$M	\$M
<i>Revenue from continuing operations</i>			
Network services		554.4	507.0
Total revenue from continuing operations		554.4	507.0
Net gain on disposal of property, plant and equipment		-	0.5
Total revenue and income excluding finance income		554.4	507.5
Network operating costs		(125.0)	(123.0)
Gas purchases		(13.1)	(14.1)
Corporate development, property and administration costs		(14.3)	(10.1)
Total operating costs		(152.4)	(147.2)
Depreciation and impairment	5	(62.2)	(58.6)
Profit before finance costs and tax		339.8	301.7
Finance income		0.3	0.9
Finance costs		(121.4)	(148.8)
Net finance costs	5	(121.1)	(147.9)
Profit before income tax expense		218.7	153.8
Income tax expense	6	(65.7)	(46.0)
Net profit after tax		153.0	107.8
Basic and diluted earnings per share attributable to ordinary equity holders of Envestra Ltd (cents)	30	8.5	6.6

The Consolidated Income Statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2014	2013
		\$M	\$M
Net profit after tax for the financial year		153.0	107.8
<i>Other comprehensive income/(expense)</i>			
<i>Items that may be reclassified subsequently to profit and loss</i>			
Changes in the fair value of cash flow hedges	20	(26.8)	33.4
Income tax benefit/(expense) relating to changes in the fair value of cash flow hedges	20	8.0	(10.0)
Other comprehensive income/(expense) for the financial year		(18.8)	23.4
Total comprehensive income for the financial year		134.2	131.2
<i>Profit for the financial year is attributable to:</i>			
Owners of Envestra Ltd		153.0	107.8
<i>Total comprehensive income for the financial year is attributable to:</i>			
Owners of Envestra Ltd		134.2	131.2

The Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

	Notes	2014	2013
		\$M	\$M
ASSETS			
Current assets			
Cash and cash equivalents	7	3.5	1.0
Receivables	8	75.8	82.7
Other assets	10	3.0	2.5
Total current assets		82.3	86.2
Non-current assets			
Receivables	8	2.5	4.8
Property, plant and equipment	11	2,689.4	2,497.0
Intangible assets	12	606.0	606.0
Deferred tax assets	13	-	-
Derivative financial instruments	9	8.8	42.9
Total non-current assets		3,306.7	3,150.7
Total assets		3,389.0	3,236.9
LIABILITIES			
Current liabilities			
Payables	14	53.4	47.2
Borrowings	15	-	3.0
Provisions	16	3.5	3.3
Derivative financial instruments	9	0.8	2.3
Other liabilities	17	15.6	70.9
Total current liabilities		73.3	126.7
Non-current liabilities			
Borrowings	15	2,143.4	2,019.5
Provisions	16	6.8	10.4
Derivative financial instruments	9	51.6	43.3
Deferred tax liabilities	18	252.9	195.2
Total non-current liabilities		2,454.7	2,268.4
Total liabilities		2,528.0	2,395.1
Net assets		861.0	841.8
EQUITY			
Contributed equity	19	869.7	869.7
Reserves	20	(18.4)	0.4
Retained earnings/(accumulated losses)	20	9.7	(28.3)
Total equity		861.0	841.8

The Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Contributed Equity	Reserves	Retained Earnings/ (Accumulated Losses)	Total Equity
		\$M	\$M	\$M	\$M
Balance at 1 July 2012		651.8	(23.0)	(42.4)	586.4
Profit for the financial year		-	-	107.8	107.8
Other comprehensive income for the financial year		-	23.4	-	23.4
<i>Transactions with owners in their capacity as owners</i>					
Contributions of equity, net of transaction costs and tax	19	217.9	-	-	217.9
Dividends paid	21	-	-	(93.7)	(93.7)
Balance at 30 June 2013		869.7	0.4	(28.3)	841.8
Profit for the financial year		-	-	153.0	153.0
Other comprehensive expense for the financial year		-	(18.8)	-	(18.8)
<i>Transactions with owners in their capacity as owners</i>					
Dividends paid	21	-	-	(115.0)	(115.0)
Balance at 30 June 2014		869.7	(18.4)	9.7	861.0

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2014	2013
		\$M	\$M
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		565.2	575.1
Payments to suppliers and employees (inclusive of goods and services tax)		(200.5)	(197.5)
		364.7	377.6
Finance income received		0.3	0.9
Finance costs paid		(119.4)	(144.7)
Net cash inflow from operating activities	28	245.6	233.8
Cash flows from investing activities			
Payments for property, plant and equipment		(253.3)	(217.4)
Proceeds from sale of property, plant and equipment		-	0.9
Payments for remediation of land		(2.1)	(8.9)
Net cash outflow from investing activities		(255.4)	(225.4)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	19	-	219.0
Proceeds from borrowings		377.8	342.5
Repayment of borrowings		(249.8)	(471.8)
Dividends paid	21	(115.0)	(93.7)
Debt and capital raising costs		(0.7)	(4.4)
Net cash inflow/(outflow) from financing activities		12.3	(8.4)
Net increase in cash and cash equivalents		2.5	-
Cash and cash equivalents at the beginning of the financial year		1.0	1.0
Cash and cash equivalents at the end of the financial year	7	3.5	1.0

The Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.





NOTES TO THE FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the two years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Envestra Ltd and its subsidiaries. The financial statements are presented in the Australian currency.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTE

1

A) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Envestra Ltd is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were approved by the Board of Directors on 14 August 2014.

COMPLIANCE WITH IFRS

The consolidated financial statements of Envestra Ltd also comply 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.

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The Group has applied AASB 13 *Fair Value Measurement* for the first time for its annual reporting period commencing 1 July 2013. The adoption of AASB 13 resulted in an update to the valuation methodology for derivatives to include credit risk in fair market value.

None of the other new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2013 affected any disclosures or any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS 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

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

Envestra (SA) Holdings 1 Ltd ACN 008 181 066	Vic Gas Distribution Pty Ltd ACN 085 899 001
Envestra (SA) Ltd ACN 008 139 204	The Albury Gas Co Ltd ACN 000 001 249
Envestra (QLD) Ltd ACN 009 760 883	Envestra (NSW) Holdings 1 Pty Ltd ACN 108 315 957
Envic Holdings 1 Pty Ltd ACN 085 882 337	Envestra (NSW) Holdings 2 Pty Ltd ACN 108 316 249
Envic Holdings 2 Ltd ACN 085 882 364	Envestra (NSW) Holdings 3 Pty Ltd ACN 108 316 007
Envestra Victoria Pty Ltd ACN 085 882 373	Envestra (NSW) Pty Ltd ACN 083 199 839

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

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 work has been substantially completed.

Interest revenue includes interest income on money invested 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 to be incurred on particular projects are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to depreciable assets are recognised by reducing the carrying amount of the asset.

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 Federal 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Envestra Ltd and its controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

G) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation or depreciation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. 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 Australian dollars using the spot rate at balance date. The account is held to make dividend 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 Australian and Queensland networks require the retailer to pay for gas delivered within 30 days.

The Access Arrangements covering the Victorian and NSW networks require distributors to charge retailers and large industrial customers when the end user is billed.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is used when there is objective evidence that the Group will not be able to collect all amounts due.

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. No provision has been raised for impairment in relation to debtors associated with any of the Access Arrangements because no debts are considered doubtful.

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 9. Movements in the hedging reserve in shareholders' equity are shown in note 20. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the derivative is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the derivative 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 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 are 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 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
<i>Gas mains and inlets:</i>	
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 its carrying amount is greater than its estimated recoverable amount (note 1(G)).

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

L) Intangible assets

The distribution licences held by Vic Gas Distribution Pty Ltd and Envestra (NSW) Pty Ltd, which are valued in the financial statements at \$585.6 million and \$17.7 million respectively, and the other intangible asset held by Envestra (NSW) Pty Ltd of \$2.7 million, in the opinion of the Directors have an indefinite life. Therefore no amortisation charge has been included in the financial statements. An assessment of the recoverable amount of the intangibles is made at the time of preparing the half yearly and annual financial reports to ensure they are not below the carrying amounts of the intangibles (refer note 12).

