9.5 CENTS
STABLE RETURNS PER SECURITY

FOR THE YEAR ENDED 30 JUNE 2006

INVESTING IN ENERGY INFRASTRUCTURE INTO THE NEW MILLENNIUM

THE ANNUAL REPORT OF ENVESTRA

APPROVED BY ENVESTRA

NUMBER 1

COMPANY HIGHLIGHTS 2006

The regulatory Access Arrangements for Queensland and South Australia were renewed with effect from 1 July 2006. The Access Arrangements set out the terms and conditions under which Envestra will distribute natural gas for retailers for the next five years. We are not satisfied with the determination made by the South Australian regulator and accordingly expect to lodge a legal appeal to have the matter reviewed.

Regulation of ENVESTRA'S networks

$200 Million REFINANCED

The Company refinanced $200 million of August 2007 Capital Indexed Bonds (CIBs) (adjusted principal) with $220 million of August 2025 CIBs. The average loan duration for the Envestra Group is now around 12 years.

COLD SNAP in final quarter

A "cold-snap" in the final quarter of 2006 enabled the Company to achieve a better than forecast full-year result. A loss after tax of $6.4 million was recorded, a $9.9 million improvement on the loss of $16.3 million in the previous year.

ENVESTRA CONTINUED ITS STEADY GROWTH by the addition of 21,400 new consumers to the Company's networks. Of these, almost all were domestic and small commercial consumers, from which the Company generates about 90 per cent of its revenue.

NATURAL GAS EXTENSION PROGRAM

SUBSTANTIAL PROGRESS was made in expanding the Company's gas network to a number of regional towns in Victoria under that Government's Natural Gas Extension Program. About $20 million is being invested in these projects over three years.

Returns to SHAREHOLDERS

Distributions to shareholders were maintained at **9.5 CENTS** delivering a cash yield of 8.5 per cent based on the price of the Company's stapled securities at 30 June 2005 of $1.12. The total return to shareholders was 11.2 per cent, being the cash yield and 3 per cent capital gain.

Key FINANCIAL RESULTS

- Cash flow from operating activities increased by 30 per cent to $99.3 million.
- Profit, before tax and loan note interest, increased 46 per cent to $46.7 million.
- Loss after tax was $6.4 million compared to $16.3 million in 2004-05 (AIFRS adjusted).

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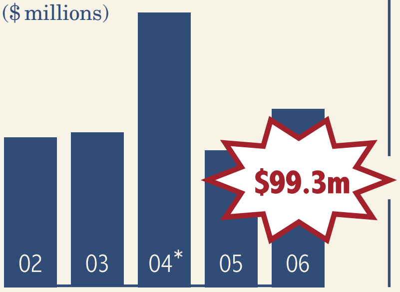
www.envestra.com.au

Total distributions to shareholders ($ millions)

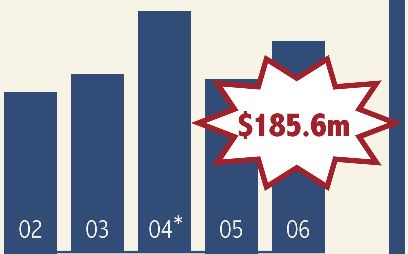
Further details on page 15.

Cash flow from operations ($ millions)



Further details on page 15.

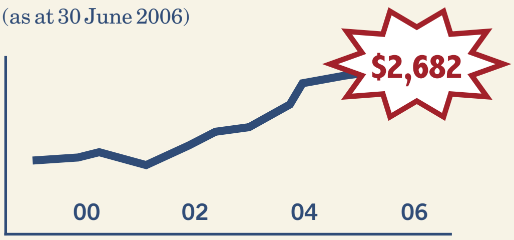
Profit ($ millions) (before financing costs & income tax)



Further details on page 15.

* Includes $54.6 million from the South Australian Government.

Accumulated return to shareholders (as at 30 June 2006)



$1,000 invested in 1997.

Want more INFORMATION?

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THE 2006 ANNUAL GENERAL MEETING OF ENVESTRA LIMITED (ACN 078 551 685) WILL BE HELD AT 10:00AM ON WEDNESDAY 1 NOVEMBER AT THE ADELAIDE CONVENTION CENTRE, NORTH TERRACE, ADELAIDE.

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2006-07 FINANCIAL CALENDAR

(Subject to confirmation)

30 NOVEMBER 2006
First-half distribution paid

27 FEBRUARY 2007
Half-year financial results announced

31 MAY 2007
Second-half distribution paid

24 AUGUST 2007
Full-year financial results announced

1 NOVEMBER 2007
Annual General Meeting

SERVING AUSTRALIA'S ENERGY NEEDS FOR MORE THAN 150 YEARS . . . THE SPIRIT OF ENVESTRA FORGES AHEAD.

CHAIRMAN'S AND MANAGING DIRECTOR'S REVIEW

Envestra's business strategy from its inception has been to operate in a narrow band of the energy industry, namely the distribution and transmission sector. Our focus is on ownership of what are generally regulated monopoly assets. This has been deliberately matched with our financing strategy where we have, over many years, aimed to diversify our debt between banks and capital markets and extend the maturity dates of the loan portfolio. We have raised capital, on the equity side, from investors seeking stable cash returns over the long-term, and on the bond side, from long-term investors looking for reliable interest payments and a stable credit outlook.

The Company performed well against most operational and financial measures. A warm first-half was offset by very cold weather in the last three months of the year, with full-year revenue increasing by $25.4 million, or eight per cent, to $343.0 million.

Shareholders received total distributions for the year of 9.5 cents per stapled security. Based on the 30 June 2005 price of our stapled securities of $1.12, a cash yield of 8.5 per cent was generated, with total returns to shareholders over the year, including the growth in the value of the stapled securities from $1.12 to $1.15 at 30 June 2006, amounting to 11.2 per cent. Envestra's stability and security continues to attract investors seeking predictable and tax-effective returns.

About 14 per cent, or 3,000 shareholders, participated in the Distribution Reinvestment Plan (DRP), which applied to the distributions for the six months ended 30 September 2005 and 31 March 2006. Both offers under the DRP were underwritten by Goldman Sachs JBWere. A total of 44.6 million new securities were issued during the year raising almost $50 million in new equity.

The volume of gas delivered to domestic and small industrial and commercial consumers was 47.3 petajoules, a 4.9 per cent increase on the previous year due mainly to a "cold snap" in Victoria and South Australia in April to June. The total volume of gas delivered was up 1.7 per cent.

Almost 21,400 consumers were connected to our networks, bringing the total consumers supplied to around 968,200.

Operating costs were down $0.2 million as a result of bid costs related to Dampier to Bunbury Pipeline being recorded in the prior year, offset mainly by higher costs of gas used in the distribution networks.

Full Retail Contestability (FRC) allows gas consumers to choose their preferred gas retailer. Such competition aims to encourage lower energy prices to consumers and increased service levels. FRC was introduced in Victoria in October 2002 and South Australia in July 2004. The Company is recovering the funds invested, about $60 million, in the information technology systems developed to support FRC in Victoria and South Australia, and the associated operating costs, through the tariffs charged to retailers, or in the case of South Australia, largely from the government. Full-year revenue from this investment was $27.7 million.

In South Australia, the government reimbursed Envestra in June 2004 for the capital invested in the FRC system for that State as well as making an advance payment for the operating costs for the first five years. The purpose of the payment was to hold down the price of gas to consumers. The total payment was $54.6 million and under the new international accounting standards, this payment is now being recorded as revenue over the five-year period.

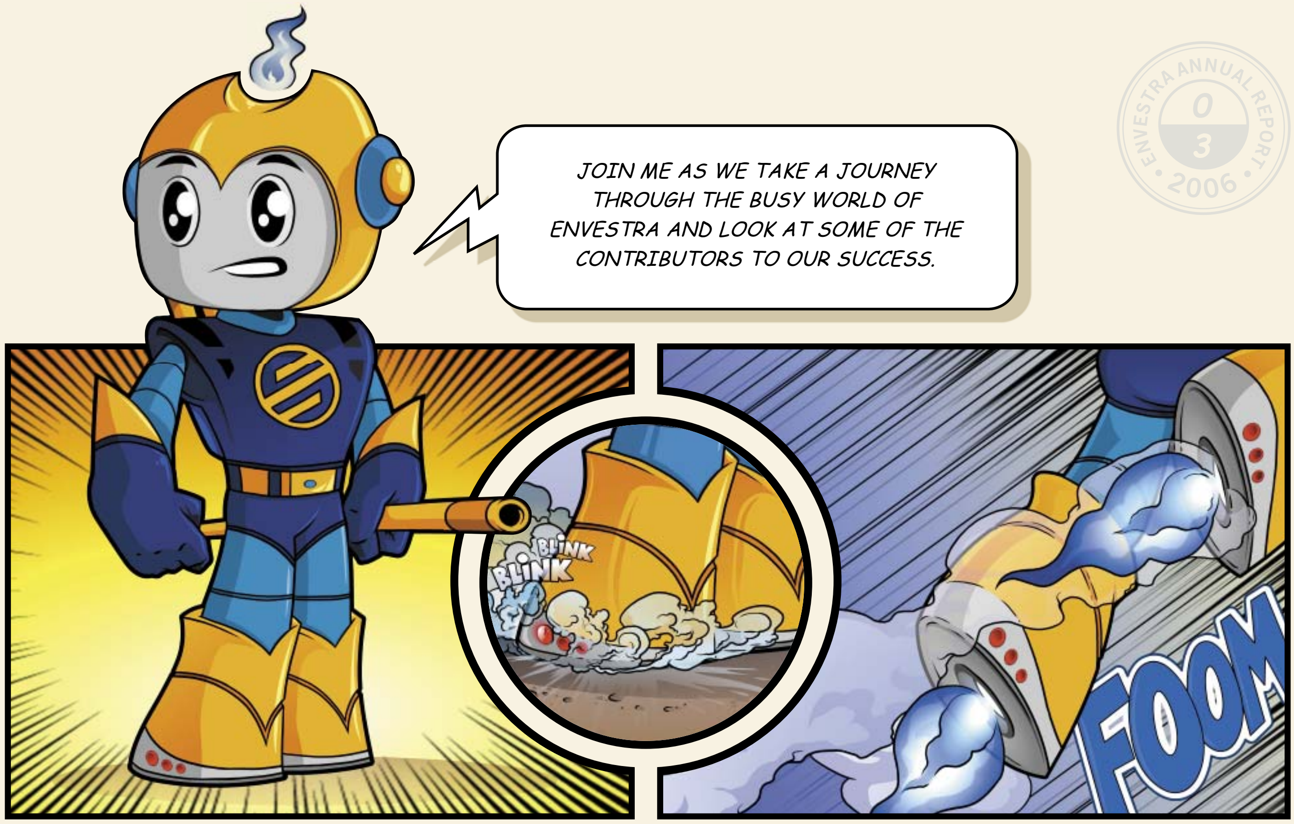
Regulatory resets

During the year the Access Arrangements for South Australia and Queensland were reviewed by the Essential Services Commission of South Australia (ESCOSA) and the Queensland Competition Authority (QCA). These were extremely time consuming and complex review processes.

Queensland

A revised Access Arrangement for the Queensland network was approved by the QCA on 28 June. The following key parameters apply from 1 July 2006.

- Revenue of $37 million in 2006-07, increasing to $46 million in 2010-11, with total revenue over the five-year period of $207 million. Revenue for Queensland in 2005-06 was $34.4 million.
- Capital expenditure of $73 million over the five-year period (up $23 million).
- Operating and management costs of $90 million over the five-year period.



- An adjusted regulatory asset base of $228 million as at 1 July 2006 increasing to $307 million by the end of the five-year period.
- An 8.80 per cent rate of return (post-tax nominal) on our investments in the State.

South Australia

ESCOSA has not yet completed its review of Envestra's Access Arrangement for the South Australian network. Final approval is expected in mid-September 2006. Should the final approval be consistent with the decision released by ESCOSA on 30 June 2006, the following key parameters would apply from 1 July 2006.

- A "smoothed" revenue path over the period of $120 million in 2006-07, increasing to $142 million in 2010-11, to provide stable adjustments to distribution tariffs. Revenue for South Australia in 2005-06 was $120 million.
- Capital expenditure of $214 million over the five-year period (up $105 million).
- Operating and management costs of $275 million over the five-year period.
- An adjusted regulatory asset base of $827 million at 1 July 2006 increasing to $1,038 million by the end of the five-year period.
- A 6.14 per cent rate of return (pre-tax real) on our investments in the State.

Whilst the outcome in Queensland represents a reasonable basis for continuing our extensive investment program in the State, ESCOSA's decision for South Australia falls short of our expectations. We will review the final approval when it is issued in September at which time we will determine our future investment plans for South Australia and whether we will appeal the decision.

Further commentary on the regulatory regime appears on page 6.

Impact of international accounting standards

The Australian Accounting Standards Board has adopted Australian equivalents to International Financial Reporting Standards (AIFRS). The adoption of AIFRS is reflected in the Envestra Group's financial statements for the year ended 30 June 2006.

The Company was required to restate its comparative financial statements, with the exception of the financial instruments standards, for the year ended 30 June 2005 to reflect the transition to AIFRS. The key retrospective adjustments required on transition were recorded against opening retained earnings as at 1 July 2004.

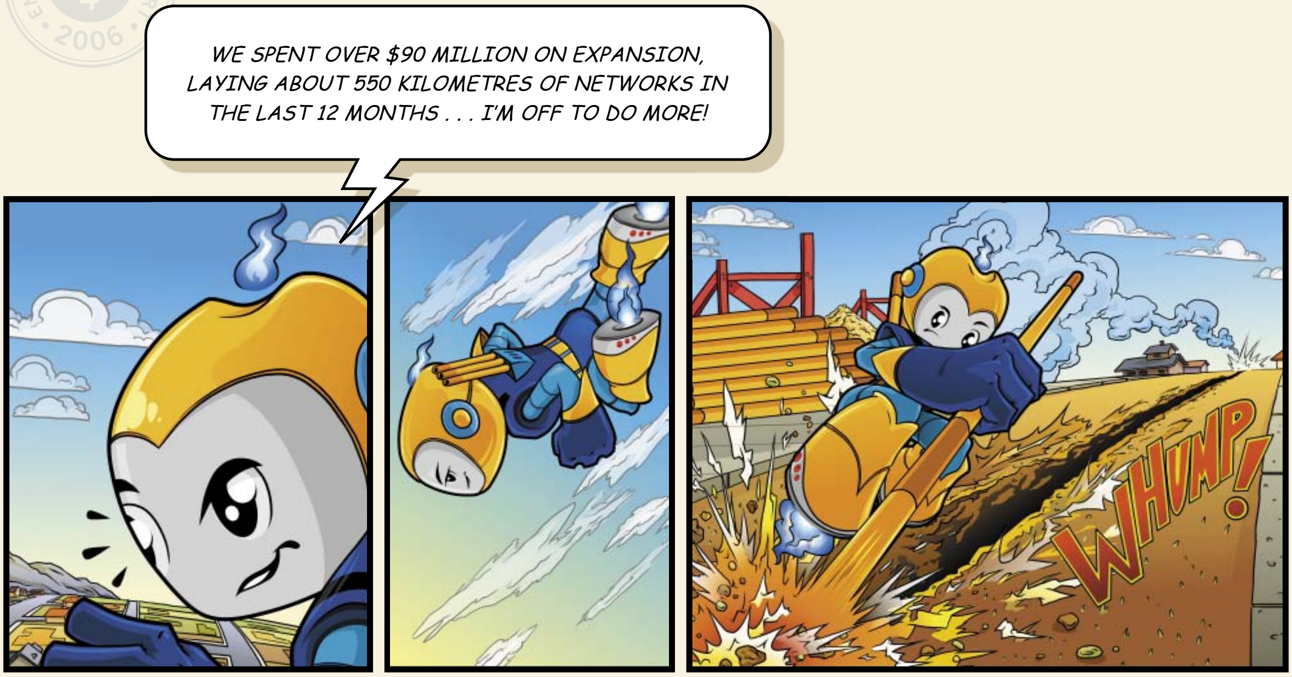
Further details on this issue are contained in Note 40 of the Financial Statements.

Sound growth, strong underlying value

Envestra derives about 90 per cent of its income from domestic consumers. The number of consumers supplied by our networks grows steadily by two to three per cent per annum, and mainly consists of new domestic consumers.

The Company continued with its substantial capital expenditure program in 2005-06, by extending the networks in Victoria, South Australia and Queensland, as well as reinforcing and enhancing the capacity of existing networks in Brisbane and Adelaide, and to a lesser degree, also in Melbourne.

As in previous years, the take-up rate of natural gas in new subdivisions



exceeded 95 per cent in Victoria and South Australia. We continued our regional network development program undertaken in conjunction with support from the Victorian Government, with developments in Bairnsdale, Paynesville, Hurtsbridge and the Mornington Peninsula.

In support of the above activities, Envestra maintains close contact with property and land developers, as well as major building companies, through its network development activities. These relationships ensure natural gas is made available in most new housing and light industrial developments in the areas in which Envestra operates.

Total capital expenditure amounted to $92.1 million, which will be added to our regulatory asset base and form the basis of ongoing revenues for many years.

Stapled securities and distributions

Since Envestra's distributions to investors are paid from cash flows, we can be reasonably confident in forecasting distributions because of the stable nature of our business. This stability is supported by the steady annual growth in consumers mentioned above and the strong cash flows the business generates. Envestra is therefore attractive to investors with a focus on yield. At year end, the number of shareholders on our register was 20,650.

The full-year distribution for 2005-06 of 9.5 cents comprised 3.36 cents interest on the balance of the loan note and 6.14 cents repayment of the loan note principal. The latter is not taxable as income, but does reduce the cost base for capital gains tax purposes.

We expect that distributions for the next few years will be maintained at about the current level. The amounts paid will be determined by a variety of factors including our performance against the new Access Arrangements in South Australia and Queensland and the current Access Arrangement in Victoria.