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.

For borrowings designated in a fair value hedge, carrying value is equal to fair value less transaction costs (refer note 1(J)(I)).

O) Borrowing Costs

Borrowing costs include:

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

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.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(III) OTHER

The Envestra Group had 15 employees as at 30 June 2014 (15 as at 30 June 2013). The operational activities of the Group are undertaken by APA Asset Management and associated subcontractors.

Q) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

R) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period, but not distributed at the end of the reporting period.

Dividends declared after the end of the reporting period, whether or not paid prior to signing of the accounts are not recognised as a liability and are disclosed in note 21.

S) Earnings per share

(I) BASIC EARNINGS PER SHARE

Basic earnings per share is determined by dividing the profit 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 as the Company has no options or other potential ordinary shares.

T) New accounting standards and interpretations

Certain new Accounting Standards and Interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The Group's assessment of the impact of these new Standards and Interpretations is set out below.

(I) AASB 9 FINANCIAL INSTRUMENTS

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013 it also sets out new rules for hedge accounting. The Standard is not applicable until 1 January 2017, but is available for early adoption.

The Standard only permits the accounting for financial assets to be at either amortised cost or fair value, and for the recognition of fair value gains and losses to be in the income statement, or in other comprehensive income if they relate to equity investments that are not held for trading. The new requirements for financial liabilities only affect the accounting for financial liabilities that are designated at fair value through the income statement. The application of the new Standard is not expected to have any effect on the accounting for, or disclosures in relation to, financial assets and financial liabilities.

The new hedging rules align hedge accounting more closely with the Group's risk management practices. As a general rule it will be easier to apply hedge accounting going forward. The new Standard also introduces expanded disclosure requirements and changes in presentation.

The Group has determined not to early adopt the new Standard. In order to apply the new hedging rules, the Group would have to adopt AASB 9 and the consequential amendments to AASB 7 and AASB 139 in their entirety.

None of the other new Accounting Standards and Interpretations that have been published but are not mandatory for 30 June 2014 reporting periods, are expected to have a material impact on the Group's current accounting or disclosures.

(U) 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, and/or the income statement.

In some cases, it is possible that estimated remediation costs included in the financial statements may be recoverable under relevant environmental laws from third parties. No allowances have been made for potential recovery.

(V) 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 33). 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.

(W) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments, or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred and the liabilities incurred.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the income statement as a bargain purchase.

(X) Parent entity financial information

The financial information for the parent entity, Envestra Ltd, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements, except as set out below.

INVESTMENT IN SUBSIDIARIES

Investments in subsidiaries are accounted for at cost in the financial statements of Envestra Ltd.

TAX CONSOLIDATION LEGISLATION

Envestra Ltd and its wholly-owned controlled entities have implemented the tax consolidation legislation as of 1 July 2002. Vic Gas Distribution Pty Ltd and The Albury Gas Co Ltd joined the Envestra Tax Consolidated Group on 2 July 2007. Envestra (NSW) Pty Ltd, Envestra (NSW) Holdings 1 Pty Ltd, Envestra (NSW) Holdings 2 Pty Ltd, and Envestra (NSW) Holdings 3 Pty Ltd joined the Tax Consolidated Group effective from 29 October 2010.

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 to the extent that they are recognised in the controlled entities.

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 6.

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 cross-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 liquidity 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 Group Manager – Treasury and Risk, identifies, evaluates and hedges financial risks in close co-operation with the Group Manager – Finance. The Board oversees overall risk management, including 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.

Market Risk

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 sources of Envestra's foreign exchange transaction exposures are interest and principal payments on US dollar denominated debt.

The Group's Treasury Policy requires all of the foreign exchange rate risk associated with non-Australian dollar denominated debt to be hedged to minimise fluctuations in the cash flows of the business.

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

	2014	2013
	US \$M	US \$M
Borrowings	715.0	770.0

As all foreign exchange commitments are swapped to Australian dollars, the Group has no exposure to movements in foreign exchange risk.

PRICE RISK

The Group is exposed to inflation ("CPI") price risk. This arises from the principal and/or interest payments on the Capital Indexed Bonds (CIBs) held by the Group being escalated by changes in CPI.

The Group's exposure to movements in the CPI through its \$258 million CIBs is partially offset by the annual resetting of haulage tariffs in line with the CPI, together with the re-setting of the regulatory asset base at five-yearly intervals to reflect changes through the period in CPI.

The following table demonstrates the estimated sensitivity to a 1% increase/decrease in the CPI over one year, with all other variables held constant, on after-tax profit and equity, caused by indexation movements on the CIBs.

	2014	2013
	\$M	\$M
<i>Impact on after-tax profit and equity:</i>		
CPI + 1%	(1.8)	(1.8)
CPI - 1%	1.8	1.8

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, 21% (2013: 22%) of borrowings were at fixed rates.

The remainder of borrowings are at floating rates. Group policy is to hedge between 80% and 100% of floating rate borrowings using floating to fixed interest rate swaps.

As at reporting date, the Group had the following variable rate borrowings (excluding CIBs) and interest rate swap contracts outstanding (excluding borrowing costs):

	30 June 2014		30 June 2013	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	\$M	%	\$M
Interest bearing debt (at variable rates)	4.1	1,720.0	4.6	1,592.1
Interest rate swaps	4.0	(1,550.0)	4.0	(1,450.0)
Net exposure to cash flow interest rate risk		170.0		142.1

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. They 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 the contracted fixed 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.

	2014	2013
	\$M	\$M
<i>Impact on after-tax profit:</i>		
Interest rates + 1%	(1.2)	(1.0)
Interest rates - 1%	1.2	1.0
<i>Impact on equity:</i>		
Interest rates + 1%	34.1	42.3
Interest rates - 1%	(35.6)	(44.4)

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.

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 for investment and hedging transactions are measured by reference to transaction limits set by the Board in relation to the counter parties' external credit ratings.

Refer to note 9 for further details in relation to credit risk associated with derivatives.

At balance 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, including trade receivables. Refer to note 8 for further details of credit risk in relation to receivables.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and an adequate amount of available committed credit facilities. Associated with this is the planning for unforeseen events which may curtail cash flows and put pressure on liquidity. At the end of the reporting period the Group held cash and deposits at call of \$3.5 million (2013: \$1.0 million) and had unused credit facilities on hand of \$219.0 million (2013: \$400.0 million) that are readily available for managing liquidity risk.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows. The Group aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Refer to note 15 for further details on the Group's approach to liquidity risk management.

MATURITIES OF FINANCIAL LIABILITIES

The Group's strategy is to maintain the long-term 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, subject to conditions in financial markets enabling these targets to be met.

The table below presents 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	Total
	\$M	\$M	\$M	\$M	\$M
At 30 June 2014					
Trade payables	53.4	-	-	-	53.4
Medium Term Notes	22.2	123.1	716.2	-	861.5
Capital Indexed Bonds	8.0	34.4	420.5	-	462.9
Bank loans	138.9	175.4	-	-	314.3
US Private Placement Notes	52.1	384.4	929.4	190.0	1,555.9
Interest rate swaps	24.5	39.0	-	-	63.5
	299.1	756.3	2,066.1	190.0	3,311.5
At 30 June 2013					
Trade payables	47.2	-	-	-	47.2
Medium Term Notes	22.9	129.0	740.8	-	892.7
Capital Indexed Bonds	7.8	33.5	431.1	-	472.4
Commercial Paper	3.0	-	-	-	3.0
Bank loans	8.0	183.7	-	-	191.7
US Private Placement Notes	53.1	273.0	1,094.5	198.0	1,618.6
Interest rate swaps	17.9	59.2	-	-	77.1
	159.9	678.4	2,266.4	198.0	3,302.7

Fair value estimation

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

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level in accordance with the following fair value measurement hierarchy:

- (a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- (b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2).
- (c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2014 and 30 June 2013:

	Level 1	Level 2	Level 3	Total
	\$M	\$M	\$M	\$M
At 30 June 2014				
<i>Assets</i>				
Derivatives used for hedging	-	8.8	-	8.8
Total assets	-	8.8	-	8.8
<i>Liabilities</i>				
Borrowings	-	960.3	-	960.3
Derivatives used for hedging	-	52.4	-	52.4
Total liabilities	-	1,012.7	-	1,012.7
At 30 June 2013				
<i>Assets</i>				
Derivatives used for hedging	-	42.9	-	42.9
Total assets	-	42.9	-	42.9
<i>Liabilities</i>				
Borrowings	-	1,027.3	-	1,027.3
Derivatives used for hedging	-	45.6	-	45.6
Total liabilities	-	1,072.9	-	1,072.9

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 and the discount rate used is adjusted for counterparty or own credit risk. These instruments are categorised as level 2.

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

The Group has no instruments categorised as level 1 or 3.

NOTE

3

CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. Estimates and judgements are periodically 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 reasonably prospective under the circumstances.

The key estimates and assumptions are discussed below.

ESTIMATED IMPAIRMENT OF INTANGIBLES

The Group tests 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 12 for details of these assumptions.

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Management advises the Board in respect to the estimated useful lives and related depreciation charges for the Group's 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.

NOTE

4

SEGMENT INFORMATION

Description of segments

Operating segments are based on the reports used by management to assess the performance of, and allocate resources within, the Group. The Group operates gas distribution networks and transmission pipelines in various states and the Northern Territory within Australia. Management considers the business from a geographic perspective and has identified four reportable segments.

Segment information provided to Envestra Management

The segment information provided to management for the reportable segments for the financial year ended 30 June 2014 is disclosed in the tables below. The measurement of these amounts is consistent with the financial statements.

	Victoria	NSW	South Australia and other	Queensland	Unallocated	Consolidated
	\$M	\$M	\$M	\$M	\$M	\$M
2014						
Total segment revenue/income	195.6	25.5	250.3	83.0	-	554.4
Total segment operating costs	(65.1)	(6.3)	(62.8)	(18.2)	-	(152.4)
Earnings before interest, tax, depreciation, impairment and amortisation	130.5	19.2	187.5	64.8	-	402.0
Depreciation and impairment	(26.1)	(4.3)	(23.9)	(7.9)	-	(62.2)
Profit before finance costs	104.4	14.9	163.6	56.9	-	339.8
Net finance costs						(121.1)
Profit before income tax						218.7
Income tax expense						(65.7)
Net profit after tax						153.0
Segment assets	1,689.2	164.5	1,128.8	394.3	12.2	3,389.0
Segment liabilities	40.5	2.4	30.6	5.8	2,448.7	2,528.0
Acquisitions of property, plant and equipment	110.1	4.7	106.6	35.1	-	256.5
Depreciation expense	27.6	4.3	23.9	7.9	-	63.7
Other non-cash expenses	-	-	2.2	-	-	2.2

	Victoria	NSW	South Australia and other	Queensland	Unallocated	Consolidated
	\$M	\$M	\$M	\$M	\$M	\$M
2013						
Total segment revenue / income	189.8	25.6	216.9	75.2	-	507.5
Total segment operating costs	(63.8)	(5.4)	(59.3)	(18.7)	-	(147.2)
Earnings before interest, tax, depreciation, impairment and amortisation	126.0	20.2	157.6	56.5	-	360.3
Depreciation and impairment	(25.2)	(4.0)	(21.9)	(7.5)	-	(58.6)
Profit before finance costs	100.8	16.2	135.7	49.0	-	301.7
Net finance costs						(147.9)
Profit before income tax						153.8
Income tax expense						(46.0)
Net profit after tax						107.8
Segment assets	1,608.3	163.7	1,052.3	368.7	43.9	3,236.9
Segment liabilities	39.2	1.8	66.8	8.9	2,278.4	2,395.1
Acquisitions of property, plant and equipment	92.8	5.2	87.2	29.2	-	214.4
Depreciation expense	25.3	4.0	21.9	7.5	-	58.7
Other non-cash expenses	1.3	(0.7)	2.6	-	-	3.2

	2014	2013
	\$M	\$M
Profit before income tax includes the following expenses:		
<i>Depreciation and impairment</i>		
Depreciation on buildings	0.1	0.1
Depreciation on plant and equipment	63.6	58.6
Impairment reversal	(1.5)	(0.1)
	62.2	58.6
<i>Other charges against assets</i>		
Bad and doubtful debts – trade debtors	0.1	-
<i>Net Finance costs</i>		
<i>Finance income</i>		
Interest income	0.3	0.9
	0.3	0.9
<i>Finance costs</i>		
Interest and indexation	117.9	141.6
Ineffective derivatives	(2.6)	(0.5)
Fees on financing facilities	2.4	3.7
Amortisation of debt establishment and credit insurance costs	3.7	4.0
	121.4	148.8
	121.1	147.9
Employee benefits expense	5.1	4.8
Land management provision expense/(reversal of unused amounts)	-	(0.7)

	2014	2013
	\$M	\$M
Income tax expense		
Deferred tax	65.7	46.0
	65.7	46.0
<i>Attributable to:</i>		
Profit from continuing operations	65.7	46.0
<i>Deferred income tax expense included in income tax expense comprises:</i>		
Decrease/(increase) in deferred tax assets (note 13)	6.6	(7.7)
Increase in deferred tax liabilities (note 18)	59.1	53.7
	65.7	46.0
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	218.7	153.8
Tax at the Australian tax rate of 30% (2013: 30%)	65.6	46.1
<i>Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:</i>		
Deferred tax recognised on asset sale	-	(0.2)
Sundry items	0.1	0.1
Total income tax expense	65.7	46.0
Amounts recognised directly in equity		
<i>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</i>		
Net deferred tax – debited/(credited) directly to equity	(8.0)	9.3
Unrecognised temporary differences		
Deferred tax assets not recognised	2.2	2.0

Tax consolidation legislation

Envestra Ltd and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2002. Vic Gas Distribution Pty Ltd and The Albury Gas Co Ltd joined the Envestra Tax Consolidated Group on 2 July 2007. Envestra (NSW) Pty Ltd joined the Envestra Tax Consolidated Group effective 29 October 2010. The accounting policy in relation to this legislation is set out in note 1 (X).

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 liabilities 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 agreement 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.

NOTE

7

CASH AND CASH EQUIVALENTS

	2014	2013
	\$M	\$M
Cash at bank – interest bearing	3.5	1.0
	3.5	1.0

NOTE

8

RECEIVABLES

	2014	2013
	\$M	\$M
Current		
Trade receivables	75.9	82.2
Other receivables	-	0.6
Provision for impairment of receivables	(0.1)	(0.1)
	75.8	82.7
Non-Current		
Trade receivables	2.5	4.8
	2.5	4.8

Impaired trade receivables

A loss of \$82,579 (2013: \$17,984) has been recognised in the income statement in respect of bad debts written off during the year ended 30 June 2014.

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

	2014	2013
	\$	\$
Balance at the beginning of the financial year	50,000	138,489
Receivables written off during the year as uncollectable	-	(58,489)
Reversed due to collection of debt	-	(30,000)
Balance at the end of the financial year	50,000	50,000

Note: These amounts have not been rounded.

Past due but not impaired

As of 30 June 2014, trade receivables of \$0.3 million (2013: \$0.5 million) were past due but not impaired. The ageing of these trade receivables is as follows:

	2014	2013
	\$M	\$M
31 to 60 days	0.2	0.1
Over 90 days	0.1	0.4
	0.3	0.5

Of the \$0.3 million of debtors over 30 days at 30 June 2014, \$0.2 million has now been collected.

Significant terms and conditions

Haulage revenue receivable from retailers in respect of the South Australian, Queensland and Northern Territory networks consists of billed revenue related to gas deliveries and is due within 30 days of billing date. 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 to three 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.

Credit risk

Envestra's customers using the South Australian, Queensland and Northern Territory networks are required to pay for gas delivered within 30 days and credit risk is centred on the large retailers.