Managing our finances

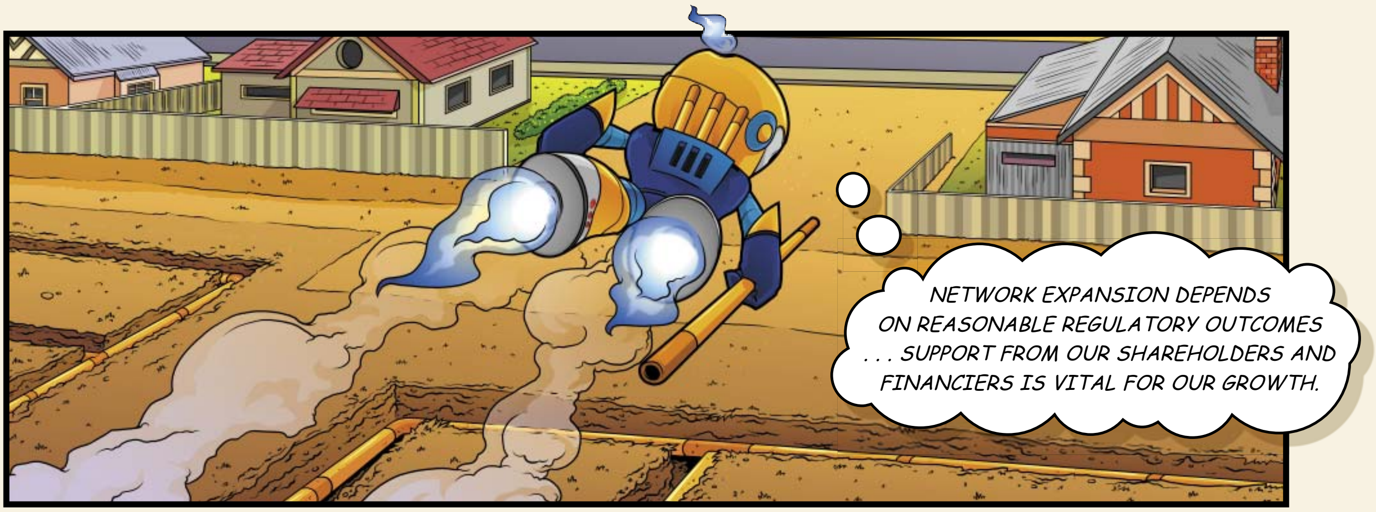
Energy infrastructure companies typically have gearing ratios that are higher than most industrial companies as their debt is supported by regulated revenue and long-life assets. As an infrastructure company with long-life assets, our view is that this gearing provides the most efficient cost of capital for the Envestra Group (gearing is defined as the ratio of net debt to net debt plus market value of equity).

The gearing ratio at 30 June 2006 was 68 per cent, a level comparable with many of our utility industry peers.

We aim to ensure that the Company's debt is diversified between banks and capital markets and that the maturity dates of the loan portfolio are spread over a large number of years to mitigate re-financing risk.

Our substantial capital expenditure program requires a range of financing initiatives to be put in place. During the year we chose to take advantage of favorable market conditions for capital indexed bonds and re-financed existing bonds due to mature in 2007 with new 20-year bonds. This action continued our policy of recent years of seeking to extend the duration of the Company's loan portfolio to better match the life of the underlying assets. Envestra now has one of the longest duration debt portfolios (average of 12 years) of any publicly listed Australian company with some maturities extending through to 2033.

Along with the management of debt, management of our interest rate risk is a high priority. The various State Regulators determine our allowable rates of return when they approve the Access Arrangements for each network



at five-yearly intervals. Some 76 per cent of our debt is “floating rate”, albeit subject to hedging arrangements that are put in place to match the regulatory periods. This enables Envestra to transact hedges at the time of the regulatory decisions to protect against interest rate movements.

We believe these strategies ensure security of cashflows and mitigate re-financing risk with a view to ensuring reliable long-term returns to our shareholders.

Our credit rating was reviewed and downgraded to BBB- by Standard & Poor’s in July 2006 following the South Australian regulatory decision, which was deemed unfavourable. Although still regarded as an investment grade rating reflecting the stable nature of our business, we are concerned about the impact this will have on our ability to borrow funds at competitive rates to partly fund our substantial capital expenditure program. The matter will be further reviewed when the outcome of the expected regulatory appeal is known.

Our liquidity at year-end remained strong, with $26.4 million in cash and $258.0 million available in unused bank facilities. Short-term Commercial Paper on issue at 30 June totalled $75.2 million.

Managing our assets

Origin Energy Asset Management’s operating performance in 2005-06 was such that there was record expansion of our networks and more customers were added to our distribution networks than ever before. Our safety performance, whilst not without incident, was still among the best in the industry with no major mishaps in the year. Outstanding leaks at the end of the year were the lowest for many years and OEAM achieved a record level of mains replacement. Moreover, this was achieved at a cost commensurate with that of the previous year. This performance is what was envisaged for efficient distributors when the Gas Code was promulgated in 1998 and it is a testament to OEAM’s employees and sub-contractors that those aspirations are being achieved.

During the year the Office of the Technical Regulator (OTR) in South Australia audited our Safety, Reliability and Technical Management Plan and Gas Measurement Plan, while Energy Safe Victoria audited OEAM’s network planning functions. The OTR focused on leakage management, including unaccounted for gas, field operational activities, emergency response procedures in regional areas and the 2006-07 mains renewal program. The results confirmed our operational effectiveness, adequacy of technical change management and contractors’ performance.

The Victorian Essential Services Commission (ESC) also conducts an audit each year in relation to specific regulatory compliance issues.

Envestra undertakes technical audits in relation to the operation of its networks on an ongoing basis. In addition to technical audits undertaken by Regulators, this provides assurance that OEAM is maintaining and operating the networks in a prudent manner and in accordance with appropriate codes and standards. The audits are conducted by independent engineering consultants, and in 2005-06 concentrated on the operation and maintenance of Envestra’s transmission pipelines, corrosion protection and gas quality.

The 2005-06 audits did not identify any material areas of non-compliance.

Energy industry regulation

Fundamental to achieving our financial objectives for shareholders and capital providers, is a stable regulatory environment. The Company's operations are extremely capital intensive with some $90 million per annum required in recent years to expand our operations and improve our networks.

The gas industry has been generally well served by the National Gas Access Regime that was established in 1998. While there are a number of improvements that could be made to the existing regime, it has provided a transparent and independently adjudicated regulatory process that is now relatively mature. The process is well understood by industry participants and, if operated by Regulators in the manner intended from inception, is generally regarded as an effective means of setting appropriate distribution and transmission tariffs, and at the same time, encouraging new investment through ensuring adequate returns are available to owners of the assets.

In the past two years, governments through the Ministerial Council of Energy (MCE) have sought to create a new agenda for regulatory intervention. These initiatives followed the Federal Government's request to the Productivity Commission, in June 2003, to undertake a review of the Gas Access Regime. The Productivity Commission published its report in June 2004 and made some very useful recommendations to improve the regime. Unfortunately, many of the proposed reforms were not embraced by various State Governments, with the result that initiatives for reform, whilst including some of the Productivity Commission's recommendations, have largely focused on efforts to align the regulatory structures within the gas industry to those of the electricity industry. From our viewpoint, and one shared by many in the electricity industry, this is a retrograde step, as much of the current gas regime was developed with a view to improving on the complex and heavy handed regulatory structures that have hampered the electricity industry since the mid-1990s.

The most recent manifestation of reforms included proposed new "Gas (and Electricity) Laws" to cover the energy sector. The initial "Consultation Papers" provided by the MCE suggest that the reforms will cause regulatory uncertainty and biased outcomes to consumers, and do little to encourage further investment by asset owners in the gas industry at a time when there is unprecedented demand for new infrastructure. We therefore continue to voice our concerns to governments to ensure regulatory stability is maintained and the attractive features of the current Gas Access Regime are preserved and not sacrificed in the interests of securing consistency with the electricity sector.

The reform process has led to the establishment of two national energy bodies in June 2004: the Australian Economic Regulator (AER) and the Australian Energy Market Commission (AMEC). The move to the national regulator for gas distribution networks was due to occur in 2005, but will now not occur until July 2007, due to the inability of the MCE to enact the necessary legislation in time. This means that effective jurisdiction over most of our networks by the national regulator will not take place before 2011. In the meantime, the cost of maintaining both the existing (and multiple) State regulators, as well as the national bodies, continues.

In May 2006 the MCE announced the following key components of its 2006 program:

- The transfer of economic regulation of gas and electricity distribution networks to AER and AEMC.
- The implementation of the MCE response to the Productivity Commission review of the Gas Access Regime released in May 2006 including light-handed regulatory approaches, a common objects clause and incentives for greenfields pipelines.
- A limited merits review model for both gas and electricity.
- The MCE's response to the report of its Expert Panel on Revenue and Network Pricing – adopting recommendations on pricing principles and a 'fit-for-purpose' decision-making framework.
- Amendments to the *Australian Energy Market Commission Establishment Act 2004* to implement the MCE's November 2005 decision to establish a long-term consumer advocacy funding model for both gas and electricity advocacy.

As mentioned previously, we remain cautious about these developments, but are hopeful real improvements in the regulatory regime will evolve. We intend to review the exposure drafts of the new laws and rules and, where appropriate, make submissions relevant to our operations. It is expected that the laws and rules will come into effect from 1 July 2007.

CONSUMERS	GAS DELIVERED (TJ)[ii]	GAS MAINS (KM)[iii]
498,098 Victoria	55,322 Victoria	8,594 Victoria
371,262 South Australia	37,376 South Australia	7,492 South Australia
76,175 Queensland	14,802 Queensland	2,408 Queensland
22,647 New South Wales *(21,648)* Northern Territory *(999)*	6,795 New South Wales *(3,515)* Northern Territory *(3,280)*	591 New South Wales *(556)* Northern Territory *(35)*
Total consumers[i] 968,182	Total gas delivered 114,295	Total mains 19,085

(i) Total consumers does not include properties supplied with bulk hot water via hot water meters. Further details on page 84.

(ii) Joules are a measure of energy. A terajoule (TJ) is equal to one joule multiplied by 10^{12}. Further details on page 84.

(iii) Total mains takes account of mains abandoned during the year. Further details on page 84.

Security of supply

As a result of the Longford gas plant explosion in 1998 and a similar incident at Moomba in January 2004 a number of strategic infrastructure initiatives have been completed to bolster the security of gas supplies in Victoria, South Australia and New South Wales. They include the SEAGas transmission pipeline from Western Victoria to Adelaide and the Eastern Gas Pipeline from Longford to Sydney as well as the underground storage facility at Iona west of Geelong in Victoria. This new infrastructure facilitates the interchange of gas between capital cities during an emergency.

These initiatives have been supplemented by the development of major offshore gas fields in western Victoria, which are connected to the SEAGas transmission pipeline and another in eastern Victoria connected to existing transmission infrastructure, further enhancing supplies in south-eastern Australia.

Envestra intends to contribute to South Australia's security of supply by constructing facilities in its Adelaide network to allow supplies via the SEAGas pipeline to be injected into the northern part of the network. It is expected that work on this project will commence in early 2007, subject to satisfactory resolution of our Access Arrangement with ESCOSA.

In Queensland, the ongoing development of new coal seam methane deposits continues to improve security of supply in that State.

The Ministerial Council of Energy has issued a National Gas Emergency Response Protocol as the forerunner to establishing an advisory committee to provide advice to Ministers in the event of a major natural gas supply shortage affecting more than one State. Once established, the committee should provide a more coordinated approach if such an emergency occurs.

Mains replacement program

Since 1997 the Company has replaced about 1,850 kilometres of cast iron and steel mains and inlets, mainly in Adelaide and Brisbane.

The refurbishment of the mains is being achieved predominantly by inserting polyethylene pipe through the old mains, which significantly reduces the cost of replacement and disruption to the community.

During the year, 84 kilometres of mains were replaced in South Australia, 36 kilometres in Queensland and 45 kilometres in Victoria. The program will continue in 2006-07, with approximately 160 kilometres of mains forecast to be replaced at an estimated cost of $17 million.

Growth opportunities

The year has been marked by increased government interest in the long-term supply of energy and an enhanced recognition of the impact of carbon emissions on the world's climate. It is becoming increasingly recognised that natural gas is well placed to benefit from these longer-term energy supply developments given its pre-eminence as a fossil fuel with minimal carbon emissions. The increasing availability of natural gas to the east coast of Australia, with significant growth in coal seam methane sources (particularly in Queensland), the potential development of the Papua New Guinea pipeline, new traditional supplies in Victoria and the increasing inter-connectivity of the national system, suggests that natural gas will retain a strong position in the Australian energy mix for many years, thereby underlining the strong foundation on which our business model is based.

We are beginning to see growth in overseas markets – particularly Europe and South America – in natural gas vehicles and the first product trials for combined heat and power appliances in domestic homes. These market initiatives for natural gas, if adopted in Australia, would provide significant growth profile for natural gas usage in the longer-term. We will accordingly be seeking to encourage these developments through governments and manufacturers.

During the year the Company completed the second stage of the extension of its natural gas network north of Melbourne to the major growth corridor around Whittlesea, as part of a $20 million program to be implemented over the next 20 years. It is expected that about 30,000 new dwellings will be built in this region over the period, with the vast majority of homes being connected to natural gas via Envestra's network.

Construction also commenced on new networks in the south-east of the State at Bairnsdale and Paynesville; Balnarring, Somers and St Andrews Beach; and north of Melbourne at Hurstbridge. The projects are being partly funded under the Victorian Government's Regional Natural Gas Program.

Sustainability

Working with the community

Envestra, through Origin Energy Asset Management Limited (OEAM), undertakes strategic partnerships to promote the benefits of natural gas, build and maintain business relationships, source market intelligence and generate new growth opportunities. The partnerships include the:

- Housing Industry Association.
- Master Builders Association.
- Urban Development Institute.
- Property Council of Australia.

These activities also include assistance to industry organisations. During the year we supported:

- Hospitality Group training: apprentice chefs and other hospitality trainees.
- Gas-fitter training: OEAM employs 13 apprentices.
- Cookers in schools program: 900 natural gas cookers are installed in more than 125 schools.
- Top Hat Awards: apprentice chefs compete at the Regency International Centre for Hospitality, Leisure and Food Studies. Envestra promotes the awards and supplies natural gas commercial cooking appliances to the school.
- Pickard Foundation: supporting hospitals, schools, education programs and environmental groups.
- Royal Melbourne Institute of Technology Student Awards: prizes for TAFE students undertaking food technology courses.
- Regency Institute of TAFE School of Plumbing Awards: recognising outstanding students in gas-fitting.

The Company also continued to support a range of community organisations and events, including the Adelaide Symphony Orchestra, Adelaide Festival of Arts and Fringe Festival, Trees for Life, Carclew Youth Arts Centre, Urban Myth Youth Theatre Group and the Jam Factory. Gas distribution is an essential community service and we believe our involvement with, and contribution to, these organisations reflects our corporate values and social responsibility.

Health and safety of our people

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


WE'RE AUSTRALIA'S LARGEST DISTRIBUTOR OF NATURAL GAS, CONTINUALLY EXPANDING OUR NETWORKS ACROSS THE COUNTRY AND NOW DELIVERING NATURAL GAS TO ALMOST ONE MILLION CONSUMERS.

We have responsibility to ensure that our major contractor, OEAM, adopts a sound approach to this important business activity. OEAM has over 1,100 employees and contractors working for Envestra and during the year five lost-time injuries (LTIs) were sustained by its employees, and two among its contractors. These compare with nil and eight the previous year, respectively. In Queensland, OEAM's employees have not suffered a LTI for over 10 years, which is an outstanding achievement.

OEAM's focus is now largely on the frequency of lost time and moderate injuries (LMFR), which more accurately measures an organisation's occupational health and safety performance. OEAM recorded a LMFR of 7.8 in 2005-06. This is a very good outcome considering the manual nature of many of the activities undertaken.

During the year, 47 safety and environmental audits and 22 emergency response exercises were conducted on our networks. These activities did not identify any major issues.

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

Environmental benefits of natural gas

As Australia's largest distributor of natural gas, we take pride in our role in the distribution and transmission of this environmentally friendly fuel.

Envestra plays a key role in promoting the use of natural gas through advertising and network development programs, particularly through direct promotional activities with land and property developers and builders, as well as incentives paid to encourage the installation of major gas appliances. These activities continue to ensure we maintain a penetration rate for natural gas, in new subdivisions, in excess of 95 per cent in South Australia and Victoria.

The Victorian Government, in addition to its five-star energy rating system for new dwellings, requires the installation of natural gas boosted solar energy hot water units wherever natural gas is available. In South Australia and Queensland, the governments have acted to prevent standard electric hot water services being installed in new dwellings, leaving only high efficiency natural gas, solar and heat pumps as alternatives. These initiatives are a clear recognition of the environmental importance of using natural gas to help reduce greenhouse gas emissions.

Appliance research and safety

Envestra supports the improvement in safety and technology associated with natural gas appliances through bodies such as the Australian Standards Association. We are represented on code committees for appliances and installation and are a member of the Gas Appliances Manufacturers' Association, which represents manufacturers, importers and agents, all of whom work to increase appliance safety and efficiency. Additionally, Envestra has supported the installation and promotion of gas heat pump technology for commercial airconditioning applications and is currently investigating the development and demonstration of residential combined gas cooling and heating appliances.

Quality assurance

OEAM's Technical Services Group has an ISO 9000 Quality Management System which helps ensure that its activities conform to legislative requirements and industry best practice.

Sustainability Index

In February 2005, the Australian Sustainability Index (AuSSI) was launched. The index tracks the performance of around 70 Australian companies that lead their industry in terms of economic, environmental and social criteria. Envestra was recognised for its performance in relation to sustainability with its inclusion in the index. This rating was reaffirmed in 2006.

In August 2005 a second index was launched, the Socially Responsible Investment (SRI) Share Index. The SRI comprises around 50 companies from the S&P/ASX 300 Index that have achieved a corporate social responsibility rating of A or higher. Envestra was also included in this index.

Further details on Envestra's sustainability activities are available on the Company's website www.envestra.com.au.

Risk management

The Company has a risk-assessment program that is monitored by the Audit Committee. During the year, major risk areas were again reviewed, and the committee considered a risk-assessment report. This is subject to regular review and is amended as circumstances dictate.

Our internal audit program is conducted by KPMG and focuses on controls associated with major risk areas.

KPMG undertook reviews of Envestra's compliance with its Treasury Policy and various operating activities undertaken by OEAM relating to unbilled gas, gas sales volumes, capital expenditure approvals, haulage agreements and cost allocations.