Under the National Energy Customer Framework (NECF) retailers in South Australia are required to provide bank guarantees in accordance with a pre-defined formula. As a result of this pre-defined formula, only one retailer in South Australia is required to provide a bank guarantee, and as at 30 June 2014, a bank guarantee for \$11.7 million was in place.

One retailer in the Northern Territory is required to prepay an estimate of two months haulage services in advance. As at 30 June 2014 the prepayment totalled \$127,000 (2013: \$173,000).

Retailers using the Victorian and NSW networks pay in arrears for haulage services, and credit risk is centred on the large retailers. The Group has exercised its right under the various haulage revenue contracts with Victorian retailers to demand bank guarantees from certain retailers who do not possess investment grade credit ratings. At 30 June 2014 there were five bank guarantees in place with an aggregate value of \$5.7 million (2013: \$5.3 million).

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.

Fair value

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

DERIVATIVE FINANCIAL INSTRUMENTS

	2014	2013
	\$M	\$M
Non-current assets		
Cross currency swap contracts – fair value and cash flow hedges	8.8	42.9
	8.8	42.9
Current liabilities		
Interest rate swaps – cash flow hedges	0.8	2.3
Non-current liabilities		
Interest rate swaps – cash flow hedges	51.6	43.3
	52.4	45.6
Net derivative liabilities	43.6	2.7

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).

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.

At 30 June 2014, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2014	2013
	\$M	\$M
Less than 1 year	350.0	900.0
1–2 years	600.0	-
2–3 years	-	600.0
3–4 years	600.0	-
	1,550.0	1,500.0

The Group also has \$300 million of forward-starting interest rate swaps in place from 1 July 2015 to 31 December 2017.

The gain or loss from re-measuring 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 to the income statement when the hedged interest expense is recognised. The ineffective portion is recognised in income immediately. In the year ended 30 June 2014, there were no amounts recognised in the income statement (2013: \$0.5 million profit).

At balance date these hedging contracts were recorded as liabilities with a fair value of \$52.4 million (2013: liabilities of \$45.6 million). In the year ended 30 June 2014 there was a decrease in fair value of \$6.8 million (2013: increase of \$24.2 million).

CROSS CURRENCY SWAPS – FAIR VALUE AND CASH FLOW HEDGES

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

At 30 June 2014, the notional principal amounts and periods of expiry of the cross currency swap contracts are as follows:

	2014	2013
	\$M	\$M
Less than 1 year	-	-
1–2 years	68.4	-
2–3 years	-	101.7
3–4 years	121.7	19.2
Greater than 5 years	629.4	751.1
	819.5	872.0

The gain or loss from re-measuring hedging instruments used in fair value hedges to fair value is recorded in the income statement. To the extent these hedges are effective, offsetting entries are recorded against the underlying debt instruments. Ineffective portions result in a net impact to the income statement. In the year ended 30 June 2014 the ineffective portion resulted in a \$2.6 million profit (2013: \$nil). The increase in the ineffective portion in 2013-14 relates to the requirement in AASB 13 *Fair Value Measurement* to include credit risk in the valuation of derivatives. At balance date these contracts were assets with fair value of \$8.8 million (2013: assets of \$42.9 million). In the year ended 30 June 2014 there was a decrease in fair value of \$34.1 million (2013: increase of \$28.5 million). The 2013-14 movement was due to the increase in the Australian dollar exchange rate with the US dollar during the year, and movements in US and Australian interest rates. Fair value hedge movements offset against the hedged item were \$16.7 million (2013: \$9.3 million).

Credit risk

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.

The Group undertakes all of its transactions in foreign exchange and interest rate contracts with “A” rated financial institutions. Management has established limits such that, at any time, no more than \$500 million of notional principal amounts are with any single counterparty. The carrying amount of derivative assets recorded in the financial statements represents the Group’s maximum exposure to credit risk as at 30 June 2014 in relation to those assets.

FAIR VALUE MEASUREMENT

Prior to the implementation of AASB 13 *Fair Value Measurement* on 1 July 2013, the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant. As a result of this change, the fair value of derivative liabilities changed on transition to AASB 13, due to incorporating own credit risk into the valuation.

Interest rate risk exposures

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

NOTE

10

OTHER ASSETS

	2014	2013
	\$M	\$M
Current		
GST receivable	2.3	1.7
Deferred licence fee	-	0.1
Prepayments	0.7	0.7
	3.0	2.5

NOTE

11

PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Freehold buildings	Plant and equipment	Total
	\$M	\$M	\$M	\$M
<i>At 1 July 2012</i>				
Cost	4.3	4.6	2,988.4	2,997.3
Accumulated depreciation	-	(1.9)	(653.7)	(655.6)
Net book amount	4.3	2.7	2,334.7	2,341.7
<i>Year ended 30 June 2013</i>				
Opening net book amount	4.3	2.7	2,334.7	2,341.7
Additions	-	0.2	214.2	214.4
Depreciation charge	-	(0.1)	(58.6)	(58.7)
Disposals	(0.3)	(0.1)	-	(0.4)
Closing net book amount	4.0	2.7	2,490.3	2,497.0
<i>At 30 June 2013</i>				
Cost	4.0	4.6	3,199.5	3,208.1
Accumulated depreciation	-	(1.9)	(709.2)	(711.1)
Net book amount	4.0	2.7	2,490.3	2,497.0
<i>Year ended 30 June 2014</i>				
Opening net book amount	4.0	2.7	2,490.3	2,497.0
Additions	-	0.2	256.3	256.5
Depreciation charge	-	(0.1)	(63.6)	(63.7)
Impairment/other	(0.4)	-	-	(0.4)
Closing net book amount	3.6	2.8	2,683.0	2,689.4
<i>At 30 June 2014</i>				
Cost	3.6	4.8	3,455.8	3,464.2
Accumulated depreciation	-	(2.0)	(772.8)	(774.8)
Net book amount	3.6	2.8	2,683.0	2,689.4

Valuation of land and buildings

An independent valuation of land and buildings was undertaken during the 2011-12 year by registered valuers. (Certain property assets had updated valuations completed in the 2013-14 year). The market valuations of these properties (incorporating valuations from 2011-12 and 2013-14) were in excess of the carrying values by approximately \$4.5 million. The valuation of the properties did not take into account any potential remediation costs. A land management cost provision of \$6.3 million (2013: \$9.9 million) has been included in the financial statements at 30 June 2014 in relation to freehold land. The Directors have decided to continue to carry land and buildings at cost less depreciation.

Non-current assets pledged as security

Refer to note 15 for information on non-current assets pledged as security by the Group.

INTANGIBLE ASSETS

	2014	2013
	\$M	\$M
Cost	606.0	606.0
Accumulated amortisation	-	-
Net book amount	606.0	606.0

NOTE
12

Impairment tests for intangible assets

Intangible assets comprise the distribution licences held by Vic Gas Distribution Pty Ltd (Victoria) and Envestra (NSW) Pty Ltd (New South Wales), and other intangible assets held by Envestra (NSW) Pty Ltd. The recoverable amount of the Victoria and NSW cash-generating units (CGU) is based on value in use calculations.

Key assumptions used for value-in-use calculations

The CGU 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 and anticipate long-term average growth rates of 1% to 3%. The pre-tax discount rate used was 7.7% (2013: 7.8%).

The assumptions applied to value-in-use calculations have been determined with reference to historic information, current performance and expected changes in operations taking into account pertinent information.

NOTE

13

DEFERRED TAX ASSETS

	2014	2013
	\$M	\$M
The balance comprises temporary differences attributable to:		
Accrued expenses	0.8	0.4
Provision for employee benefits	0.4	0.3
Deferred equity and debt raising costs	0.4	0.6
Deferred revenue	1.2	1.2
Provision for Carbon Tax permits costs	0.8	0.7
Derivatives	7.1	-
Deferred costs	0.7	-
Tax losses	145.8	152.6
	157.2	155.8
Set-off of deferred tax liabilities pursuant to set-off provisions (note 18)	(157.2)	(155.8)
Net deferred tax assets	-	-
Movements:		
Balance at the beginning of the financial year	155.8	157.6
Credited/(debited) to the income statement (note 6)	(6.6)	7.7
Credited/(debited) to equity	8.0	(9.5)
Balance at the end of the financial year	157.2	155.8

NOTE

14

PAYABLES

	2014	2013
	\$M	\$M
Trade payables	53.4	47.2
	53.4	47.2

BORROWINGS

The Envestra Group owns 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 27 years to promote liquidity and minimise refinancing risk.