Management has addressed the issues identified by KPMG.

Further details on our risk assessment and management activities appear on pages 21 and 22.

As a result of ongoing global terrorist activities we continue to review and maintain measures to protect our employees and contractors, as well as our assets, from such activities. Additionally, the Commonwealth Government's *Terrorism Insurance Act 2003* imposes a levy on the owners of essential infrastructure to help create a pool of funds that would be available in the event of an incident. As a result, should there be any damage to our assets caused by terrorist activities, rehabilitation costs are expected to be covered by the government fund.

Corporate governance

Envestra's practices are consistent in almost all respects with the Principles of Good Corporate Governance issued by the Australian Stock Exchange. Our statement appears on pages 18 to 22 of this report.

The future

The Company continues to achieve substantial core growth from the extension of its networks, particularly in the south-eastern States. We also continue to consider acquisition opportunities as they arise. Unfortunately, once again, the heated nature of the financial markets and the expanding interest of various Australian and overseas financial institutions in acquiring infrastructure assets meant that we were unwilling to match the aggressive offers of others on what we considered to be suitable investments. Our disciplined approach to acquisitions will continue in the future.

We undertook an evaluation of the Murray Link electricity transmission line; submitted a tender to VENCorp for the installation of large electricity transformers at Rowville and Moorabool in Victoria; and more recently we announced that we intend to respond to the Queensland Government's invitation to tender to purchase the Allgas network currently owned by Energex. Final bids on this asset are due in late September.

We will continue our disciplined evaluation process for organic growth opportunities and acquisitions to ensure that our shareholders' interests are protected.

J G Allpass
Chairman

I B Little
Managing Director

25 August 2006

DIRECTORS AND MANAGEMENT

Envestra's Board has extensive industry, banking, legal and commercial experience. The Company also benefits from having on the Board representatives of Origin Energy, one of Australia's largest energy companies, as well as representatives of Cheung Kong Infrastructure, one of the world's largest infrastructure companies.

John Allpass* (65) FCA, FCPA, FAICD
Director since June 1997
Chairman of the Board.
Chairman of the Remuneration Committee.
Chartered accountant with over 30 years' experience in the accounting profession.

Other Directorships: Macquarie Bank Ltd (since January 1994); Queensland Investment Corporation (since May 1991); and MBF Australia Ltd (since October 1999). Former Managing Partner, KPMG (Queensland) and member, KPMG National Board.

Ian Little (49) CA, BCA, MBA, MAICD
Managing Director since April 2003
Chartered accountant with over 25 years' experience in the energy industry.

Other Directorships: Chairman, SA Botanic Gardens & State Herbarium (since July 2005).

Fraser Ainsworth AM* (60) B.Com, FCPA, FAICD
Director since February 2004
Member of the Audit Committee.

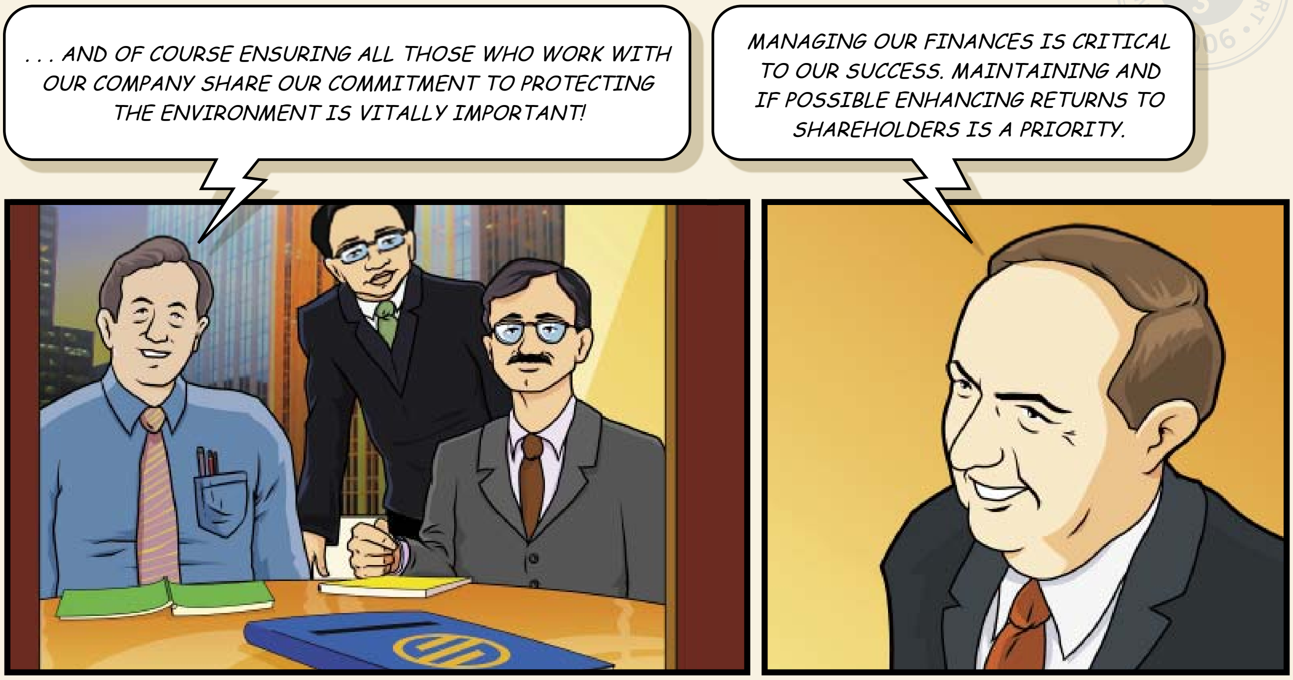
Over 30 years' experience in the Australian resources and energy sectors.

Other Directorships: Chairman, Horizon Oil Ltd (since December 2001), and Chairman Tarac Australia Ltd (since January 2006 and Deputy Chairman 1996-2005); Director, Oil Search Ltd (since October 2002). 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).

Bruce Beeren (57) B.Sc (Hons), B.Com, MBA, FCPA, FAICD
Director since May 2000
Member of the Audit Committee.

Over 30 years' experience in the energy industry.

Other Directorships: Origin Energy Ltd (since February 2000); Coal and Allied Industries Ltd (since July 2004); Contact Energy Ltd (since October 2004); Baycorp Advantage Ltd (since September 2004); and EquipSuper (since August 2002). Former Executive Director, Commercial, Origin Energy Ltd; Chief Executive Officer, VENCorp; Chief Financial Officer, AGL; General Manager, AGL Pipelines.



Charles Binks* (63) LL.B, FAICD
Director since December 2001
Member of the Audit Committee.

Other Directorships: Chairman, Sundance Energy Australia Ltd (since February 2005); and Wyatt Benevolent Trust Inc (since October 2005). Former Partner and Chairman, Minter Ellison Lawyers (Adelaide).

Dominic Chan (44) FCPA, FCCA
Director since July 2005

Certified Public Accountant with over 20 years' experience in the accounting profession. Chief Financial Officer, Cheung Kong Infrastructure Holdings Ltd.

Other Directorships: Connector Motorways Pty Ltd, CrossCity Motorway Pty Ltd, and Cambridge Water PLC; Former Director Powercor Australia Ltd and CitiPower Pty Ltd.

H L Kam (59) B.Sc, MBA
Director since September 1999

Group Managing Director, Cheung Kong Infrastructure Holdings Ltd (since May 1996); Deputy Managing Director, Cheung Kong (Holdings) Ltd (since February 1993); Executive Director, Hutchison Whampoa Ltd (since August 1993) and Hong Kong Electric Holdings Ltd (since May 1993); President and CEO, CK Life Sciences International (Holdings) Inc. (since June 2002); Executive Board member, ETSA Utilities (since August 2000); Director, Powercor Australia Ltd (since September 2000); CitiPower Pty (since August 2002); and non-executive Director Spark Infrastructure Group (since November 2005).

Grant King (51) B.E (Civil), M. Mgt.
Director since June 1997
Member of the Remuneration Committee.

Extensive experience in the Australian oil and gas industry.

Other Directorships: Managing Director, Origin Energy Ltd (since February 2000); Chairman, Contact Energy Ltd (since October 2004); and Chairman, Energy Supply Association of Australia Limited (since November 2004). Councillor, Australian Petroleum Production & Exploration Association Ltd. Former Chairman, Oil Company of Australia Ltd (Chairman: 1996-2003 and Director: 1994-1996) and Australian Gas Association; and former General Manager, AGL Gas Companies.

Olaf O'Duill* (59) B. Comm. (Hons)
Director since July 2000
Chairman of the Audit Committee
Member of the Remuneration Committee.

Extensive experience in financial markets.

Other Directorships: Director, Sunraysia Television Ltd (since September 1992). 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) and Sigma Company Ltd (1995-2002).

* *Independent Directors*

Photographs of the Directors are available on the Company's website www.envestra.com.au

One of Envestra's strengths is the considerable experience of its management team. This group has been selected because of their extensive knowledge of the operational, financial, legal and regulatory aspects of the gas distribution and transmission industry.

Andrew Staniford (50) M.Ec
Commercial Manager

Over 15 years' experience in development and application of regulatory arrangements in the energy industry; extensive experience in commercial management of utilities. Former Director, Electricity Reform, South Australian Government. Director, Energy Networks Association and Chairman, Regulatory Affairs Committee, and a member of the South Australian Fisheries Research Advisory Board.

Laura Reed (44) B.Bus (Acc), FCPA
Chief Financial Officer

Over 20 years' experience in various finance roles in the gas industry. Director of the Trustee, South Australian Ambulance Service Superannuation Funds.

Mary Anne Brophy (51) BA, LLM, MAICD
Company Secretary and Legal Counsel

Broad international legal and commercial experience gained over a 20 year period including roles in London and Hong Kong. Extensive experience in the energy sector, including the reform of the United Kingdom electricity industry.

Greg Meredith (38) B.Ec (Hons), MBA, F Fin
Manager, Treasury and Economics

Over 10 years' experience in the energy sector in various roles including regulatory and treasury management, mergers and acquisitions strategy and economic advice.

Des Petherick (55) PNA
Manager, Corporate Services

Over 15 years' experience in corporate services in the gas industry. Former Group Manager, Corporate Services, South Australian Gas Company; Secretary to various government ministers including the Deputy Premier, South Australia.

Outsourced operations

Envestra's business strategy is founded on striking an appropriate balance between internal management and outsourced operations. Our business is run by senior managers with extensive energy industry experience and, unlike many other infrastructure entities, no fees are paid to financial institutions to manage the financing, regulatory, legal or strategic functions. However, operation of the gas distribution networks and transmission pipelines, including maintenance, engineering, network development, customer servicing and various administrative activities is outsourced, largely to Origin Energy Asset Management Ltd (OEAM). Significant incentives are available to OEAM to improve productivity, increase revenue and enhance services. We require OEAM to employ external contractors and consultants in particular areas to ensure external benchmarks are readily available. This enables the Company to measure OEAM's performance and, where necessary, to drive continuing improvements in the operation and management of its assets.

Robert Tardif is General Manager of Origin's newly formed Energy Infrastructure Group, which includes OEAM. Robert is a Chemical Engineer with over 30 years' experience in the energy industry, the last 10 years with Origin Energy. He is responsible for OEAM's activities, which mainly centre on the operation of Envestra's networks.

Summary of cash flows ($m)

	2006	2005	2004	2003	2002
Operating receipts less payments	**217.6**	**195.4**	**212.7**	**194.0**	**180.5**
South Australian Government receipt	-	-	54.6	-	-
Subvention payment(i)	-	-	4.0	10.0	18.0
Net cash flow before borrowing costs	**217.6**	**195.4**	**271.3**	**204.0**	**198.5**
Net borrowings costs	(118.3)	(119.2)	(117.1)	(117.6)	(115.1)
Cash flow from operating activities	**99.3**	**76.2**	**154.2**	**86.4**	**83.4**
Replacement capital expenditure	(17.1)	(14.3)	(12.4)	(10.5)	(9.7)
Available for distribution	**82.2**	**61.9**	**141.8**	**75.9**	**73.7**
Distributions	(73.8)	(73.1)	(69.5)	(67.0)	(59.5)
Contribution to growth capital expenditure	**8.4**	**(11.2)**	**72.3**	**8.9**	**14.2**
Loan drawdowns for growth capital expenditure	39.8	57.0	72.6	47.0	49.9
Cash available for growth capital expenditure	**48.2**	**45.8**	**144.9**	**55.9**	**64.1**
Growth capital expenditure	(75.0)	(72.5)	(79.1)	(65.0)	(53.2)
Cashflow available pre-debt/equity re-financing	**(26.8)**	**(26.7)**	**65.8**	**(9.1)**	**10.9**
Debt (drawdowns net of repayments)	(34.2)	8.9	(30.2)	(3.2)	(99.6)
Proceeds from sale of land	0.1	-	0.2	-	-
Equity raising	49.9	-	42.9	21.3	83.0
Capital raising costs	(12.8)	(19.1)	(2.2)	(8.0)	(9.6)
Change in cash	**(23.8)**	**(36.9)**	**76.5**	**1.0**	**(15.3)**
Opening cash	**50.2**	**87.1**	**10.6**	**9.6**	**24.9**
Closing cash	**26.4**	**50.2**	**87.1**	**10.6**	**9.6**

(i) The tax deductions on Envestra's Victorian assets are utilised by Origin Energy. In return, Envestra received payments from Origin Energy totalling $92 million over six years. The final payment was received in December 2003.

Income statement ($m)

	2006	2005(i)	2004	2003	2002
Revenue / income (excluding interest received)	**340.2**	**314.6**	**299.5**	**277.5**	**267.1**
South Australian Government receipt	-	-	54.6	-	-
Total revenue / income (excluding interest received)	**340.2**	**314.6**	**354.1**	**277.5**	**267.1**
Operating costs	(99.4)	(99.6)	(97.5)	(80.2)	(88.4)
Depreciation / amortisation	(55.2)	(51.7)	(44.8)	(41.2)	(38.1)
Profit before net borrowing costs and income tax	**185.6**	**163.3**	**211.8**	**156.1**	**140.6**
Net borrowing costs	(138.9)	(131.3)	(130.8)	(130.2)	(128.0)
Profit before interest on loan notes	**46.7**	**32.0**	**81.0**	**25.9**	**12.6**
Interest on loan notes	(24.7)	(26.3)	(25.6)	(23.5)	(21.0)
Profit/(Loss) before income tax	**22.0**	**5.7**	**55.4**	**2.4**	**(8.4)**
Income tax	(28.4)	(22.0)	(32.7)	10.3	(3.9)
Profit/(Loss) after income tax	**(6.4)**	**(16.3)**	**22.7**	**12.7**	**(12.3)**

(i) AIFRS adjusted

FINANCIAL REVIEW

The Company continued to produce strong cash flows from the low-risk sector of the natural gas supply chain, with distributions to shareholders being in line with our forecast.

Revenue

Envestra's haulage revenue, which is generated mainly from the delivery of natural gas for retailers to their customers, was $293.8 million, an increase of $16.0 million over the previous year. This increase was due mainly to the annual increase in distribution tariffs, the connection of 21,400 new consumers to the Company's networks and the colder weather in Victoria and South Australia.

Earnings Before Interest and Tax (EBIT)

Operating expenses of $99.4 million were down $0.2 million as a result of bid costs related to Dampier to Bunbury Pipeline being recorded in the prior year, offset mainly by higher cost of gas leakage from the networks and a small increase in costs incurred by OEAM.

Operating profit

Profit before net borrowing costs and tax was up 46 per cent to $46.7 million, compared with $32.0 million for the previous year.

Borrowing costs

Net borrowing costs (excluding loan note interest paid to shareholders) were $138.9 million, up $7.6 million on the previous period. The increase relates mainly to early redemption costs associated with the refinancing of $200 million of capital indexed bonds.

Loss after tax

The Company recorded a consolidated loss after tax and interest on loan notes of $6.4 million, which was an improvement of $9.9 million on the previous year's loss of $16.3 million (AIFRS adjusted).

The result was due mainly to increased gas volumes resulting from the "cold-snap" in April to June 2006, the annual adjustment to tariffs, higher cost recovery on the South Australian retail contestability system and AIFRS impact on revenue. The improved result also reflects government grants received from the Victorian regional development program aimed at making natural gas more widely available in the State.

Cash flows

The Company generated cash flows from operating activities, after replacement capital expenditure, of $82.2 million, up $20.3 million on the previous year due mainly to increased gas volumes and annual tariff adjustments. Distributions to shareholders, which are paid from cash flows, amounted to $73.8 million, with the balance used to partly fund extension of the Company's distribution networks and other growth activities.

Capital expenditure was $92.1 million, up $5.3 million on the previous year, reflecting a higher level of mains extension and replacement.

The Company's cash reserves at year end were $26.4 million, compared with $50.2 million at the end of the previous period. Cash balances are normally maintained at modest levels to minimise debt and to enhance returns to shareholders.

The previous year reflected the one-off payment received from the South Australian Government in June 2004 in respect to the introduction of full retail contestability systems in the State. The Company had available unused bank credit lines of $258.0 million at year end.