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

	2014	2013
	\$M	\$M
Current		
Commercial Paper	-	3.0
	-	3.0
Non-Current		
Bank loans	298.6	174.4
Capital Indexed Bonds	250.4	243.2
Medium Term Notes	634.1	633.1
US Private Placement Notes	960.3	968.8
	2,143.4	2,019.5
Total	2,143.4	2,022.5

Total secured liabilities

Total secured liabilities (current and non-current) are as follows:

	Principal outstanding	Book value	Principal outstanding	Book value
	2014	2014	2013	2013
	\$M	\$M	\$M	\$M
Bank loans	300.5	298.6	169.5	174.4
Commercial Paper	-	-	3.0	3.0
Capital Indexed Bonds	258.5	250.4	251.9	243.2
Medium Term Notes	645.0	634.1	645.0	633.1
US Private Placement Notes	984.5	960.3	984.5	968.8
	2,188.5	2,143.4	2,053.9	2,022.5

Book value of debt differs from principal outstanding due to the loans including unamortised borrowing costs and adjustments for fair value of derivatives.

Assets pledged as security

The carrying amounts of assets pledged as security for borrowings are:

	2014	2013
	\$M	\$M
<i>Current – floating charge</i>		
Cash and cash equivalents	3.4	0.9
Receivables	71.7	79.2
Other assets	3.0	2.5
	78.1	82.6
<i>Non-current – floating charge</i>		
Receivables	2.5	4.8
Property, plant and equipment	2,597.0	2,404.5
Intangibles	585.6	585.6
Derivative financial instruments	8.8	42.9
	3,193.9	3,037.8
Group assets not pledged as security	117.0	116.5
Total Group assets per balance sheet	3,389.0	3,236.9

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.

Envestra and its senior debt financiers are parties to a deed, known as the Intercreditor Deed Poll, which sets out various events of default, representations, warranties and undertakings relating to the provision of debt and hedging arrangements to the Group. The occurrence of an event of default (as defined in the Intercreditor Deed Poll) gives Envestra's financiers the right to require repayment of debt and close out hedging arrangements, subject to certain majority approval requirements. The acceleration of debt, or close out of hedges, may give rise to "swap breakage", "make-whole" and other costs being incurred.

Generally, events of default (as defined in the Intercreditor Deed Poll) concern adverse changes in Envestra's financial position or business, including the Interest Service Cover Ratio falling below 1.2:1 or the ratio of Total Indebtedness to Regulatory Asset Value exceeding 1.05:1. A change in control (in accordance with the relevant accounting standard) is also an event of default but only if a majority of financiers (more than 66.7%) declare the change in control "unacceptable". This declaration can only be made 60 days or more after the change in control occurs.

On 7 August 2014, the offer from the CK Consortium to acquire all Envestra shares was declared "unconditional" upon it reaching the 50% minimum acceptance level of the offer. Accordingly a change in control of the Envestra Group occurred. As part of the takeover process a sufficient number of binding confirmations have been obtained from Envestra's financiers to ensure that the change in control will not be declared "unacceptable" for the purposes of the Intercreditor Deed Poll.

At 30 June 2014, the Group was in compliance with all covenants and undertakings.

Group funding and liability structure

The Envestra Group's total interest bearing debt principal outstanding as at 30 June 2014 was \$2,188.5 million comprising a range of financial instruments with varying maturities 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 for terms generally up to three years.

COMMERCIAL PAPER

The Envestra Group had no Commercial Paper on issue at 30 June 2014 (2013: \$3.0 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.

The Commercial Paper and Medium Term Note Program is supported by undrawn committed bank facilities of \$219.0 million at 30 June 2014.

CAPITAL INDEXED BONDS

These bonds are due to mature in August 2025. The principal component is indexed by the quarterly movement in the CPI.

MEDIUM TERM NOTES

Medium Term Notes totalling \$645.0 million (2013: \$645.0 million) are instruments issued under the Medium Term Note Program for varying terms and as at 30 June 2014 had terms to maturity of up to 12 years. They are classified as non-current in accordance with these dates.

US PRIVATE PLACEMENT NOTES

Notes with a principal value of A\$984.5 million (2013: A\$984.5 million) are issued in the United States of America for terms ending in 2015, 2018, 2021, 2022, 2023, 2027, 2033 and 2041. Included in these are \$165 million in Australian dollars, while the remainder are in US dollars. There are cross currency swaps in place to swap both the principal and interest payments from the US dollar fixed coupon to Australian dollar floating rate for the term of the respective note.

Financing arrangements

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

	2014	2013
	\$M	\$M
<i>Bank loan facilities</i>		
Total facilities	519.5	569.5
Used at balance date	300.5	169.5
Unused at balance date	219.0	400.0

Fair values

The fair value of current borrowings approximates their carrying amount since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. The fair value of non-current borrowings where it does not approximate carrying amount 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. Carrying amounts also include unamortised debt establishment costs.

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

	Carrying amount	Fair value	Carrying amount	Fair value
	2014	2014	2013	2013
	\$M	\$M	\$M	\$M
<i>Non-traded financial liabilities</i>				
Bank loans	298.6	300.4	174.4	177.2
US Private Placement Notes	960.3	964.4	968.8	973.4
<i>Traded financial liabilities</i>				
Capital Indexed Bonds	250.4	234.6	243.2	210.7
Medium Term Notes	634.1	645.0	633.1	645.0
Commercial Paper	-	-	3.0	3.0
	2,143.4	2,144.4	2,022.5	2,009.3

Risk exposures

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

NOTE

16

PROVISIONS

	2014	2013
	\$M	\$M
Current		
Employee benefits	0.8	0.7
Carbon Tax permit costs	2.7	2.4
Land management costs	-	0.2
	3.5	3.3
Non-Current		
Employee benefits	0.2	0.2
Other employee and Director entitlements	0.3	0.3
Land management costs	6.3	9.9
	6.8	10.4
Total	10.3	13.7

LAND MANAGEMENT COSTS

Provisions for future environmental remediation are recognised where there is a present obligation as a result of the manufacture of gas from coal 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.

Movements in provisions

Movement in provisions (current and non-current), other than employee and Director benefits, during the financial year are set out below:

	Carbon permit costs	Land management costs	Total
	\$M	\$M	\$M
<i>At 1 July 2012</i>	-	19.9	19.9
<i>Charged/(credited) to profit and loss</i>			
Additional provision recognised	9.0	-	9.0
Unused amounts reversed	-	(0.9)	(0.9)
Amounts paid during the year	(6.6)	(8.9)	(15.5)
Balance at 30 June 2013	2.4	10.1	12.5
<i>Charged/(credited) to profit and loss</i>			
Additional provision recognised	11.0	-	11.0
Unused amounts reversed	-	(1.9)	(1.9)
Amounts paid during the year	(10.7)	(1.9)	(12.6)
Balance at 30 June 2014	2.7	6.3	9.0

OTHER LIABILITIES

NOTE
17

	2014	2013
	\$M	\$M
Prepayments from energy retailers	0.2	50.7
Accrued costs	2.9	2.4
Interest accrued	8.5	13.8
Other deferred income	4.0	4.0
	15.6	70.9

DEFERRED TAX LIABILITIES

NOTE
18

	2014	2013
	\$M	\$M
The balance comprises temporary differences attributable to:		
Provision for equity and debt raising	6.2	6.8
Other	0.1	0.3
Provision for land management costs	(1.9)	(3.1)
Derivatives	-	0.2
Excess of book value over tax value of property, plant and equipment	405.7	346.8
	410.1	351.0
Set-off of deferred tax assets pursuant to set-off provisions (note 13)	(157.2)	(155.8)
Net deferred tax liabilities	252.9	195.2
Movements:		
Balance at the beginning of the financial year	351.0	297.3
Charged to the income statement (note 6)	59.1	53.7
Balance at the end of the financial year	410.1	351.0

CONTRIBUTED EQUITY

Share capital and other equity components

	2014	2013	2014	2013
	Securities	Securities	\$M	\$M
<i>Ordinary shares</i>				
Issued and paid up capital	1,796,808,474	1,796,808,474	868.1	868.1
Deferred tax liability component			1.6	1.6
Total contributed equity			869.7	869.7

Movements in contributed equity

Date	Details	Number of Securities	Issue Price	\$M
1 July 2012	Opening balance	1,572,392,111		651.8
31 October 2012	Dividend reinvestment plan	30,941,386	\$0.87	26.9
16 April 2013	Share placement	131,313,131	\$0.99	130.0
30 April 2013	Dividend reinvestment plan	29,636,943	\$1.01	29.9
21 May 2013	Share purchase plan	32,524,903	\$0.99	32.2
				219.0
	Transaction costs			(1.8)
	Less: Deferred tax			0.7
30 June 2013	Closing balance	1,796,808,474		869.7
Current year transactions		-		-
30 June 2014	Closing balance	1,796,808,474		869.7

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.

Dividend reinvestment plan ("DRP")

The Company has established a DRP under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares have been issued under the DRP at a 2.5% and 4.0% discount to the market price. Continuation of the DRP is subject to approval by the Board of Directors at the time dividend payments are authorised. The DRP was suspended for the 2013-14 year.

Share placement

The Company conducted a Share Placement in April 2013 under which new institutional investors and APA Group acquired \$130 million of new equity. Shares were issued at 99 cents per share.

Share purchase plan

The Company has a Share Purchase Plan under which eligible shareholders are able to acquire new Envestra shares up to a value of \$15,000.

The Company conducted a Share Purchase Plan in May 2013, with shareholders subscribing for \$32.2 million of new equity. Shares were issued at 99 cents per share, being the equivalent price of the Share Placement (refer above).

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders 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 monitors 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 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 2014 and 30 June 2013 were as follows:

	2014	2013
	\$M	\$M
Total borrowings (note 15)	2,143.4	2,022.5
Add back unamortised fees	25.0	28.0
Add back hedges impact on borrowings	20.1	3.4
Total borrowings	2,188.5	2,053.9
Less cash and cash equivalents (note 7)	(3.5)	(1.0)
Net debt	2,185.0	2,052.9
Total assets	3,389.0	3,236.9
Less cash and cash equivalents	(3.5)	(1.0)
Total non-cash assets	3,385.5	3,235.9
Ordinary shares (number)	1,796,808,474	1,796,808,474
Share price at 30 June (\$)	1.36	0.99
Market value of equity (\$M)	2,443.7	1,787.8
Book Value Gearing Ratio	64.5%	63.4%
Market Value Gearing Ratio	47.2%	53.5%

The Group has a financial covenant for its borrowing facilities which limits debt to being no more than 100% of the Regulatory Asset Base (RAB). During the 2014 and 2013 reporting periods, the Group's ratio was well within this covenant, with the Debt:RAB ratio being 73% at 30 June 2014 (72% at 30 June 2013).

NOTE

20

RESERVES AND RETAINED EARNINGS / (ACCUMULATED LOSSES)

	2014	2013
	\$M	\$M
Reserves		
Hedging reserve – cash flow hedges	(18.4)	0.4
<i>Movements:</i>		
Balance at the beginning of the financial year	0.4	(23.0)
Fair value movements	(26.8)	33.4
Deferred tax	8.0	(10.0)
Balance at the end of the financial year	(18.4)	0.4
Retained earnings / (accumulated losses)		
Movements in retained earnings / (accumulated losses) were as follows:		
Balance at the beginning of the financial year	(28.3)	(42.4)
Profit for the year	153.0	107.8
Dividend paid	(115.0)	(93.7)
Balance at the end of the financial year	9.7	(28.3)

Nature and purpose of reserves**HEDGING RESERVE – CASH FLOW HEDGES**

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

NOTE

21

DIVIDENDS

	2014	2013
	\$M	\$M
Ordinary shares		
Unfranked dividend – October: 3.2 cents (2014); 2.9 cents (2013)	57.5	45.6
Unfranked dividend – April: 3.2 cents (2014); 3.0 cents (2013)	57.5	48.1
	115.0	93.7

Dividends not recognised at year end

On 11 July 2014 the Directors declared the payment of an unfranked dividend of 3.5 cents per fully paid ordinary share. The aggregate amount of this dividend that was paid on 25 July 2014 is \$62.9 million. This dividend is not recognised as a liability at year end.

	2014	2013
	\$	\$
Key management personnel compensation		
Short-term employee benefits	3,343,980	2,876,250
Post-employment benefits	160,816	140,674
	3,504,796	3,016,924

Detailed remuneration disclosures are provided in sections A – D of the Remuneration Report on pages 28 to 35.

Equity instrument disclosures relating to key management personnel

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 parties, are set out below. There were no shares granted during the reporting period as remuneration.

Ordinary Shares	Balance at the start of the year	Changes during the year	Balance at the end of the year
2014			
<i>Directors of Envestra Ltd</i>			
J G Allpass	399,632	-	399,632
I B Little	151,362	-	151,362
E F Ainsworth	66,000	-	66,000
O B O'Duill	231,923	-	231,923
M J McCormack	66,681	-	66,681
<i>Other key management personnel of the Group</i>			
D Petherick	239,608	-	239,608
G Meredith	22,485	-	22,485

Ordinary Shares	Balance at the start of the year	Changes during the year	Balance at the end of the year
2013			
<i>Directors of Envestra Ltd</i>			
J G Allpass	363,029	36,603	399,632
I B Little	138,865	12,497	151,362
E F Ainsworth	66,000	-	66,000
O B O'Duill	223,438	8,485	231,923
M J McCormack	54,693	11,988	66,681
<i>Other key management personnel of the Group</i>			
D Petherick	231,123	8,485	239,608
G Meredith	14,000	8,485	22,485

NOTE

23

REMUNERATION OF AUDITORS

	2014	2013
	\$	\$
PwC Australia		
Audit and other assurance services		
Audit and review of financial statements	252,729	227,047
<i>Other assurance services</i>		
Merger/takeover due diligence	79,850	-
Audit of regulatory financial statements	-	33,100
Audit of reported gas volumes	24,250	12,000
	356,829	272,147
Taxation services		
Merger/takeover due diligence and advisory	205,802	-
Tax compliance and other services	58,398	36,100
	264,200	36,100
Other services		
Advisory services	-	28,069
Total remuneration of PwC Australia	621,029	336,316

It is the Group's policy to engage PricewaterhouseCoopers (PwC) on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are likely to provide benefits. These assignments are principally tax compliance, auditing of regulatory statements and assistance with regulatory submissions. During the year, PwC were also engaged to provide advisory and due diligence services in relation to the merger and takeover proposals received from APA Group and the CK Consortium.

NOTE

24

RELATED PARTY TRANSACTIONS

Parent entity

The ultimate parent entity within the Group is Envestra Ltd.

Subsidiaries

Interests in subsidiaries are set out in note 25.

Key management personnel compensation

Disclosures relating to key management personnel are set out in note 22.