Borrowings

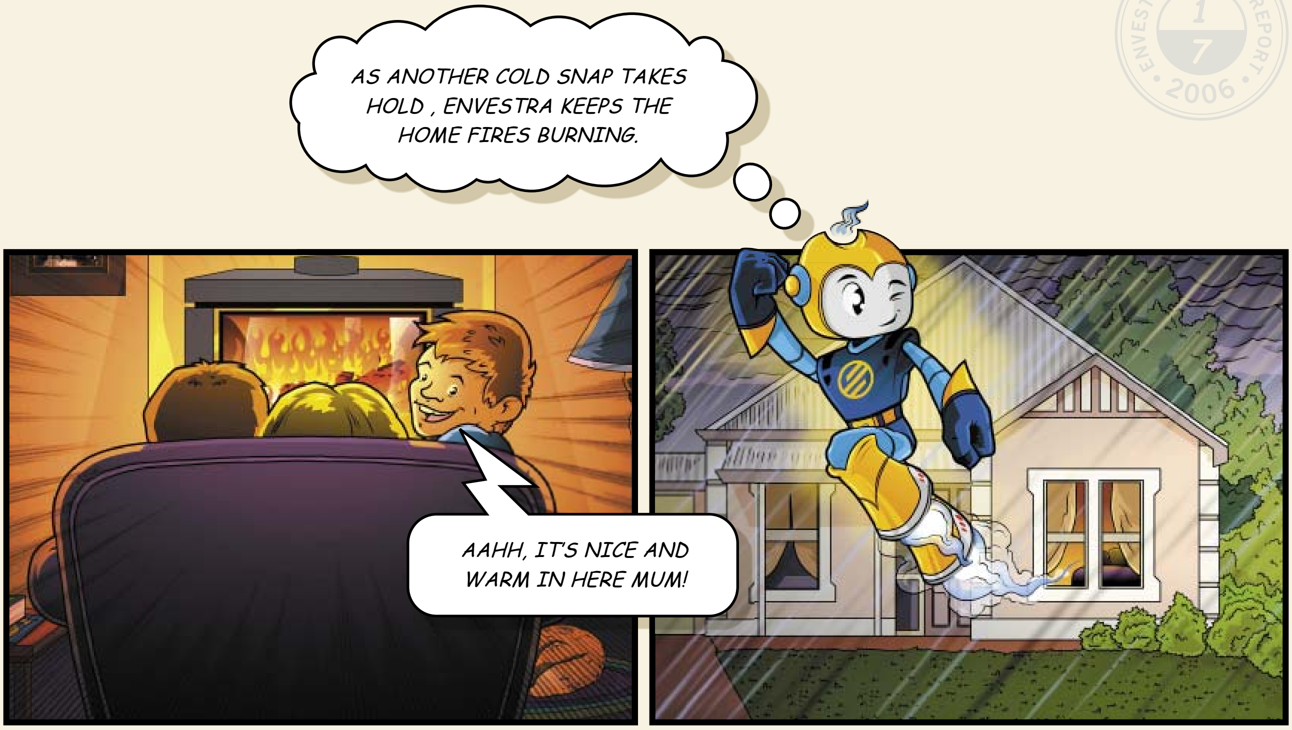
During the year debt, excluding loan notes, increased by $24.0 million to $1,941.2 million. In May 2006, as part of our debt management strategy, we completed the refinancing of $200 million (adjusted principal) of August 2007 Capital Indexed Bonds with $220 million August 2025 CIBs.

Following this refinancing, the average loan duration for Envestra Limited increased from around 15 years to 18 years, while the loan duration for the Envestra Group increased from around 11 years to 12 years.

Envestra's gearing level was 68 per cent, despite the $92.1 million capital expenditure program undertaken during the year. The Company aims, in normal circumstances, to maintain a debt level of around 75 per cent of net debt plus market value of equity.

Credit rating

During the year Envestra's investment grade rating with Standard and Poor's was A-2 short-term and BBB long-term. Subsequent to the announcement by the Essential Services Commission of South Australia of its determination in relation to Envestra's South Australian Access Arrangement for the five-year period beginning 1 July 2006, Standard and Poor's advised in August 2006 that they had revised Envestra's rating to investment grade A-3 short-term and BBB- long-term. Moody's rating of Baa2 for the Envestra Security Group associated with the Company's South Australian and Queensland assets remain unchanged.
As previously noted, Envestra may appeal ESCOSA's determination.



Taxation-subvention agreement and put option

The Subvention Agreement enables tax deductions on Envestra's Victorian assets to be used by Origin Energy. Under the agreement Envestra received payments totalling $92 million over the six years to 2003-04. The arrangement also allowed Origin to 'put', or sell, its shares in VicGas Distribution Pty Ltd to Envestra in March 2006 at a cost of $2, thereby allowing tax deductions to be used by Envestra after that time. Failure to exercise the 'put' option obliges Origin to pay Envestra a fee so long as the 'put' option is not exercised. Origin elected not to exercise the 'put' and agreement was reached between the parties that a fee of approximately $2 million would apply for the three- month period to 30 June 2006. A further agreement was reached for a fee of $0.66 million per month to apply from 1 July. This agreement is renewed on a monthly basis.

Performance of our major contractor

Origin Energy Asset Management (OEAM) continued to operate and maintain the Company's assets in an efficient and reliable manner. There were no major incidents involving the distribution networks and supply was maintained at industry best-practice standards.

OEAM assisted with the evaluation of the economic benefits of potential growth projects and, where approved by Envestra, managed the construction of the networks and associated high-pressure pipelines. All work was completed within budget and the allocated timeframe. As mentioned earlier in the report, OEAM undertook these labour intensive tasks with considerable care for their employees and contractors.

During the year 388 kilometres of new mains were laid and 165 kilometres of mains were replaced.

Over the past three years OEAM played an important role in the design and construction of the FRC systems for South Australia and Victoria. Envestra incurred capital costs in excess of $60 million on the development of these systems. Today, OEAM is responsible for the management and upgrading of these systems for Envestra.

In July 2006 OEAM moved to a new depot at Kidman Park in Adelaide. OEAM had previously been based at Brompton for almost 150 years. It is expected that the new facility will deliver considerable efficiencies, with flow-on cost benefits to Envestra.

OEAM's operating costs were $72.6 million, up $0.9 million on the previous period due mainly to costs incurred in relocating the South Australian operations to Kidman Park, and higher regulatory and retail contestability expenses.

Contracts with Origin Energy

Relationship Agreement

This defines how the companies will work together in acquiring new gas network and retail businesses.

Operating and Management Agreement

This provides for the setting of annual operating targets and budgets for OEAM and provides incentives for OEAM to achieve operating and capital expenditure efficiencies. Envestra pays OEAM a management fee of three per cent of revenue to operate the networks. This cost has been verified by external consultants, PricewaterhouseCoopers, as being less than that which Envestra would incur if the various activities were undertaken internally, due mainly to the economies of scale associated with Origin's larger energy business.

Further information on the agreements is available on the Company's website www.envestra.com.au

CORPORATE GOVERNANCE

Envestra is committed to sound corporate governance and to this end the following policies and practices have been adopted and implemented by the Board.

Each year a review of the Company's corporate governance framework is carried out, in light of the best-practice recommendations released by the Australian Stock Exchange Corporate Governance Council in 2003.

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

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

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

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

Board composition

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

While Origin Energy or CKI holds more than 15 per cent of Envestra's shares, they may appoint up to two non-executive Directors. If either's holding is between 10 and 15 per cent, they may appoint one Director. The Origin Energy and CKI Directors are not regarded as being independent.

Membership of the Board comprises:

- Four independent non-executive Directors.
- Two non-executive Directors appointed by Origin Energy.
- Two non-executive Directors appointed by CKI.
- The Managing Director.

The Chairman must be an independent Director.

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

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

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

The Constitution also states that if at any meeting of Directors the Origin Energy and CKI Directors make up a majority, then only one each of the Origin Energy and CKI Directors can vote. Under the Constitution at no time can Origin Energy and CKI together form a majority of the Board.

Details of the members of the Board, their experience, qualifications and special responsibilities are set out on pages 12 and 13.

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

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

Performance appraisal

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

Board responsibilities

The most significant responsibilities of the Board include:

- Setting strategic objectives, long-term business plans and annual budgets.
- Regularly reviewing the operational and financial performance of the Company.
- Meeting the requirements of continuous disclosure to the investment market and shareholders about the performance and activities of the Company.

- Ensuring that appropriate risk management systems are in place and reports on performance are regularly reviewed.
- Overseeing the Company's commitment to the health and safety of employees and contractors, the environment and sustainable development.
- Evaluating potential business development opportunities.
- Appointing the Managing Director and other senior executives and evaluating their performance.
- Appointing the Company's external auditors.
- Appointing the Company's internal auditors as part of its general responsibility to ensure satisfactory internal controls are maintained over the Company's key risk areas.
- Ensuring the Company's Code of Conduct and Ethics and other policies are adhered to.
- Approving the annual and half-yearly financial reports.
- Overseeing the engagement of resources to conduct the business.

Independence of Board members

Envestra's Constitution provides that Directors or their firms may act in a professional capacity for the Company, other than acting as an auditor for the Company. Disclosure of related party transactions is set out on page 68.

Entities connected with Mr G A King and Mr B G Beeren, being the Origin Energy Group, had dealings with the Company during the year. Almost all transactions were associated with the contractual arrangements referred to on page 17 together with the Haulage Agreements entered into with Envestra.

In respect to other matters arising with the Origin Energy Group, in accordance with the Board's guidelines, the Directors concerned declare their interest in those dealings to the Company and, after discussion, the remaining Directors determine whether the potential conflict of interest should disqualify them from being present or voting on the matter.

Resources available to the Board

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

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

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

Remuneration of non-executive Directors

The maximum aggregate remuneration for non-executive Directors is set out in the Company's Constitution and can be varied only at a general meeting. Shareholders approved the maximum aggregate remuneration of $750,000 per annum on 3 November 2003.

The amount paid in 2005-06 was $616,313. The Chairman's fee was $130,000 and for other Directors it was $65,000. The Chairman of the Audit Committee received a fee of $11,700 and other members $7,800.

Details relating to the remuneration paid to non-executive Directors appear on pages 27 and 28.

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

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

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

At 30 June 2006, the benefit payable on retirement of each non-executive Director was:

• Mr J G Allpass	$151,037
• Mr B G Beeren	$ 52,655
• Mr C C A Binks	$ 26,282
• Mr H L Kam	$ 56,466
• Mr G A King	$ 90,247
• Mr O B O'Duill	$ 39,182

Mr E F Ainsworth and Mr D Chan joined the Board after the scheme was suspended, so do not participate in the Retirement Benefit Scheme.

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

Board committees

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

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

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

Audit Committee

Members of the Audit 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 AM.
- Mr C C A Binks.
- Mr B G Beeren.

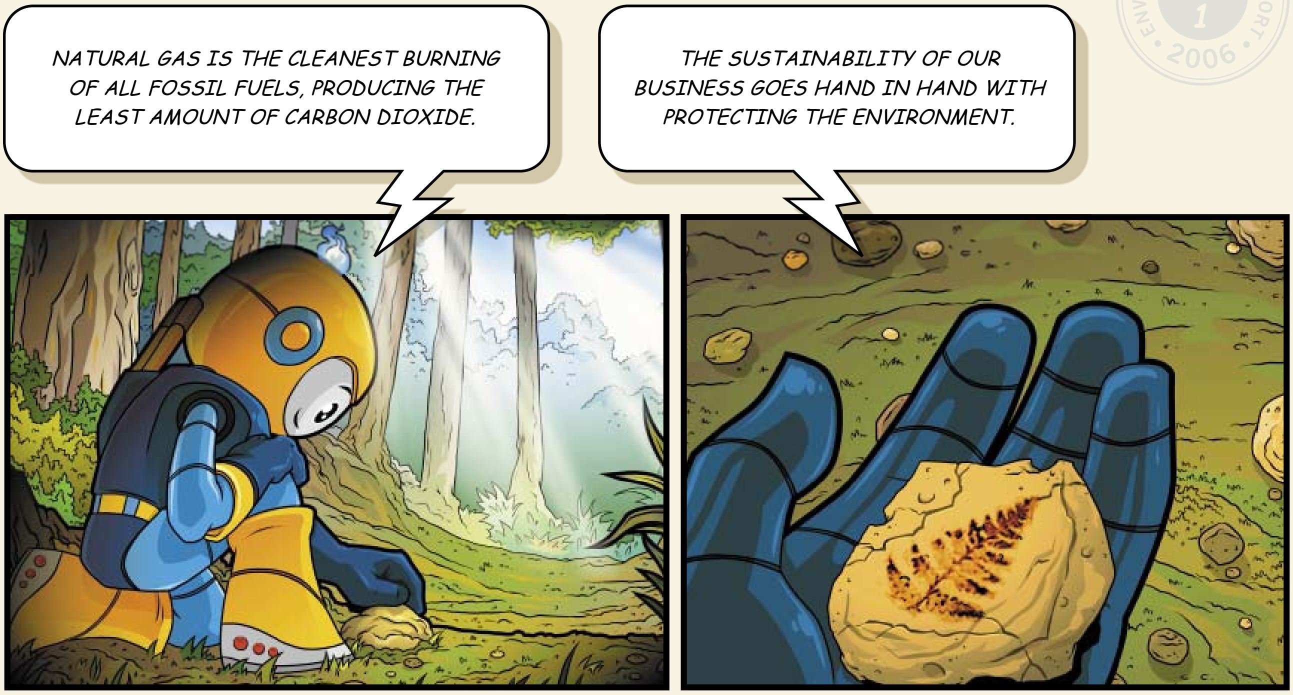
Each of the external and internal auditors and the Managing Director and Chief Financial Officer usually attend the meetings.

The key responsibilities of the committee are:

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

PricewaterhouseCoopers (PwC) was appointed as external auditor in 1997. It is PwC policy to rotate audit engagement partners with listed companies at least every five years. The responsible audit partner for Envestra was rotated in 2004-05. KPMG was appointed as internal auditor in 2002.

The internal and external auditors have direct access to the Chairman of the Audit Committee and, where necessary,



the Chairman of the Board. The Audit 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.

Remuneration Committee

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

Members of the committee are:

- Mr J G Allpass (Chairman).
- Mr O B O'Duill.
- Mr G A King.

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

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

The committee, having regard to personal and corporate performance and relevant comparative information, reviews remuneration of the senior management team annually.
The remuneration of all senior managers was assessed in April 2005 by an external professional human resources consultant and the resultant report submitted to the committee for consideration as part of the review of packages that applied from September 2005. Similar external reviews will be conducted in the future.

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

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

The Managing Director, Chief Financial Officer and Commercial Manager have the ability to earn a long-term incentive, on a rolling basis, after three years' service. The bonus is equivalent to 50 per cent of the short-term incentive.
The first payment under this incentive is due in 2007 for the Managing Director and 2008 for the Chief Financial Officer and Commercial Manager.

The Company does not operate an Employee Share Option Plan.

Risk assessment and management

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

The Managing Director, Chief Financial Officer and Company Secretary/Legal Counsel manage the Company's risk-management program.

The Audit 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 Committee.

Origin Energy Asset Management Limited (OEAM) is required to operate and manage Envestra's networks in accordance with the Operating and Management Agreement and to legal and prudential standards. Envestra's management has the responsibility to monitor the risks and compliance issues associated with OEAM's performance and to report to the Board on these matters. As part of this process, independent engineering audits are conducted each year (refer page 5).

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

Indemnities

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

Code of Conduct and Ethics

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

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

Dealings in Envestra's stapled securities by Directors and employees

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

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

Directors and officers in possession of inside information are prohibited from trading in Envestra's securities.

Directors must inform the Chairman, or in his absence the Chairman of the Audit Committee, and officers must inform the Managing Director, or in his absence the Company Secretary, of their intention to trade in Envestra's securities either by themselves or by an associate.

Such notification must be provided at least 24 hours prior to any proposed trade.

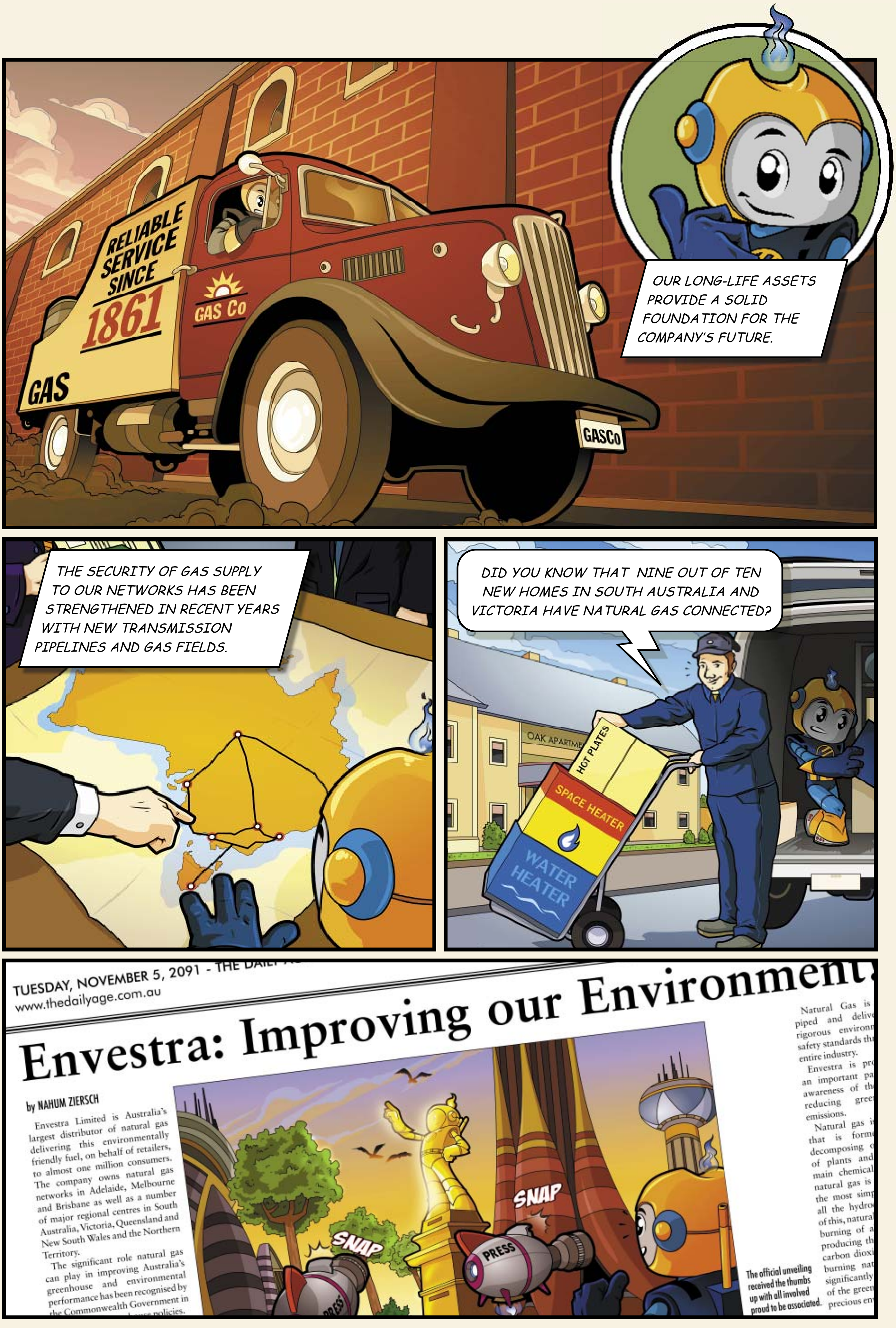
Continuous disclosure and shareholder communication

The Company Secretary is responsible for communication with the Australian Stock 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 all presentation material is posted on the website.

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

Company announcements, annual and half-year reports, as well as market and AGM presentations are available on the Company's website.



RELIABLE SERVICE SINCE 1861
GAS
GAS Co
GASCo
OUR LONG-LIFE ASSETS PROVIDE A SOLID FOUNDATION FOR THE COMPANY'S FUTURE.
THE SECURITY OF GAS SUPPLY TO OUR NETWORKS HAS BEEN STRENGTHENED IN RECENT YEARS WITH NEW TRANSMISSION PIPELINES AND GAS FIELDS.
DID YOU KNOW THAT NINE OUT OF TEN NEW HOMES IN SOUTH AUSTRALIA AND VICTORIA HAVE NATURAL GAS CONNECTED?
HOT PLATES
SPACE HEATER
WATER HEATER
TUESDAY, NOVEMBER 5, 2091 - THE DAILY AGE
www.thedailyage.com.au
Envestra: Improving our Environment
by NAHUM ZIERSCH
Envestra Limited is Australia's largest distributor of natural gas delivering this environmentally friendly fuel, on behalf of retailers, to almost one million consumers. The company owns natural gas networks in Adelaide, Melbourne and Brisbane as well as a number of major regional centres in South Australia, Victoria, Queensland and New South Wales and the Northern Territory.
The significant role natural gas can play in improving Australia's greenhouse and environmental performance has been recognised by the Commonwealth Government in
SNAP
SNAP
PRESS
PRESS
The official unveiling received the thumbs up with all involved proud to be associated.

FINANCIAL AND STATUTORY INFORMATION FOR THE YEAR ENDED 30 JUNE 2006

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Envestra Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2006 in accordance with a resolution of the Directors.

Directors

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

John Geoffrey Allpass (Chairman)
Ian Bruce Little (Managing Director)
Eric Fraser Ainsworth AM
Bruce Gerard Beeren
Charles Christopher Agar Binks
Hing Lam Kam
Grant Alfred King
Olaf Brian O'Duill

- Mr W Shurniak was a Director from the beginning of the financial year until his resignation on 30 July 2005.
- Mr D L S Chan was appointed a Director on 30 July 2005 and continues in office at the date of this report.

Details of the Directors' and Company Secretary qualifications, experience and special responsibilities appear on pages 12 to 13 of the annual report. Directors' shareholdings are disclosed on page 31 of this report.

Principal activities

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

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

Review of operations

The review of operations of the Group and the results of those operations are discussed in detail in the Chairman's and Managing Director's Review of Operations on pages 2 to 11 of the annual report.

Consolidated results

For the year ended 30 June 2006, revenue/income was $343.0 million, profit before interest on loan notes and tax was $46.7 million and loss after tax was $6.4 million. The aggregate of cashflows decreased cash on hand at 30 June 2006 by $23.8 million, as capital expenditure was largely funded from cash held at 30 June 2005 and internally generated cashflows.

Envestra Ltd, Envestra Natural Gas Networks Ltd, Envestra (SA) Ltd and Envestra (Qld) Ltd are parties to a Deed of Cross Guarantee. The consolidated results of these entities are disclosed in note 35.

Significant changes in the state of affairs

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

Environmental regulation

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

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

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

The Albury Gas Company Ltd is carrying out investigations on a site in Albury which has been identified as contaminated by the NSW Environmental Protection Agency. The results of those investigations will determine any environmental management program and / or clean up required. The site was used historically for the manufacture of gas from coal, but was sold in 1985 to The Council of the City of Albury.

Likely developments and expected results of operations

Information regarding future prospects and likely developments has been included in the Chairman's and Managing Director's Review of Operations on pages 2 to11 and the Financial Review on pages 16 and 17 of the annual report.

Distributions - Envestra Ltd

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

	Cents per stapled security	Total distribution
		$'000
Distribution on 30 November 2005	5.70	43,871
Distribution on 26 May 2006	3.80	29,919
Total distributions for 2005-06	**9.50**	**73,790**

Remuneration report

The remuneration report is set out under the following main headings:

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

B) Details of remuneration;

C) Service agreements;

D) Additional information.

The information provided under headings A-C includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section D are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

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

The objective of the Company'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 with market best practice for delivery of reward.

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

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

- has economic performance as a core component of plan design;
- focuses on return to shareholders;
- attracts and retains high calibre executives.

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

- rewards capability and experience;
- reflects competitive reward for contribution to shareholder growth;
- provides a clear structure for earning rewards;
- provides recognition for contribution.

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 are reviewed annually by the Board. The Chairman's fee has been set at twice the fees of non-executive Directors. The Board has received advice from independent remuneration consultants.

Directors' fees

The current base remuneration was last increased with effect from 1 July 2003. The non-executive Director who chairs the Audit Committee receives additional yearly fees and additional fees are also payable to Directors who are members of the Committee.

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

Retirement allowances for Directors

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

The Retirement Benefit Scheme was suspended as at 30 June 2003 and the period of service at that time was used to determine the benefit payable to the Directors as at 30 June 2003. The benefit payable at the time of retirement will be calculated using 10/13 of the three year average salary immediately preceeding 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 provisions in the financial statements.

Executive pay

The executive pay and reward framework has three components:

- Base pay and benefits;
- Superannuation;
- Short-term performance incentives.

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

Base pay

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

External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. A detailed review of executive packages was conducted in April 2005.

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

Benefits

Executives are provided with death and total disability insurance cover, the provision of a fully maintained vehicle at the executive's discretion, and Company funded car parking.

Superannuation

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

Short-term performance incentives

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

For the year ended 30 June 2006, the KPIs linked to short term incentive plans were based on corporate and personal objectives. The KPIs require performance in reducing operating costs and achieving specific targets in relation to cash flow, financing costs and shareholder returns, as well as other key strategic measures linked to drivers of performance in future reporting periods.

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

B) Details of remuneration (audited)

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 Envestra Ltd Group are set out in the following tables.

The key management personnel of Envestra Ltd and the Group includes the Directors as noted on page 24 and the following executive officers, which are also the five highest paid executives of the entity:

- L Reed – Chief Financial Officer;
- A Staniford – Commercial Manager;
- M Brophy – Company Secretary and Legal Counsel;
- D Petherick – Manager, Corporate Services;
- G Meredith – Manager, Treasury and Economics.

The cash bonuses are dependent on the satisfaction of performance against the KPIs set out in the section headed *Short-term performance incentives* above. All other elements of remuneration are not directly related to performance.

Key management personnel of Envestra Ltd and the Group	Short-term benefits			Post-employment benefits		
Name	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement benefits	Total
2006	$	$	$	$	$	$
Non-executive Directors						
J G Allpass *Chairman*	104,325	-	-	25,675	(2,589)	127,411
E F Ainsworth	66,248	-	-	6,552	-	72,800
B G Beeren	72,800	-	-	-	-	72,800
C C A Binks	72,800	-	-	-	-	72,800
D L S Chan(i)	59,583	-	-	-	-	59,583
H L Kam(i)	65,000	-	-	-	-	65,000
G A King(i)	65,000	-	-	-	-	65,000
O B O'Duill	69,797	-	-	6,903	(1,198)	75,502
W Shurniak(i)	5,417	-	-	-	-	5,417
Sub-total non-executive Directors	**580,970**	**-**	**-**	**39,130**	**(3,787)**	**616,313**
Executive Director						
I B Little *Managing Director*	388,653	45,000	-	125,935	-	559,588
Other key management personnel						
L Reed	164,533	23,000	14,420	56,380	-	258,333
A Staniford	209,099	-	16,601	51,800	-	277,500
M Brophy	193,853	10,000	13,134	12,180	-	229,167
D Petherick	142,889	25,000	17,111	37,000	-	222,000
G Meredith	111,487	18,000	13,746	18,600	-	161,833
Totals	**1,791,484**	**121,000**	**75,012**	**341,025**	**(3,787)**	**2,324,734**

(i) Directors' fees for Mr D Chan, Mr H L Kam and Mr W Shurniak were paid to Cheung Kong Infrastructure Holdings (Malaysian) Ltd and the fees for Mr G King were paid to Origin Energy Ltd.

Key management personnel of Envestra Ltd and the Group	Short-term benefits			Post-employment benefits		
Name	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement benefits	Total
2005	*$*	*$*	*$*	*$*	*$*	*$*
Non-executive Directors						
J G Allpass *Chairman*	118,300	-	-	11,700	22,132	152,132
E F Ainsworth	66,248	-	-	6,552	-	72,800
B G Beeren	72,800	-	-	-	1,880	74,680
C C A Binks	72,800	-	-	-	938	73,738
H L Kam(i)	65,000	-	-	-	1,882	66,882
G A King(i)	65,000	-	-	-	3,008	68,008
O B O'Duill	69,797	-	-	6,903	(157)	76,543
W Shurniak(i)	65,000	-	-	-	1,414	66,414
Sub-total non-executive Directors	**594,945**	**-**	**-**	**25,155**	**31,097**	**651,197**
Executive Director						
I B Little *Managing Director*	339,235	57,000	23,352	11,760	-	431,347
Other key management personnel						
L Reed	166,471	28,000	14,029	12,000	-	220,500
A Staniford	195,943	-	15,424	37,800	-	249,167
M Brophy	135,415	17,000	8,756	8,339	-	169,510
D Petherick	155,569	25,000	16,848	18,000	-	215,417
G Meredith	95,014	17,000	10,836	13,900	-	136,750
Totals	**1,682,592**	**144,000**	**89,245**	**126,954**	**31,097**	**2,073,888**

(i) Directors' fees for Mr H L Kam and Mr W Shurniak were paid to Cheung Kong Infrastructure Holdings (Malaysian) Ltd and the fees for Mr G King were paid to Origin Energy Ltd.

C) Service agreements (audited)

Remuneration and other terms of employment for the Managing Director and the other key management personnel are formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including death and permanent disability insurance, and the provision of a fully-maintained motor vehicle. Other major provisions of the agreements relating to remuneration are set out below.

All executive packages are reviewed annually by the Remuneration Committee. The contracts with executives may be terminated early by either party with three months notice, subject to termination payments as detailed below.

I Little *Managing Director*

- Term of agreement – non-specific, commencing 28 March 2006.
- Base salary, inclusive of superannuation, for the year ended 31 August 2006 of $405,000, to be reviewed annually by the Remuneration Committee.
- Subject to performance, an annual bonus of up to 30 per cent of base salary is payable.
- Subject to performance, an additional long-term bonus is payable, commencing in 2007, equal to 50% of the short-term bonus paid three years earlier.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 12 months' base salary plus an amount equal to the last short-term incentive paid prior to the termination.

L Reed *Chief Financial Officer*

- Term of agreement – three years commencing 1 September 2004.
- Base salary, inclusive of superannuation, for the year ending 31 August 2006 of $222,000.
- Subject to performance, an annual bonus of up to 25 per cent of base salary is payable.
- Subject to performance, an additional long-term bonus is payable, commencing in 2008, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, is equal to 12 months' base salary if the contract has more than 12 months to run; if the contract has less than 12 months to run, a payment equal to the remainder of the term; and a minimum redundancy payment equal to six months' base salary. If the contract is not renewed a minimum redundancy of six months applies.

A Staniford *Commercial Manager*

- Term of agreement – four years commencing 1 November 2003.
- Base salary, inclusive of superannuation, for the year ending 31 August 2006 of $236,000.
- Subject to performance, an annual bonus of up to 25 per cent of base salary is payable.
- Subject to performance, an additional long-term bonus is payable, commencing in 2008, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, is equal to 12 months' base salary if the contract has more than 12 months to run; if the contract has less than 12 months to run, a payment equal to the remainder of the term; and a minimum redundancy payment equal to six months' base salary. If the contract is not renewed a minimum redundancy of six months applies.

M Brophy *Company Secretary and Legal Counsel*

- Term of agreement – four years commencing 11 October 2004.
- Base salary, inclusive of superannuation, for the year ending 31 August 2006 of $221,000.
- Subject to performance, an annual bonus of up to 20 per cent of base salary is payable.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, is equal to 12 months' base salary if the contract has more than 12 months to run; if the contract has less than 12 months to run, a payment equal to the remainder of the term applies.

D Petherick *Manager, Corporate Services*

- Term of agreement – three years commencing 1 September 2004.
- Base salary, inclusive of superannuation, for the year ending 31 August 2006 of $198,000.
- Subject to performance, an annual bonus of up to 20 per cent of base salary is payable.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, is equal to 12 months' base salary if the contract has more than 12 months to run; if the contract has less than 12 months to run, a payment equal to the remainder of the term; and a minimum redundancy payment equal to six months' base salary. If the contract is not renewed a minimum redundancy of six months applies.

G Meredith *Manager, Treasury and Economics*

- Term of agreement – three years commencing 1 April 2005.
- Base salary, inclusive of superannuation, for the year ending 31 August 2006 of $142,000.
- Subject to performance, an annual bonus of up to 20 per cent of base salary is payable.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, is equal to 12 months' base salary if the contract has more than 12 months to run; if the contract has between 12 and six months to run, a payment equal to the remainder of the term; and if the contract has less than six months to run, a payment equal to six months' base salary applies. If the contract is not renewed a minimum redundancy of six months applies.

D) Additional information – unaudited

Principles used to determine the nature and amount of remuneration: relationship between remuneration and Company performance

Shareholder returns over the past five years have been:

Distributions		Movement in ASX price of stapled securities	
year	*cents per stapled security*	*date*	*$*
2000-01	9.25	30/6/2001	0.81
2001-02	9.50	30/6/2002	0.83
2002-03	9.50	30/6/2003	1.07
2003-04	9.50	30/6/2004	1.06
2004-05	9.50	30/6/2005	1.12
2005-06	9.50	30/6/2006	1.15

Details of remuneration: cash bonuses

For each cash bonus included in the tables on page 27, the percentage of the available bonus that was paid, in the financial year, is set out below. No part of the bonuses is payable in future years.

Name	Paid %	Name	Paid %
I Little	70	M Brophy	23
L Reed	72	D Petherick	63
A Staniford	75	G Meredith	74

Indemnity and insurance of officers

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

The Company has paid a premium during the period of this report under a contract, which insures the officers identified in the paragraph above.

A condition of the insurance contract 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 31.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit 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 31, 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 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 Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

Matters subsequent to the end of the financial year

The Directors are not aware at the date of this report of any other matter or circumstance which has arisen since 30 June 2006 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 numbers of Directors' meetings and meetings of committees of Directors' held during the period for which each Director held office during the period 1 July 2005 to 30 June 2006, and the numbers of meetings attended by each Director were:

	Board of Directors	Board of Directors	Audit Committee	Audit Committee	Remuneration Committee	Remuneration Committee
	Held	*Attended*	*Held*	*Attended*	*Held*	*Attended*
J G Allpass	7	7	-	-	2	2
I B Little	7	7	-	-	-	-
E F Ainsworth	7	7	6	6	-	-
B G Beeren	7	7	6	6	-	-
C C A Binks	7	7	6	6	-	-
D L S Chan(i)	7	7	-	-	-	-
H L Kam(ii)	7	7	-	-	-	-
G A King	7	7	-	-	2	2
O B O'Duill	7	7	6	6	2	2

(i) Mr D L S Chan was represented at one of these meetings by an alternate Director, being Mr I Chan.
(ii) Mr H L Kam was represented at four of these meetings by an alternate Director, being Mr I Chan (3), and Mr D L S Chan (1).

Directors' shareholdings

Particulars of the stapled securities in the Company held by each Director of the Company and Director related entities, as at 30 June 2006 were:

Directors	Holding 30 June 2006	Directors	Holding 30 June 2006
J G Allpass	130,987	D L S Chan(ii)	-
I B Little	33,000	H L Kam(ii)	-
E F Ainsworth	45,000	G A King(i)	81,025
B G Beeren(i)	59,210	O B O'Duill	55,000
C C A Binks	23,737		

(i) Mr B G Beeren and Mr G A King are Directors of Origin Energy Ltd, which owns 134,955,000 stapled securities in Envestra.
(ii) Mr H L Kam and Mr D L S Chan are Directors of Cheung Kong Infrastructure Holdings Ltd which owns 134,955,100 stapled securities in Envestra.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32.

Rounding of amounts

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

John Geoffrey Allpass
Chairman

Adelaide
25 August 2006

PRICEWATERHOUSECOOPERS

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AUDITORS' INDEPENDENCE DECLARATION

As lead auditor for the audit of Envestra Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Envestra Limited during the period.