Transactions with related parties

The following transactions occurred with related parties:

	2014	2013
	\$	\$
Expenses		
Payments for operation and management of the networks	106,190,000	108,881,000
Payments for capital expenditure relating to the networks	260,378,000	215,272,000

Outstanding balances arising from transactions with related parties

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties for the operation and management of the networks and capital expenditure relating to the networks:

	2014	2013
	\$	\$
Trade payables	43,010,000	38,260,000

Terms and conditions

All transactions were made in accordance with executed commercial arrangements and/or on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

SUBSIDIARIES

NOTE

25

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	
			2014	2013
			%	%
Vic Gas Distribution Pty Ltd (1)	Australia	Ordinary	-	-
The Albury Gas Co Ltd (1)	Australia	Ordinary	-	-
Envestra (SA) Ltd (2) (9)	Australia	Ordinary	-	-
Envic Holdings 1 Pty Ltd (3)	Australia	Ordinary	100	100
Envic Holdings 2 Ltd (4)	Australia	Ordinary	-	-
Envestra Victoria Pty Ltd (5)	Australia	Ordinary	-	-
Envestra (NSW) Holdings 2 Pty Ltd (6)	Australia	Ordinary	-	-
Envestra (NSW) Holdings 3 Pty Ltd (7)	Australia	Ordinary	-	-
Envestra (NSW) Pty Ltd (8)	Australia	Ordinary	-	-
Envestra (QLD) Ltd (9)	Australia	Ordinary	100	100
Envestra (SA) Holdings 1 Ltd (9)	Australia	Ordinary	100	100
Envestra (NSW) Holdings 1 Pty Ltd	Australia	Ordinary	100	100

1) Vic Gas Distribution Pty Ltd is a subsidiary of Envestra Victoria Pty Ltd. The Albury Gas Co Ltd is a subsidiary of Vic Gas Distribution Pty Ltd.

2) Envestra (SA) Ltd is a subsidiary of Envestra (SA) Holdings 1 Ltd.

3) The book value of the investment in Envic Holdings 1 Pty Ltd is \$100.

4) Envic Holdings 2 Ltd is a subsidiary of Envic Holdings 1 Pty Ltd.

5) Envestra Victoria Pty Ltd is a subsidiary of Envic Holdings 2 Ltd.

6) Envestra (NSW) Holdings 2 Pty Ltd is a subsidiary of Envestra (NSW) Holdings 1 Pty Ltd.

7) Envestra (NSW) Holdings 3 Pty Ltd is a subsidiary of Envestra (NSW) Holdings 2 Pty Ltd.

8) Envestra (NSW) Pty Ltd is a subsidiary of Envestra (NSW) Holdings 3 Pty Ltd.

9) 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 26.

DEED OF CROSS GUARANTEE

Envestra Ltd, Envestra (SA) Holdings 1 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.

Consolidated income statement and a summary of movements in consolidated accumulated losses

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 accumulated losses for the year ended 30 June 2014 of the Closed Group consisting of Envestra Ltd, Envestra (SA) Holdings 1 Ltd, Envestra (SA) Ltd and Envestra (QLD) Ltd.

	2014	2013
	\$M	\$M
<i>Income statement</i>		
Total revenue and income	333.3	292.2
Network operating costs	(68.0)	(65.6)
Gas purchases	(10.9)	(11.3)
Corporate development, property and administration costs	(10.7)	(8.8)
Depreciation and impairment	(31.9)	(29.4)
Net finance costs	(59.3)	(65.9)
Profit before income tax expense	152.5	111.2
Income tax expense	(45.8)	(33.4)
Net profit after tax	106.7	77.8
<i>Summary of movements in consolidated accumulated losses</i>		
Accumulated losses at the beginning of the financial year	(87.9)	(72.0)
Net profit after tax for the financial year	106.7	77.8
Dividend paid	(115.0)	(93.7)
Accumulated losses at the end of the financial year	(96.2)	(87.9)

Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2014 of the Closed Group consisting of Envestra Ltd, Envestra (SA) Holdings 1 Ltd, Envestra (SA) Ltd and Envestra (QLD) Ltd.

	2014	2013
	\$M	\$M
ASSETS		
Current assets		
Cash and cash equivalents	2.9	0.5
Receivables	33.8	39.8
Other assets	3.7	1.3
Total current assets	40.4	41.6
Non-current assets		
Receivables	163.6	170.6
Investment in subsidiaries	508.9	508.9
Property, plant and equipment	1,484.8	1,374.9
Derivative financial instruments	9.1	-
Total non-current assets	2,166.4	2,054.4
Total assets	2,206.8	2,096.0
LIABILITIES		
Current liabilities		
Payables	26.6	21.9
Provisions	2.2	1.9
Other liabilities	7.1	62.6
Total current liabilities	35.9	86.4
Non-current liabilities		
Borrowings	1,296.1	1,166.4
Provisions	0.5	0.4
Derivative financial instruments	34.3	32.6
Deferred tax liabilities	92.0	55.6
Total non-current liabilities	1,422.9	1,255.0
Total liabilities	1,458.8	1,341.4
Net assets	748.0	754.6
EQUITY		
Contributed equity	869.7	869.7
Reserves	(25.5)	(27.2)
Accumulated losses	(96.2)	(87.9)
Total equity	748.0	754.6

NOTE

27

ECONOMIC DEPENDENCY

The Envestra Group has three major customers. They are:

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

The Envestra Group has a contract with APA Asset Management to operate and maintain the networks.

NOTE

28

RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2014	2013
	\$M	\$M
Profit after income tax	153.0	107.8
Depreciation and amortisation	67.4	62.7
Indexation of Capital Indexed Bonds	6.6	5.4
Other deferred revenue	-	2.5
Gain on disposal of land and plant and equipment	-	(0.5)
<i>Change in operating assets and liabilities</i>		
(Increase)/decrease in trade debtors	9.2	(3.6)
(Increase)/decrease in other operating assets	(0.5)	1.8
Increase/(decrease) in trade creditors and other liabilities	(55.8)	11.7
Increase in provision for deferred income tax	65.7	46.0
Net cash inflow from operating activities	245.6	233.8

NOTE

29

NON-CASH INVESTING AND FINANCING ACTIVITIES

Dividends satisfied by the issue of shares under the Dividend Reinvestment Plan in 2012-13 are shown in note 19.

NOTE

30

EARNINGS PER SHARE

	2014	2013
	cents	cents
Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company	8.5	6.6

Diluted earnings per share

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

	2014	2013
	Number	Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,796,808,474	1,629,119,095

Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2014	2013
	\$M	\$M
<i>Balance sheet</i>		
Current assets	40.4	41.6
Total assets	2,751.6	2,649.4
Current liabilities	35.9	86.4
Total liabilities	2,433.4	2,345.5
<i>Shareholders equity</i>		
Issued capital	869.7	869.7
Reserves – cash flow hedges	(25.5)	(27.2)
Accumulated losses	(526.0)	(538.6)
	318.2	303.9
Profit for the year	127.4	6.6
Total comprehensive income for the year	129.1	18.1

Guarantees entered into by the parent entity

There are cross guarantees given by Envestra Ltd, Envestra (SA) Holdings 1 Ltd, Envestra (SA) Ltd and Envestra (QLD) Ltd as described in note 26.

Contingent liabilities of the parent entity

The parent entity had contingent liabilities as at 30 June 2014 as disclosed in note 34. The parent had no material contingent liabilities at 30 June 2013.

Contractual commitments for the acquisition of property, plant and equipment

The parent entity had no contractual commitments for the acquisition of property, plant or equipment as at 30 June 2014 or 30 June 2013.

Investment in subsidiaries

The recoverable amount of investments in subsidiaries is based on a calculation of the equity value in the subsidiary. 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 and anticipate long-term average growth rates of 1% to 3%. The discount rate used was 8.4% (2013: 8.6%).

NOTE

32

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 7 August 2014, the offer from the CK Consortium to acquire all Envestra shares was declared “unconditional” upon it reaching the 50% minimum acceptance level of the offer. Accordingly a change of control of the Envestra Group occurred. The implication of the change in control to the CK Consortium, particularly in relation to future strategic direction and potential developments, cannot be determined at the date of this report. The CK Consortium’s intentions regarding future operations are broadly outlined in the Bidders Statement sent to shareholders on 4 July 2014.

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

NOTE

33

COMMITMENTS

Operating leases

Envestra has non-cancellable operating leases for office space and warehouses expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. Excess office space is sublet to third parties and the warehouses are sublet to APA Asset Management as its works depot, also under non-cancellable operating leases.