AG Forman
Partner
PricewaterhouseCoopers

Adelaide
25 August 2006

INCOME STATEMENTS

	Notes	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
		$'000	*$'000*	*$'000*	*$'000*
Revenue from continuing operations					
Services		314,185	296,617	169,619	156,031
Interest		2,793	3,011	31,870	31,505
Customer contributions		6,241	6,279	2,741	4,753
Government grants (SA FRC revenue)	5	13,956	11,166	13,956	11,166
Total revenue from continuing operations		**337,175**	**317,073**	**218,186**	**203,455**
Net gain on disposal of property, plant and equipment		38	-	-	-
Put Option proceeds	7(d)	1,932	-	-	-
Government grants	5	3,900	550	-	-
Total revenue / income		**343,045**	**317,623**	**218,186**	**203,455**
Intercompany charges		-	-	(94,253)	(97,778)
Service contract operating costs		(72,611)	(71,708)	(38,944)	(37,126)
Network development and operations support		(8,100)	(8,286)	(6,550)	(6,820)
Gas		(8,520)	(8,129)	(8,523)	(8,129)
Administration		(10,142)	(11,489)	(7,977)	(9,661)
Total operating costs		(99,373)	(99,612)	(156,247)	(159,514)
Earnings before interest, tax, depreciation and amortisation		**243,672**	**218,011**	**61,939**	**43,941**
Depreciation	6	(53,679)	(50,598)	(894)	(695)
Amortisation of capital raising and formation costs	6	(1,657)	(1,123)	(1,176)	(883)
Profit before borrowing costs and tax		**188,336**	**166,290**	**59,869**	**42,363**
Amortisation of borrowing costs		(3,560)	(3,918)	(1,410)	(1,535)
Interest		(130,870)	(130,365)	(63,058)	(62,139)
Capital Indexed Bonds redemption costs		(7,238)	-	(7,238)	-
Total borrowing costs (excluding interest on loan notes)	6	(141,668)	(134,283)	(71,706)	(63,674)
Profit/(loss)before interest on loan notes and income tax expense		**46,668**	**32,007**	**(11,837)**	**(21,311)**
Interest on loan notes	6	(24,667)	(26,339)	(24,667)	(26,339)
PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE		**22,001**	**5,668**	**(36,504)**	**(47,650)**
Income tax (expense)/benefit	7	(28,367)	(21,978)	3,568	6,942
NET LOSS		**(6,366)**	**(16,310)**	**(32,936)**	**(40,708)**
Basic earnings per share (cents)	39	(0.8)	(2.1)		

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

BALANCE SHEETS

	Notes	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
		$'000	*$'000*	*$'000*	*$'000*
Current assets					
Cash and cash equivalents	8	26,436	50,224	12,586	39,226
Receivables	9	51,925	39,038	18,915	10,901
Other current assets	12	867	1,781	8,406	9,209
Non-current assets classified as held for sale	11	534	554	-	-
Total current assets		79,762	91,597	39,907	59,336
Non-current assets					
Receivables	13	-	-	234,454	264,823
Other financial assets	14	-	-	833,465	833,465
Property, plant and equipment	15	1,836,528	1,799,462	36,105	35,534
Intangible assets	17	585,594	630,135	-	30,361
Deferred tax assets	16	-	-	43,404	41,560
Derivative financial instruments	10	-	-	769	-
Other non-current assets	18	286	255	31	-
Total non-current assets		2,422,408	2,429,852	1,148,228	1,205,743
Total assets		**2,502,170**	**2,521,449**	**1,188,135**	**1,265,079**
Current liabilities					
Payables	19	25,952	25,696	14,929	14,155
Borrowings	20	74,314	46,100	49,333	46,100
Provisions	21	122	113	122	113
Other current liabilities	22	50,170	52,053	46,506	48,873
Total current liabilities		150,558	123,962	110,890	109,241
Non-current liabilities					
Borrowings	23	1,922,491	2,057,970	962,084	1,032,425
Provisions	25	4,862	4,658	621	595
Derivative financial instruments	10	48,526	-	-	-
Deferred tax liabilities	24	182,732	157,252	-	-
Other non-current liabilities	26	18,920	31,646	18,920	33,251
Total non-current liabilities		2,177,531	2,251,526	981,625	1,066,271
Total liabilities		**2,328,089**	**2,375,488**	**1,092,515**	**1,175,512**
Net assets		**174,081**	**145,961**	**95,620**	**89,567**
Equity					
Contributed equity	27	296,591	258,784	296,591	258,784
Reserves	28(a)	(1,185)	-	538	-
Accumulated losses	28(b)	(121,325)	(112,823)	(201,509)	(169,217)
Total equity		**174,081**	**145,961**	**95,620**	**89,567**
Equity and loan notes					
Total equity		174,081	145,961	95,620	89,567
Loan notes		142,688	186,871	142,688	186,871
Total equity and loan notes		**316,769**	**332,832**	**238,308**	**276,438**

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

STATEMENTS OF CHANGES IN EQUITY

	Notes	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
		$'000	*$'000*	*$'000*	*$'000*
Total equity at the beginning of the financial year		**145,961**	**162,344**	**89,567**	**130,348**
Adjustment on adoption of AASB 132 and AASB 139, net tax to:					
Accumulated losses	28	(2,136)	-	644	-
Reserves and contributed equity	27,28	(4,429)	-	(5,179)	-
Restated total equity at the beginning of the financial year		**139,396**	**162,344**	**85,032**	**130,348**
Changes in the fair value of cash flow hedges, net of tax	28	(211)	-	2,262	-
Deferred tax recorded in equity		(20)	(19)	(20)	(19)
Net income recognised directly in equity		**(231)**	**(19)**	**2,242**	**(19)**
Loss for the year		**(6,366)**	**(16,310)**	**(32,936)**	**(40,708)**
Total recognised income and expense for the year		**(6,597)**	**(16,329)**	**(30,694)**	**(40,727)**
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	27	41,282	(54)	41,282	(54)
Total equity at the end of the financial year		**174,081**	**145,961**	**95,620**	**89,567**

The balance of total equity at the beginning of the year for the year prior corresponding period has been adjusted by an amount of $2.2 million in respect of tax losses that were overstated on transition to AASB 1020 (1999) at 1 July 2003.

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

CASH FLOW STATEMENTS

	Notes	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
		$'000	*$'000*	*$'000*	*$'000*
Cash flows from operating activities					
Receipts from customers (inclusive of Goods and Services Tax)		351,102	333,053	184,759	175,397
Payments to suppliers and employees (inclusive of Goods and Services Tax)		(133,524)	(137,646)	(173,704)	(181,506)
		217,578	**195,407**	**11,055**	**(6,109)**
Interest received		2,879	3,009	32,953	28,602
Borrowing costs		(121,154)	(122,165)	(55,678)	(55,701)
Net cash inflow/(outflow) from operating activities	38	**99,303**	**76,251**	**(11,670)**	**(33,208)**
Cash flows from investing activities					
Payments for property, plant and equipment		(92,136)	(86,848)	(3,076)	(3,503)
Proceeds from sale of property, plant and equipment		58	-	-	-
Net cash outflow from investing activities		**(92,078)**	**(86,848)**	**(3,076)**	**(3,503)**
Cash flows from financing activities					
Proceeds from issue of stapled securities		49,905	-	49,905	-
Proceeds from borrowings		229,714	662,973	220,000	630,000
Loans to related parties		-	-	31,681	35,739
Repayment of borrowings		(224,007)	(597,025)	(226,855)	(572,025)
Distributions paid	29	(73,790)	(73,117)	(73,790)	(73,117)
Debt and capital raising costs		(12,835)	(19,099)	(12,835)	(19,106)
Net cash (outflow)/inflow from financing activities		**(31,013)**	**(26,268)**	**(11,894)**	**1,491**
Net decrease in cash and cash equivalents		**(23,788)**	**(36,865)**	**(26,640)**	**(35,220)**
Cash and cash equivalents at the beginning of the financial year		50,224	87,089	39,226	74,446
Cash and cash equivalents at end of year	8	**26,436**	**50,224**	**12,586**	**39,226**

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

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Statement of Compliance

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRS ensures that the consolidated financial statements and notes of Envestra Ltd comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Envestra Ltd financial statements to be prepared in accordance with AIFRS. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Envestra Ltd until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Envestra Ltd 2006 financial statements, management has amended certain accounting and valuation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net income are given in note 40.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through the income statement.

Critical accounting estimates

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

(b) Principles of consolidation

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

- Envestra Natural Gas Networks Ltd ACN 008 181 066
- Envestra (SA) Ltd ACN 008 139 204

- Envestra (Qld) Ltd ACN 009 760 883
- Envic Holdings 1 Pty Ltd ACN 085 882 337
- Envic Holdings 2 Ltd ACN 085 882 364
- Envestra Victoria Pty Ltd ACN 085 882 373
- Vic Gas Distribution Pty Ltd ACN 085 899 001
- The Albury Gas Company Ltd ACN 000 001 249
- Envestra Transmission Holdings 1 Pty Ltd ACN 108 315 957
- Envestra Transmission Holdings 2 Pty Ltd ACN 108 316 249
- Envestra Transmission Pty Ltd ACN 108 316 007

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

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

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

(c) Foreign currency translation

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

(d) Revenue recognition

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

(e) Government grants

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

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

(f) Income tax

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

The Envestra Group has determined that deferred tax assets and deferred tax liabilities associated with indefinite life intangibles should be 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.

Tax consolidation legislation

Envestra Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002.

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

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

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

Vic Gas Distribution Pty Ltd and The Albury Gas Company Ltd are not part of the Envestra tax consolidated group because they are wholly owned subsidiaries of Origin Energy Ltd. Origin Energy Ltd has elected to form a tax consolidated group from 1 July 2003 and as such Vic Gas Distribution Pty Ltd and The Albury Gas Company Ltd are included in this Group.

(g) Impairment of assets

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

(h) Cash and cash equivalents

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

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

(i) Receivables

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

The Access Arrangements covering the South Australia networks require the retailer to prepay for haulage services. The initial prepayment is an estimate of two months’ haulage charges. An adjustment is made each month for variances between the actual charges and the prepaid estimate and include an estimate of a further month’s charges. No provision has been raised for doubtful debts in respect of these arrangements because no debts are considered doubtful. The Access Arrangement covering the Queensland network from 1 July 2006 requires the retailer to pay a security deposit and pay for gas delivered within 30 days. No provision has been raised for doubtful debts because no debts are considered doubtful.

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

(j) Non-current assets held for sale

Non-current assets are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

(k) Derivatives

From 1 July 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

The following sets out how derivatives are accounted for under previous AGAAP.

Interest rate and cross currency swaps

The net amount receivable or payable under interest rate and cross-currency swap agreements is progressively brought to account over the period to settlement. The amount recognised is accounted for as an adjustment to interest and finance charges during the period and included in other debtors or other creditors at each reporting date.

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes in the carrying amounts of derivatives are taken to retained earnings or reserves, depending on whether the criteria for hedge accounting are satisfied at the transition date.

For further information concerning the adjustments on transition date reference should be made to:

- Derivative financial instruments – note 10;
- Reserves and accumulated losses – note 28;
- Explanation of transition to AIFRS – note 40: section 5 of this note discloses the adjustment to each line item in the financial statements on transition date.

From 1 July 2005

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 assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 10. Movements in the hedging reserve in shareholders' equity are shown in note 28.

(i) Fair value hedge

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

(ii) Cash flow hedge

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

(l) Property, plant and equipment

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

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

Category	Useful life (years)
Buildings	40
Gas mains and inlets:	
Polyethylene	60
Steel	100
Cast iron	120
Gas meters	25
Regulators	50
Gate stations	50
Telemetry equipment	10
Furniture and office equipment	5-10

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

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

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

(m) Intangible assets

The distribution licence held by Vic Gas Distribution Pty Ltd, which is valued in the financial statements at $586 million (refer note 17), in the opinion of the Directors has an ongoing life and its value will not diminish. Therefore no amortisation charge has been included in the financial statements. An assessment of the recoverable amount of the licence is made at the time of preparing the half yearly and annual financial reports to ensure it is not below the carrying amount of the licence.

(n) 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.

(o) 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.

(p) Borrowing costs

Borrowing costs include:

- interest on borrowings;
- amortisation of debt establishment costs;
- ancillary costs, including fees etc;
- CIB redemption costs;
- ineffective derivatives.

(q) 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 national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

Contributions to defined contribution funds are recognised as an expense as they become payable.

(iv) Other

The number of employees in the Envestra Group was 15 as at 30 June 2006 (13 as at 30 June 2005). The operational activities of the Group are undertaken by Origin Energy Asset Management Ltd and associated subcontractors.

(r) Stapled securities

Envestra Ltd has issued stapled securities, each of which comprises a loan note and a fully paid ordinary share. The two components of the stapled security cannot be traded separately.

The amount of principal outstanding on each loan note as at 30 June 2006 is 18.14 cents (2005: 24.28 cents).

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

Distributions to security holders may comprise interest paid on the loan notes, repayment of loan note principal, and return of capital and dividends.

(s) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(t) Financial instrument transaction costs

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous Australian GAAP (AGAAP) in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP, transaction costs were disclosed as intangible assets. Under AIFRS such costs are included in the carrying amounts of the respective financial liabilities.

(u) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

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

(v) Recoverable amount of non-current assets

The economic entity has not adopted a policy of revaluing its non-current assets on a regular basis. Non-current assets may be revalued from time to time as considered appropriate by the Directors and in the view of the Directors are not stated at amounts in excess of their recoverable amounts. Recoverable amounts are determined by discounting expected relevant net cash flows to their present value.

An independent valuation of the Group's gas network business was carried out at 31 December 2002 by Ernst & Young Corporate Finance Pty Ltd. The report prepared by Ernst & Young Corporate Finance concluded that the value of the business was in excess of the book values of the net assets by a range of $386 to $535 million, the mid point of which was calculated at $452 million.

(w) Restoration, rehabilitation and environmental expenditure

Provisions for future environmental restoration are recognised where sites are known to be contaminated, and it is probable that an outflow of economic benefits will be required to restore the site. The estimated future outflows are the best estimate of the expenditure required to remediate the sites to industrial zoning use. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period, with a corresponding change in the cost of the associated asset.

(x) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 41). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk, liquidity risk and interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as currency and interest rate swaps to hedge certain risk exposures.

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

(a) Market risk

(i) Foreign exchange risk

Foreign exchange transaction risk arises from the possibility that Envestra's cash flows could be adversely affected by movements in exchange rates. The sources of Envestra's foreign exchange transaction exposures are interest and principal payments on non-Australian dollar denominated debt and payments of fees and shareholder distributions denominated in a foreign currency.

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

(b) Credit risk

Refer to note 9 for further details of credit risk in relation to receivables. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

(c) Liquidity risk

Liquidity risk management is associated with ensuring that sufficient funds are available to meet Envestra's financial commitments in a timely manner. It is also associated with planning for unforeseen events which may curtail cash flows and cause pressure on liquidity. Refer to note 23(e) for further details on the Group's approach to liquidity risk management.

(d) Cash flow and fair value interest rate risk

As the Group has no significant 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 long-term 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, 24.3 per cent of borrowings (excluding loan notes) were at fixed rates.

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

3 CRITICAL ACCOUNTING ESTIMATES

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

The key estimates and assumptions are discussed below.

(i) Estimated impairment of intangibles

The Group tests annually whether intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1(m). 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 17 for details of these assumptions.

(ii) Useful lives of property, plant and equipment

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

4 SEGMENT INFORMATION

(a) Description of segments

Geographical segments

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

(b) Primary reporting – geographical segments

	Victoria and New South Wales	South Australia	Queensland and other	Total continuing operations	Inter-segment eliminations/ unallocated	Consolidated
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
2006						
Sales to external customers/Total sales revenue	148,111	142,002	44,269	334,382	-	334,382
Other revenue/income	5,870	-	-	5,870	2,793	8,663
Total segment revenue/income	153,981	142,002	44,269	340,252	2,793	343,045
Profit before net interest	89,202	67,127	25,654	181,983	-	181,983
Net interest (including interest on loan notes, excluding amortisation of borrowing costs)					-	(159,982)
Profit before income tax					-	22,001
Income tax expense					-	(28,367)
Net loss for the year					-	(6,366)
Segment assets	1,357,590	808,835	308,997	2,475,422	-	2,475,422
Unallocated assets					-	26,748
Total assets					-	2,502,170
Segment liabilities	10,998	36,690	6,777	54,465	-	54,465
Unallocated liabilities					-	2,273,624
Total liabilities					-	2,328,089
Acquisitions of property, plant and equipment	47,459	27,120	16,910	91,489	-	91,489
Depreciation expense	24,254	23,778	5,647	53,679	-	53,679
Other non-cash expenses	2,631	2,586	-	5,217	-	5,217

Primary reporting – geographical segments	Victoria and New South Wales	South Australia	Queensland and other	Total continuing operations	Inter-segment eliminations/ unallocated	Consolidated
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
2005						
Sales to external customers/Total sales revenue	142,213	129,580	42,269	314,062	-	314,062
Other revenue/income	550	-	-	550	3,011	3,561
Total segment revenue/income	142,763	129,580	42,269	314,612	3,011	317,623
Profit before net interest	75,685	60,870	22,806	159,361	-	159,361
Net interest (including interest on loan notes, excluding amortisation of borrowing costs)					-	(153,693)
Profit before income tax					-	5,668
Income tax expense					-	(21,978)
Net loss for the year					-	(16,310)
Segment assets	1,330,011	796,809	298,499	2,425,319	-	2,425,319
Unallocated assets					-	96,130
Total assets					-	2,521,449
Segment liabilities	13,915	33,881	5,282	53,078	-	53,078
Unallocated liabilities					-	2,322,410
Total liabilities					-	2,375,488
Acquisitions of property, plant and equipment	40,361	30,954	12,857	84,172	-	84,172
Depreciation expense	23,465	21,356	5,777	50,598	-	50,598
Other non-cash expenses	2,732	2,309	-	5,041	-	5,040

(c) Secondary reporting format – business segments

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

5 GOVERNMENT GRANTS

SA FRC government grants of $13.9 million (2005: $11.2 million) were recognised as revenue from continuing operations by the Group during the financial year.

Also during the financial year, grants received from the Victorian Government of $3.9 million (2005: $0.5 million) in respect of work completed on the Vic regional towns projects were recognised as other income. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

6 EXPENSES

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	*$'000*	*$'000*	*$'000*
Profit before income tax includes the following specific expenses:				
Depreciation				
Buildings	166	167	-	-
Plant and equipment	53,513	50,431	894	695
Total depreciation	**53,679**	**50,598**	**894**	**695**
Amortisation				
Capital raising/formation costs	1,657	1,123	1,176	883
Total amortisation	**1,657**	**1,123**	**1,176**	**883**
Other charges against assets				
Asset retirements	724	683	-	-
Bad and doubtful debts – trade debtors	21	9	-	-
Borrowing costs				
Interest excluding interest on loan notes	130,870	130,365	63,058	62,139
Amortisation of debt establishment costs	3,560	3,918	1,410	1,535
Capital Indexed Bonds redemption costs	7,238	-	7,238	-
Total borrowing costs (excluding interest on loan notes)	**141,668**	**134,283**	**71,706**	**63,674**
Interest on loan notes	24,667	26,339	24,667	26,339
Total borrowing costs including loan note interest	**166,335**	**160,622**	**96,373**	**90,013**
Employee benefits expense	3,159	2,837	3,159	2,837

7 INCOME TAX EXPENSE

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	*$'000*	*$'000*	*$'000*
(a) Income tax expense				
Deferred tax	28,367	21,978	(3,568)	(6,942)
Attributable to:				
Profit from continuing operations	28,367	21,978	(3,568)	(6,942)
Deferred income tax (revenue)/expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets (note 16)	715	(6,595)	(4,800)	(7,443)
Increase in deferred tax liabilities (note 24)	27,652	28,573	1,232	501
	28,367	21,978	(3,568)	(6,942)

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	*$'000*	*$'000*	*$'000*
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit/(loss) from continuing operations before income tax expense	22,001	5,668	(36,504)	(47,650)
Tax at the Australian tax rate of 30 per cent (2005 – 30 per cent)	6,600	1,701	(10,951)	(14,295)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Interest on loan notes not deductible	7,402	7,902	7,402	7,902
Losses transferred or transferable (i)	14,428	14,202	-	-
Adjustment to tax base	-	(1,794)	-	(481)
Sundry items	(63)	(33)	(19)	(68)
Total income tax expense	**28,367**	**21,978**	**(3,568)**	**(6,942)**
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax (credited)/debited directly to equity	(75)	19	984	19
	(75)	19	984	19
(d) Unrecognised temporary differences				
Deferred tax assets not recognised	1,160	1,499	-	-

(i) The tax expense was higher than the prima facie tax expense in 2006 due in part to the net impact of the Subvention Deed arrangements entered into with Origin Energy Ltd consequent to the 1999 acquisition of the Group's Victorian assets. The Subvention Deed was executed by Origin Energy Ltd and Vic Gas Distribution Pty Ltd, under which Vic Gas Distribution Pty Ltd agrees, while it is a wholly owned subsidiary of Origin Energy Ltd, to transfer tax losses to other companies in the Origin Energy Group. There is a series of fixed payments that Origin Energy Ltd is required to ensure is paid to Vic Gas Distribution Pty Ltd for the transfer of the losses. However, the nominal value of the tax losses transferred exceeds the cash value of the annual subvention payments received.

The net impact of the Subvention Deed on tax expense is an increase of $14.4 million (2005: an increase of $14.2 million).

The final payment due under the Subvention Deed was received in December 2003.

The Put Option that Origin Energy Ltd has on its shares in Vic Gas Distribution Pty Ltd was not exercised in 31 March 2006. As a result, additional revenue of $1.9 million was received by the Envestra Group in the year ended 30 June 2006.

(e) Tax consolidation legislation

Envestra Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. The accounting policy in relation to this legislation is set out in note 1(f).

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

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

The amounts receivable/payable under the tax funding 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 with its obligations to pay tax instalments. The funding amounts are recognised as intercompany receivables or payables.

8 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	$'000	$'000	$'000
Cash at bank and in hand	906	11,388	586	2,946
Deposits at call	25,530	38,836	12,000	36,280
	26,436	50,224	12,586	39,226

(a) Cash at bank and on hand

These are interest bearing except for cash on hand.

(b) Deposits at call

The deposits are bearing floating interest rates between 5.97 per cent and 5.7 per cent (2005 – 5.79 per cent and 5.25 per cent). These deposits have an average maturity of 26 days.

9 CURRENT ASSETS – RECEIVABLES

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	$'000	$'000	$'000
Trade receivables	51,952	38,977	18,912	10,821
Provision for doubtful receivables	(50)	(50)	-	-
	51,902	38,927	18,912	10,821
Other receivables	-	2	-	2
Interest receivable	23	109	3	78
	23	111	3	80
	51,925	39,038	18,915	10,901

(a) Bad and doubtful trade receivables

The Group has recognised a loss of $20,806 (2005: $8,744) in respect of bad and doubtful trade receivables during the year ended 30 June 2006. The loss has been included in 'administration expenses' in the income statement.

(b) Significant terms and conditions

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

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

(c) Effective interest rates and credit risk

Envestra's customers using the South Australia, Northern Territory and Queensland networks pay for haulage services in advance. Customers using the Queensland network from 1 July 2006 pay a security deposit. Retailers using the Victorian networks pay in arrears for haulage services, and credit risk is centred on the large Victorian retailers, though contracts and the associated Victorian Access Regime limit such risks. 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. The Group's receivables are all non-interest bearing.

10 DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	*$'000*	*$'000*	*$'000*
Non-current assets				
Interest rate swaps – cashflow hedges	-	-	769	-
Total derivative financial instrument assets	**-**	**-**	**769**	**-**
Non-current liabilities				
Interest rate and cross-currency swap contracts – cashflow and fair value hedges	48,526	-	-	-
Total derivative financial instrument liabilities	**48,526**	**-**	**-**	**-**
Net derivatives	**(48,526)**	**-**	**769**	**-**

(a) Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the date of transition to these standards on 1 July 2005:

For the Group

A pre-tax net adjustment of a $9.38 million decrease in net assets was recognised representing:

- the booking of a financial liability in respect of interest rate swaps used in cashflow hedges of $7.4 million;
- the booking of financial liabilities in respect of interest rate swaps and cross-currency swaps used in fair value and cashflow hedges of $21.25 million, offset by the decrease in the US Private Placement financial liability of $27.26 million, and hedge ineffectiveness of $0.002 million;
- the booking of a financial liability in respect of interest rate options not qualifying for hedge accounting of $0.99 million;
- adjustments relating to the application of amortised cost calculations on the Group's borrowings ($7.0 million).

For the parent entity

A pre-tax net adjustment of a $6.48 million decrease in net assets was recognised representing:

- the booking of a financial liability in respect of interest rate swaps used in cashflow hedges of $2.46 million;
- adjustments relating to the application of amortised cost calculations on the Group's borrowings of $4.02 million.

For further information refer to note 1(k) and section 5 of note 40.

(b) Instruments used by the Group

Envestra Ltd and certain of its controlled entities are parties to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates (refer to note 2).

(i) Interest rate swap contracts – cash flow and fair value hedges

The economic entity 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. The interest rate swaps allow the economic entity to raise long-term borrowings at floating rates and swap them into fixed rates that are lower than those available to the economic entity if fixed rate borrowings were made directly. Under the interest rate swaps, the entity 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 2006, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

Maturity	2006	2005
	$'000	*$'000*
Less than 1 year	-	635,000
1-2 years	745,000	-
2-3 years	-	575,000
4-5 years	505,000	-
	1,250,000	**1,210,000**

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in income immediately. In the year ended 30 June 2006, $0.3 million of profit was recorded in the income statement.

Group

At balance date these contracts were assets with fair value of $4.3 million. In the year ended 30 June 2006 there was:

- on the date of transition to AASB 132 and AASB 139 on 1 July 2005 a liability of $7.4 million on re-measurement to fair value; and
- an increase in fair value of $11.7 million during the year.

Parent entity

At balance date these contracts were assets with fair value of $0.8 million. In the year ended 30 June 2006 there was:

- on the date of transition to AASB 132 and AASB 139 on 1 July 2005 a liability of $2.5 million on re-measurement to fair value; and
- an increase in fair value of $3.3 million during the year.

(ii) Interest rate options

The economic entity's outstanding option contracts were either sold or reached maturity during the year ended 30 June 2006. The terms applicable to the previous year are as follows:

Interest rate caps

The tables below include all caps transacted.

Interest rate caps with a notional principal amount of $230 million at an interest rate ranging between 5.5 per cent and 5.575 per cent and expiring through to December 2007, were held at 30 June 2005.

Maturity	2006	2005
	$'000	*$'000*
Less than 1 year	-	105,000
2-3 years	-	125,000
	-	**230,000**

Interest rate floors

Interest rate floors with a notional principal amount of $495 million at an interest rate of 5.5 per cent and 5.575 per cent and expiring through to December 2007, were also held at 30 June 2005.

(iii) Cross-currency swaps – cashflow and fair value hedges

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

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

Maturity	2006	2005
	$'000	*$'000*
Greater than 5 years	266,131	266,131

The gain or loss from remeasuring the hedging instruments used in cashflow hedges, at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately. The gain or loss from remeasuring hedging instruments used in fair value hedges, at fair value is recorded in the income statement.

Group

At balance date these contracts were liabilities of $52.8 million. In the year ended 30 June 2006 there was:

- on the date of transition to AASB 132 and AASB 139 on 1 July 2005 a liability of $21.3 million on the remeasurement to fair value; and
- a decrease in fair value of $31.5 million during the year.

(c) Credit risk exposures

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises with amounts receivable from unrealised gains on derivative financial instruments. At balance date there are no amounts receivable (Australian dollar equivalents) for the Group from interest rate swap contracts and cross-currency swap contracts.

The Group undertakes 100 per cent of its transactions in foreign exchange and interest rate contracts with financial institutions. Management has established limits such that, at any time, no more than $550 million of notional principal amounts are with any individual counterparty.

(d) Interest rate risk exposures

Refer to note 23 for the Group's exposure to interest rate risk on interest rate swaps.

11 CURRENT ASSETS – NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	*$'000*	*$'000*	*$'000*
Land (note 40(4)(c))	534	554	-	-

12 CURRENT ASSETS – OTHER CURRENT ASSETS

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	*$'000*	*$'000*	*$'000*
Intercompany interest receivable	-	-	7,965	8,974
GST receivable	357	1,291	441	235
Deferred licence fees	510	490	-	-
	867	**1,781**	**8,406**	**9,209**

13 NON-CURRENT ASSETS - RECEIVABLES

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	$'000	$'000	$'000
Receivable from wholly owned entities	-	-	234,454	264,823

14 NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

Other (non-traded) investments	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	$'000	$'000	$'000
Shares in subsidiaries (note 34)	-	-	833,465	833,465

15 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Freehold buildings	Plant and equipment	Total
	$'000	$'000	$'000	$'000
Consolidated				
At 1 July 2004				
Cost	3,339	4,750	1,980,301	1,988,390
Accumulated depreciation	-	(869)	(220,950)	(221,819)
Net book amount	3,339	3,881	1,759,351	1,766,571
Year ended 30 June 2005				
Opening net book amount	3,339	3,881	1,759,351	1,766,571
Additions	-	-	84,172	84,172
Retirements	-	-	(683)	(683)
Depreciation charge	-	(167)	(50,431)	(50,598)
Closing net book amount	3,339	3,714	1,792,409	1,799,462
At 30 June 2005				
Cost	3,339	4,750	2,063,715	2,071,804
Accumulated depreciation	-	(1,036)	(271,306)	(272,342)
Net book amount	3,339	3,714	1,792,409	1,799,462
Year ended 30 June 2006				
Opening net book amount	3,339	3,714	1,792,409	1,799,462
Additions	-	-	91,489	91,489
Disposals	(20)	-	-	(20)
Depreciation charge	-	(166)	(53,513)	(53,679)
Retirements	-	-	(724)	(724)
Closing net book amount	3,319	3,548	1,829,661	1,836,528
At 30 June 2006				
Cost	3,319	4,750	2,154,388	2,162,457
Accumulated depreciation	-	(1,202)	(324,727)	(325,929)
Net book amount	3,319	3,548	1,829,661	1,836,528

	Plant and equipment	Total
	$'000	*$'000*
Parent		
At 1 July 2004		
Cost	37,571	37,571
Accumulated depreciation	(3,114)	(3,114)
Net book amount	34,457	34,457
Year ended 30 June 2005		
Opening net book amount	34,457	34,457
Additions	1,772	1,772
Depreciation charge	(695)	(695)
Closing net book amount	35,534	35,534
At 30 June 2005		
Cost	39,343	39,343
Accumulated depreciation	(3,809)	(3,809)
Net book amount	35,534	35,534
Year ended 30 June 2006		
Opening net book amount	35,534	35,534
Additions	1,465	1,465
Depreciation charge	(894)	(894)
Closing net book amount	36,105	36,105
At 30 June 2006		
Cost	40,808	40,808
Accumulated depreciation	(4,703)	(4,703)
Net book amount	36,105	36,105

(a) Valuations of land and buildings

An independent valuation of land and buildings was undertaken during the 2003-04 year by registered valuers. The market valuations of these properties were in excess of the carrying values by approximately $6.8 million. The valuation of the properties has not taken into account any potential remediation costs. A restoration provision of $4.2 million has been included in the financial statements at 30 June 2006.

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

(b) Non-current assets pledged as security

Refer to note 23 for information on non-current assets pledged as security by the parent entity and its controlled entities.

16 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	$'000	$'000	$'000
The balance comprises temporary differences attributable to:				
Accrued expenses	194	269	170	247
Employee benefits	223	212	223	212
Equity and debt raising	18	40	18	40
Deferred revenue	9,334	13,514	9,334	13,513
Derivatives	643	-	-	-
Tax losses[(i)]	47,700	44,063	41,181	34,800
	58,112	58,098	50,926	48,812
Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 24)	(58,112)	(58,098)	(7,522)	(7,252)
Net deferred tax assets	-	-	43,404	41,560
Movements				
Opening balance at 1 July	58,098	51,503	48,813	43,380
Credited/(charged) to the income statement (note 7)	(715)	6,595	4,800	7,443
Credited to equity	729	-	-	-
Deferred tax assets relating to tax losses transferred	-	-	(2,687)	(2,010)
Closing balance at 30 June	58,112	58,098	50,926	48,813

(i) The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

17 NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Debt establishment costs	Loan note raising / formation costs	Distribution licence	Total
	$'000	$'000	$'000	$'000
Consolidated				
At 1 July 2004				
Cost	35,720	27,318	585,594	648,632
Accumulated amortisation	(20,946)	(12,008)	-	(32,954)
Net book amount	14,774	15,310	585,594	615,678
Year ended 30 June 2005				
Opening net book amount	14,774	15,310	585,594	615,678
Additions/adjustments	19,546	(48)	-	19,498
Amortisation charge	(3,918)	(1,123)	-	(5,041)
Closing net book amount	30,402	14,139	585,594	630,135

	Debt establishment costs	Loan note raising / formation costs	Distribution licence	Total
	$'000	*$'000*	*$'000*	*$'000*
Consolidated				
At 30 June 2005				
Cost	55,266	27,270	585,594	668,130
Accumulated amortisation	(24,864)	(13,131)	-	(37,995)
Net book amount	30,402	14,139	585,594	630,135
Year ended 30 June 2006				
Opening net book amount	30,402	14,139	585,594	630,135
Amortised cost transfers on transition to AASB 139	(30,402)	(14,139)	-	(44,541)
Closing net book amount	-	-	585,594	585,594
At 30 June 2006				
Cost	-	-	585,594	585,594
Net book amount	-	-	585,594	585,594

	Debt establishment costs	Loan note raising / formation costs	Total
	$'000	*$'000*	*$'000*
Parent			
At 1 July 2004			
Cost	5,579	17,667	23,246
Accumulated amortisation	(3,901)	(6,068)	(9,969)
Net book amount	1,678	11,599	13,277
Year ended 30 June 2005			
Opening net book amount	1,678	11,599	13,277
Additions/adjustments	19,550	(48)	19,502
Amortisation charge	(1,535)	(883)	(2,418)
Closing net book amount	19,693	10,668	30,361
At 30 June 2005			
Cost	25,129	17,619	42,748
Accumulated amortisation	(5,436)	(6,951)	(12,387)
Net book amount	19,693	10,668	30,361
Year ended 30 June 2006			
Opening net book amount	19,693	10,668	30,361
Amortised cost transfers on transition to AASB 139	(19,693)	(10,668)	(30,361)
Closing net book amount	-	-	-

Key assumptions used for value-in-use calculations

Victorian distribution licence

The recoverable amount of the Victorian cash-generating unit is based on value in use calculations. Those calculations use cash flow projections based on current and expected regulatory outcomes for gas distributors. Cash flow projections are estimated for a period of 20 years, with a terminal value, recognising the long term nature of the assets. The pre-tax discount rate used is 8.26 per cent.

18 NON-CURRENT ASSETS - OTHER NON-CURRENT ASSETS

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	$'000	$'000	$'000
Deferred licence fees	255	255	-	-
Deferred costs	31	-	31	-
	286	255	31	-

19 CURRENT LIABILITIES - PAYABLES

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	$'000	$'000	$'000
Trade payables	25,952	25,696	14,929	14,155

20 CURRENT LIABILITIES - BORROWINGS

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	$'000	$'000	$'000
Unsecured				
Mezzanine debt	24,981	-	-	-
Loan notes	49,333	46,100	49,333	46,100
Total unsecured current borrowings	74,314	46,100	49,333	46,100

Mezzanine debt

Envic Holdings 2 Ltd has issued mezzanine debt. Envestra Ltd has guaranteed the obligations of Envic Holdings 2 Ltd under the terms of issue of this debt. The guarantee is subordinated to all of Envestra Ltd's senior debt.

Interest rate risk exposures

Details of the Group's exposure to interest rate changes on borrowings are set out in note 23.

Fair value disclosures

Details of the fair value of borrowings for the Group are set out in note 23.

21 CURRENT LIABILITIES - PROVISIONS

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	$'000	$'000	$'000
Employee benefits	122	113	122	113

22 CURRENT LIABILITIES - OTHER CURRENT LIABILITIES

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	$'000	$'000	$'000
Prepayments from energy retailers	28,544	27,400	28,544	27,400
Interest accrued on loan notes	5,524	6,989	5,524	6,989
Accrued costs	1,131	897	647	824
Other interest accrued	4,308	4,753	1,145	1,646
Other	97	218	80	218
Government grant deferred income	10,566	11,796	10,566	11,796
	50,170	52,053	46,506	48,873

23 NON-CURRENT LIABILITIES - BORROWINGS

The Envestra Group is focused on the ownership of gas distribution networks and transmission pipelines. Whilst the assets generally have very long lives, the financing of those assets is undertaken using a range of instruments with varying terms, including capital markets debt and bank loans, with maturities spread over the next 27 years to promote liquidity and minimise refinancing risk.