	2014	2013
	\$M	\$M
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	1.5	1.5
Later than one year but not later than five years	1.0	2.2
Later than five years	0.3	0.5
	2.8	4.2
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	2.6	3.7

Other expenditure commitments as at 30 June 2014 are contracted by the Company’s operator (APA Group).

NOTE

34

CONTINGENT LIABILITY

As outlined in “CK Consortium takeover proposal” in the Directors’ Report, the CK Consortium takeover offer was declared “unconditional” upon it reaching the 50% minimum acceptance level of the offer. Accordingly a change of control of the Envestra Group occurred. On the offer being declared “unconditional”, a Financial Advisory Transaction Fee is payable to Goldman Sachs. The amount payable is \$14.6 million (excluding GST), with \$0.9 million of the fee accrued in 2013-14.

IN THE DIRECTORS' OPINION:

- (a) the financial statements and notes set out on pages 37 to 78 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its 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 28 to 35 of the Directors' Report comply with Accounting Standard 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 26 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 26.

Note 1(A) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declaration by the Managing Director and Group Manager – Finance required by section 295A of the *Corporations Act 2001* and have received an assurance that the declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

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



John G Allpass
Chairman

Adelaide 14 August 2014



Independent auditor's report to the members of Envestra Limited

Report on the financial report

We have audited the accompanying financial report of Envestra Limited (the company), which comprises the balance sheet as at 30 June 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Envestra Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those 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 consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

Level 11, 70 Franklin Street, ADELAIDE SA 5000, GPO Box 418, ADELAIDE SA 5001
T +61 8 8218 7000, F +61 8 8218 7999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation



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

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 consolidated entity's financial position as at 30 June 2014 and of its 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*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 28 to 35 of the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Andrew Forman
Partner

Adelaide
14 August 2014

Gas Delivered (TJ) – A terajoule is equal to one joule multiplied by 10¹²

	2014		2013		2012		2011		2010		2009		2008		2007		2006		2005	
	<10 TJ	Total																		
Victoria	33,673	50,980	35,625	53,843	34,605	54,954	36,851	57,803	32,924	53,909	34,540	55,628	32,922	55,441	30,838	53,543	32,309	55,322	31,264	54,325
South Australia	9,876	32,144	10,461	32,938	10,346	33,231	11,658	35,923	10,822	34,961	11,072	35,988	10,435	36,050	10,602	36,435	11,564	37,376	10,549	36,754
Queensland	2,243	15,403	2,264	16,377	2,322	16,465	2,313	16,644	2,138	15,773	2,242	16,497	2,148	16,468	2,084	16,026	2,094	14,802	2,091	14,730
New South Wales	2,331	6,281	2,600	6,468	2,504	6,432	1,991	5,297	1,284	3,359	1,248	3,567	1,203	3,675	1,179	3,557	1,282	3,515	1,157	3,513
Northern Territory	66	3,350	70	3,337	70	3,550	65	3,287	60	3,378	63	3,275	69	3,184	64	3,335	68	3,280	65	3,085
Total	48,189	108,168	51,020	112,963	49,847	114,632	52,878	118,954	47,228	111,380	49,165	114,955	46,777	114,818	44,767	112,896	47,317	114,295	45,126	112,407

Effective Degree Days (A measure of coldness used to model the daily gas demand and weather relationship)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Victoria	1,154	1,337	1,293	1,465	1,265	1,368	1,274	1,290	1,340	1,294
South Australia	679	857	970	1,126	921	1,032	905	960	1,042	966

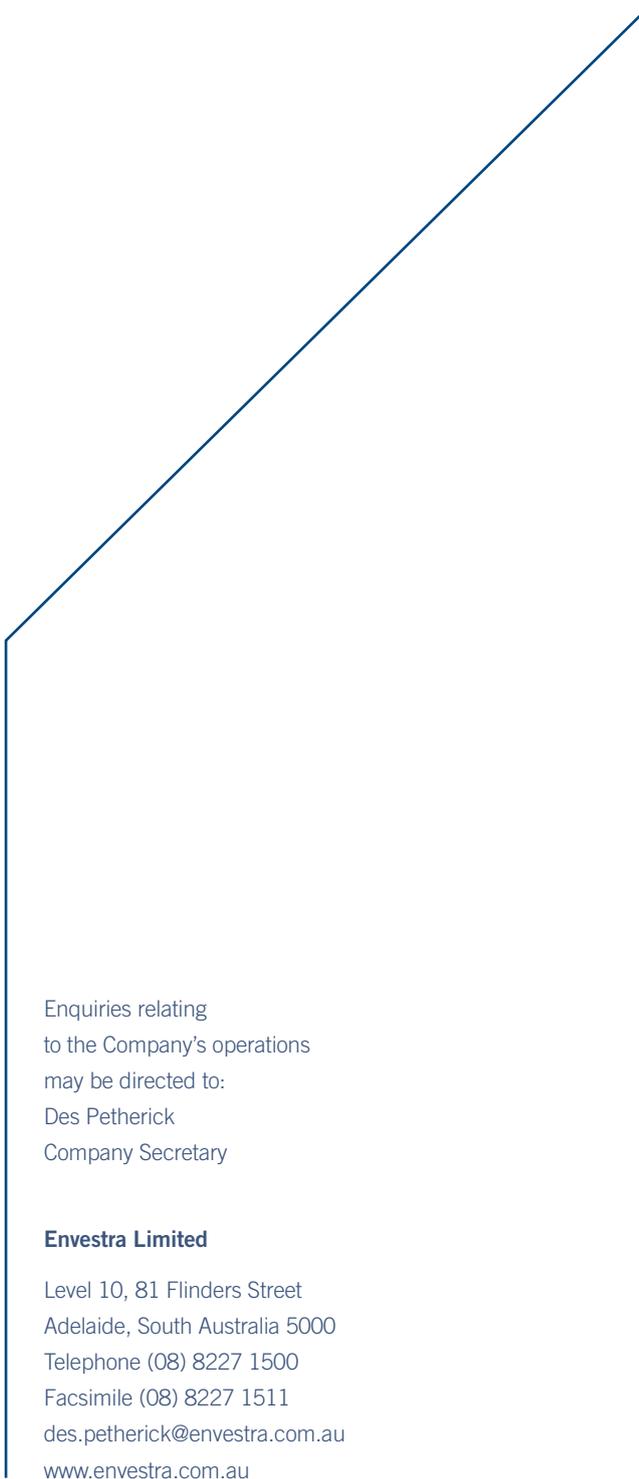
Consumers

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Victoria	613,454	601,228	587,440	571,705	556,120	541,831	528,496	514,979	501,845	489,003
South Australia	423,462	417,222	410,706	403,474	395,285	388,198	381,280	374,196	367,515	360,746
Queensland	92,852	90,988	89,098	87,074	84,715	82,478	79,727	77,237	76,175	75,164
New South Wales	53,876	52,924	51,882	51,119	23,831	23,376	22,905	22,327	21,648	20,878
Northern Territory	1,135	1,100	1,090	1,084	1,080	1,047	1,047	1,024	999	993
Total	1,184,779	1,163,462	1,140,216	1,114,456	1,061,031	1,036,930	1,013,455	989,763	968,182	946,784

Assets	Victoria		South Australia		Queensland		New South Wales		Northern Territory		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
New mains (km)	111	123	55	51	32	27	7	8	-	-	205	209
New Inlets	11,723	12,553	7,387	7,484	2,353	1,922	595	490	-	-	22,058	22,449
Replacement mains (km)	193	145	264	201	55	61	-	10	-	-	512	417
Total mains (km)	10,447	10,353	7,950	7,836	2,703	2,692	1,842	1,842	39	39	22,981	22,762
Transmission pipelines (km)	373	373	224	224	284	284	84	84	159	159	1,124	1,124

NETWORK STATISTICS

Envestra Ltd



Enquiries relating
to the Company's operations
may be directed to:
Des Petherick
Company Secretary

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



ENVESTRA LTD

Level 10, 81 Flinders Street, Adelaide
South Australia 5000
Telephone (08) 8227 1500
ACN 078 551 685
www.envestra.com.au