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

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	$'000	$'000	$'000
Secured				
Bank loans	6,791	25,000	6,791	25,000
Medium Term Notes	1,136,413	1,160,000	581,488	600,000
Commercial Paper	75,214	67,662	-	4,975
Capital Indexed Bonds	393,443	373,406	280,450	261,679
US Private Placement Notes	217,275	266,131	-	-
Total secured non-current borrowings	1,829,136	1,892,199	868,729	891,654
Unsecured				
Mezzanine debt	-	25,000	-	-
Loan notes	93,355	140,771	93,355	140,771
Total unsecured non-current borrowings	93,355	165,771	93,355	140,771
Total non-current borrowings	**1,922,491**	**2,057,970**	**962,084**	**1,032,425**

(a) Total secured liabilities

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

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	$'000	$'000	$'000
Bank loans	6,791	25,000	6,791	25,000
Medium Term Notes	1,136,413	1,160,000	581,488	600,000
Commercial Paper	75,214	67,662	-	4,975
Capital Indexed Bonds	393,443	373,406	280,450	261,679
US Private Placement Notes	217,275	266,131	-	-
Total secured liabilities	1,829,136	1,892,199	868,729	891,654

(b) Assets pledged as security

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

	Notes	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
		$'000	*$'000*	*$'000*	*$'000*
Current					
Floating charge					
Cash and cash equivalents	8	26,436	50,224	12,586	39,226
Receivables	9	51,925	39,038	18,915	10,901
Other current assets	12	867	1,781	8,406	9,209
Land held for resale	11	534	554	-	-
Total current assets pledged as security		79,762	91,597	39,907	59,336
Non-current					
Floating charge					
Distribution licence	17	585,594	585,594	-	-
Plant and equipment	15	1,836,528	1,799,462	36,105	35,534
Total non-current assets pledged as security		**2,422,122**	**2,385,056**	**36,105**	**35,534**
Total assets pledged as security		**2,501,884**	**2,476,653**	**76,012**	**94,870**

(c) Significant terms and conditions

The bank loans, Capital Indexed Bonds, Commercial Paper, Medium Term Notes and US Private Placement Notes are secured by charges over the respective networks. Various interest service and balance sheet covenants must be maintained by Envestra and its controlled entities, otherwise certain restrictions apply in respect of the payment of distributions. At 30 June 2006 all covenants had been satisfied and it is expected that they will continue to be satisfied. The loan notes are unsecured and subordinated to other debt providers and ordinary creditors. Interest is payable on the loan notes to the extent there is sufficient available cash, as defined in the Loan Note Trust Deed to make distributions.

(d) Group funding and liability structure

The Envestra Group's total interest bearing debt as at 30 June 2006 was $1,996.8 million. These debts include stapled loan notes owing to shareholders of $142.7 million (of which $49.3 million is classified as "current" on the basis that distributions, including loan note capital repayments, are expected to occur over the next 12 months).

The remaining interest bearing debt of $1,854.1 million comprises a range of financial instruments with varying maturities which have been issued under the Group's treasury management program with a view to diversifying funding sources, increasing future refinancing options and lowering overall borrowing costs.

The existing debt instruments include:

Bank loans

Bank loans are committed facilities from leading Australian and international banks generally for terms of between three to five years.

Commercial Paper

The Envestra Group had Commercial Paper on issue at 30 June 2006 of $75.2 million (2005: $67.7 million). Commercial Paper is expected to be issued from time to time by the Group in the future largely as interim funding for the ongoing capital expenditure program, and also to minimise financing costs.

The Commercial Paper and Medium Term Note Program is supported by liquidity support agreements (varying terms to May 2011) with leading Australian and international banks. These support agreements are expected to be rolled over in the normal course of business.

In addition Envestra Group has undrawn 4 to 6 year committed bank facilities of $93 million to also support the commercial paper on issue. Because of these arrangements, the commercial paper has been classified as non-current, given it is expected to be rolled over at maturity. The Envestra Group also has working capital facilities totalling $10 million which are undrawn at 30 June 2006.

Capital Indexed Bonds

These bonds were issued for varying terms of 10 to 20 years. The principal component is indexed by the quarterly movement in the CPI.

Medium Term Notes

Medium Term Notes totalling $1,136.4 million (2005: $1,160 million) are instruments issued under the Commercial Paper and Medium Term Note Program for varying terms of up to 21 years. The Medium Term Notes on issue all have maturity dates post 30 June 2007 and have as a consequence been classified as non-current.

US Private Placement Notes

Notes totalling A$217.3 million (2005: A $266.1 million) are issued in the United States of America for terms ending in 2015, 2018 and 2033. There are cross-currency swaps in place to swap both the principal and interest payments from the US$ fixed coupon to A$ floating rate for the term of the note.

(e) Financing arrangements

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

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	*$'000*	*$'000*	*$'000*
Bank loan facilities				
Total facilities	265,000	215,000	110,000	60,000
Used at balance date	7,000	25,000	7,000	25,000
Unused at balance date	258,000	190,000	103,000	35,000

Envestra Ltd and Envestra Victoria Pty Ltd have the benefit of commitments to liquidity support from leading Australian and international banks for Commercial Paper issued under the Commercial Paper and Medium Term Notes Program where the issuers are unable to issue Commercial Paper in the domestic market at a rate the issuers reasonably consider acceptable as a result of an event which affects the domestic market generally. Envestra Victoria had commitments as at 30 June 2006 for $30 million and jointly Envestra and Envestra Victoria have commitments for an additional $65 million.

(f) Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods.

		Fixed interest rate			
	Floating interest rate	Over 1 to 2 years	Over 4 to 5 years	Over 5 years	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
2006					
Bank loans	6,791	-	-	-	6,791
Medium Term Notes	1,071,413	20,000	-	45,000	1,136,413
Capital Indexed Bonds	393,443	-	-	-	393,443
Mezzanine debt (note 20)	24,981	-	-	-	24,981
Commercial Paper	75,214	-	-	-	75.214
US Private Placement Notes	217,275	-	-	-	217,275
Interest rate swaps[(i)] (note 10)	(1,250,000)	745,000	505,000	-	-
	539,117	765,000	505,000	45,000	1,854,117
Weighted average interest rate	5.93%	5.74%	6.14%	6.25%	

(i) Notional principal amounts

	Floating interest rate	Fixed interest rate 1 year or less	Fixed interest rate Over 2 to 3 years	Fixed interest rate Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000
2005					
Bank loans	25,000	-	-	-	25,000
Medium Term Notes	1,095,000	-	20,000	45,000	1,160,000
Capital Indexed Bonds	373,406	-	-	-	373,406
Mezzanine debt	25,000	-	-	-	25,000
Commercial Paper	67,662	-	-	-	67,662
US Private Placement Notes	266,131	-	-	-	266,131
Interest rate swaps[(i)] (note 10)	(1,210,000)	635,000	575,000	-	-
	642,199	635,000	595,000	45,000	1,917,199
Weighted average interest rate	6.06%	6.28%	5.74%	6.25%	

(i) Notional principal amounts

(g) Fair value

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

	Carrying amount 2006	Fair value 2006	Carrying amount 2005	Fair value 2005
	$'000	$'000	$'000	$'000
On-balance sheet				
Non-traded financial liabilities				
Bank loans	6,791	7,000	25,000	25,000
Mezzanine debt	24,981	25,000	25,000	25,000
US Private Placement Notes	217,275	218,980	266,131	266,131
Loan notes	142,688	147,712	186,871	186,871
Traded financial liabilities				
Capital Indexed Bonds	393,443	417,570	373,406	401,180
Medium Term Notes	1,136,413	1,160,000	1,160,000	1,160,000
Commercial Paper	75,214	75,214	67,662	67,662
Total financial liabilities	**1,996,805**	**2,051,476**	**2,104,070**	**2,131,844**

Fair value is inclusive of costs which would be incurred on settlement of a liability.

(i) On-balance sheet

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

24 NON-CURRENT LIABILITIES - DEFERRED TAX LIABILITIES

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	*$'000*	*$'000*	*$'000*
The balance comprises temporary differences attributable to:				
Debtors	6	33	1	23
Equity and debt raising	5,007	6,197	2,932	3,484
Other	179	223	-	-
Derivatives	231	-	231	-
Land held for resale	160	166	-	-
Restoration provision	(1,272)	(1,219)	-	-
Depreciation	236,533	209,950	4,358	3,746
	240,844	215,350	7,522	7,253
Set-off of deferred tax assets of parent entity pursuant to set-off provisions (note 16)	(58,112)	(58,098)	(7,522)	(7,253)
Net deferred tax liabilities	182,732	157,252	-	-
Movements:				
Opening balance at 1 July	215,350	186,758	7,253	6,733
Change on adoption of AASB 132 and AASB 139 (note 1)	(2,816)	-	(1,949)	-
Charged to the income statement (note 7)	27,652	28,573	1,232	501
Charged to equity	658	19	986	19
Closing balance at 30 June	240,844	215,350	7,522	7,253

25 NON-CURRENT LIABILITIES - PROVISIONS

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	*$'000*	*$'000*	*$'000*
Long service leave	163	133	163	133
Other employee and Director entitlements	458	462	458	462
Restoration	4,241	4,063	-	-
	4,862	4,658	621	595

Restoration

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

Movements in provisions

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

	Restoration	Total
	$'000	$'000
Consolidated – 2006		
Non-current		
Carrying amount at start of year	4,063	4,063
Additional provisions recognised	232	232
Payments	(54)	(54)
Carrying amount at end of year	4,241	4,241
Consolidated – 2005		
Non-current		
Carrying amount at start of year	4,063	4,063
Carrying amount at end of year	4,063	4,063

26 NON-CURRENT LIABILITIES - OTHER NON-CURRENT LIABILITIES

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	$'000	$'000	$'000
Deferred Government grant income	18,920	31,646	18,920	31,646
Deferred revenue	-	-	-	1,605
	18,920	31,646	18,920	33,251

27 CONTRIBUTED EQUITY

	Parent entity 2006	Parent entity 2005	Parent entity 2006	Parent entity 2005
	Securities	Securities	$'000	$'000
(a) Share capital				
Ordinary securities				
Issued and paid up capital	814,300,491	769,656,084	296,573	258,746
(b) Other equity components				
Deferred tax liability component			18	38
Total contributed equity			296,591	258,784

(c) Movements in ordinary share capital	Date	Number of securities	Issue price	Cost
			$	$'000
Opening balance	1-7-2004	769,656,084		258,800
Less transaction costs		-		(54)
Balance	**30-6-2005**	**769,656,084**		**258,746**
Opening balance	1-7-2005	769,656,084		258,746
Distribution reinvestment plan	30-11-2005	17,700,599	1.13	16,385
Distribution reinvestment plan	26-5-2006	26,943,808	1.11	25,020
Adjustments from adoption of AASB 139				(3,455)
				296,696
Less: Transaction costs arising on share issues				(123)
Balance	**30-6-2006**	**814,300,491**		**296,573**

(d) Ordinary securities

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

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

(e) Distribution reinvestment plan

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

28 RESERVES AND ACCUMULATED LOSSES

(a) Reserves

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	*$'000*	*$'000*	*$'000*
Hedging reserve – cash flow hedges	(1,185)	-	538	-
Movements				
Hedging reserve – cash flow hedges				
Balance 1 July	-	-	-	-
Adjustment on adoption of AASB 132 and AASB 139, net of tax	(974)	-	(1,724)	-
Fair value movements	(301)	-	3,232	-
Deferred tax	90	-	(970)	-
Balance 30 June	(1,185)	-	538	-

(b) Accumulated losses

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	*$'000*	*$'000*	*$'000*
Movements in accumulated losses were as follows:				
Accumulated losses at the beginning of the financial year	(112,823)	(96,513)	(169,217)	(128,509)
Loss for the year	(6,366)	(16,310)	(32,936)	(40,708)
Adjustment on adoption of AASB 139	(2,136)	-	644	-
Balance 30 June	(121,325)	(112,823)	(201,509)	(169,217)

(c) 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 a cash flow hedge that are recognised directly in equity, as described in note 1(k). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

29 DISTRIBUTIONS

	Parent entity 2006	Parent entity 2005
	$'000	*$'000*
Stapled Securities		
Amounts paid in November (cents per stapled security)		
Interest on loan notes: 1.83 cents (2006); 1.83 cents (2005)	14,085	14,084
Principal on loan notes: 3.87 cents (2006); 3.87 cents (2005)	29,786	29,787
	43,871	43,871
Amounts paid in May (cents per stapled security)		
Interest on loan notes: 1.53 cents (2006); 1.59 cents (2005)	12,046	12,238
Principal on loan notes: 2.27 cents (2006); 2.21 cents (2005)	17,873	17,008
	29,919	29,246
Total annual distribution: 9.5 cents (2006); 9.5 cents (2005)		
Interest on loan notes: 3.36 cents (2006); 3.42 cents (2005)	26,131	26,322
Principal on loan notes: 6.14 cents (2006); 6.08 cents (2005)	47,659	46,795
	73,790	73,117

30 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The following persons were Directors of Envestra Ltd during the financial year:

(i) Chairman - non-executive

John Geoffrey Allpass

(ii) Executive Director

Ian Bruce Little, Managing Director

(iii) Non-executive Directors

Eric Fraser Ainsworth AM
Charles Christopher Agar Binks
Bruce Gerard Beeren
Dominic Loi Shun Chan (from 30 July 2005)
Hing Lam Kam
Grant Alfred King
Olaf Brian O'Duill
William Shurniak (from 1 July 2005 to 30 July 2005)

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
Laura Reed	Chief Financial Officer	Envestra Ltd
Andrew Staniford	Commercial Manager	Envestra Ltd
Mary Anne Brophy	Company Secretary and Legal Counsel	Envestra Ltd
Des Petherick	Manager, Corporate Services	Envestra Ltd
Greg Meredith	Manager, Treasury and Economics	Envestra Ltd

All of the above persons were also key management persons during the year ended 30 June 2005.

(c) Key management personnel compensation

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$	$	$	$
Short-term employee benefits	1,987,496	1,915,837	1,987,496	1,915,837
Post-employment benefits	263,483	158,051	263,483	158,051
Other long-term benefits	73,755	-	73,755	-
	2,324,734	2,073,888	2,324,734	2,073,888

The Company has taken advantage of the relief provided by Corporations Regulations and has transferred the detailed remuneration disclosures to the Directors' report. The relevant information can be found in sections A-C of the remuneration report.

(d) 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 each key management personnel of the consolidated entity, including their personally-related entities, are set out below. There were no shares granted during the reporting period as remuneration.

Ordinary shares

2006

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Envestra Ltd				
J G Allpass	130,987	-	-	130,987
I B Little	-	-	33,000	33,000
E F Ainsworth	-	-	45,000	45,000
B G Beeren	54,500	-	4,710	59,210
C C A Binks	23,737	-	-	23,737
G A King	79,558	-	1,467	81,025
O B O'Duill	55,000	-	-	55,000
Other key management personnel of the Group				
L Reed	47,487	-	13,295	60,782
D Petherick	31,917	-	-	31,917
G Meredith	-	-	4,000	4,000

Ordinary shares

2005

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Envestra Ltd				
J G Allpass	130,987	-	-	130,987
B G Beeren	54,500	-	-	54,500
C C A Binks	23,737	-	-	23,737
G A King	79,558	-	-	79,558
O B O'Duill	55,000	-	-	55,000
Other key management personnel of the Group				
L Reed	47,487	-	-	47,487
D Petherick	31,917	-	-	31,917

31 REMUNERATION OF AUDITORS

Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$	$	$	$
(a) Assurance services				
Audit services				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	225,970	199,222	112,260	105,196
Total remuneration for audit services	**225,970**	**199,222**	**112,260**	**105,196**
Other assurance services				
PricewaterhouseCoopers Australian firm				
Management advisory	39,331	21,500	35,631	19,530
Total remuneration for other services	**39,331**	**21,500**	**35,631**	**19,530**
Total remuneration for assurance services	**265,301**	**220,722**	**147,891**	**124,726**
(b) Taxation services				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of Company income tax returns	46,111	61,400	37,611	37,200
Tax consolidation compliance	-	40,000	-	20,000
Total remuneration for taxation services	**46,111**	**101,400**	**37,611**	**57,200**
	311,412	**322,122**	**185,502**	**181,926**

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

32 CONTINGENCIES

Contingent liabilities

The Albury Gas Company Ltd is carrying out investigations on a site in Albury which has been identified as contaminated by the NSW Environmental Protection Agency. The results of those investigations will determine any environmental management program and / or clean up required. The site was used historically for the manufacture of gas from coal, but was sold in 1985 to The Council of the City of Albury.

33 RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity within the Group is Envestra Ltd.

(b) Subsidiaries

Interests in subsidiaries are set out in note 34.

(c) Key management personnel compensation

Disclosures relating to key management personnel are set out in note 30.

(d) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$	$	$	$
Revenue				
Revenue from the provision of haulage services to Origin Energy Ltd	199,513,000	212,050,000	131,115,000	144,290,000
Expenses				
Costs incurred to use gas distribution networks owned by controlled entities	-	-	94,253,000	97,778,000
Payments to Origin Energy Ltd for system use gas	8,108,000	7,679,000	8,108,000	7,679,000
Payments to Origin Energy Asset Management for operation and management of the networks	80,711,000	79,994,000	45,494,000	43,946,000
Payments to Origin Energy Asset Management for capital expenditure relating to the networks	91,295,000	82,609,000	43,884,000	41,788,000
Interest revenue				
Subsidiaries	-	-	29,685,000	29,154,000

(e) Loans to/from related parties

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$	$	$	$
Loans to subsidiaries				
Beginning of the year	-	-	264,823,000	349,860,000
Loans advanced	-	-	68,744,000	83,690,000
Loan repayments received	-	-	(99,113,000)	(168,727,000)
End of year	-	-	234,454,000	264,823,000

(f) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates, except loans made between entities that are parties to a Deed of Cross Guarantee which are interest free.

Outstanding balances are unsecured and are repayable in cash.

34 SUBSIDIARIES

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

Name of entity	Country of incorporation	Class of shares	Equity holding 2006	Equity holding 2005
			%	%
Envestra Natural Gas Networks Ltd (v)	Australia	Ordinary	100	100
Envestra (SA) Ltd (ii)(v)	Australia	Ordinary	-	-
Envestra (Qld) Ltd (v)	Australia	Ordinary	100	100
EnVic Holdings 1 Pty Ltd	Australia	Ordinary	100	100
EnVic Holdings 2 Ltd (iii)	Australia	Ordinary	-	-
Envestra Victoria Pty Ltd (iv)	Australia	Ordinary	-	-
Vic Gas Distribution Pty Ltd (i)	Australia	Ordinary	-	-
The Albury Gas Company Ltd (i)	Australia	Ordinary	-	-
Envestra Transmission Pty Ltd	Australia	Ordinary	100	100
Envestra Transmission Holdings 1 Pty Ltd	Australia	Ordinary	100	100
Envestra Transmission Holdings 2 Pty Ltd	Australia	Ordinary	100	100

(i) No shares in Vic Gas Distribution Pty Ltd or its subsidiary The Albury Gas Company Ltd are held by Envestra Ltd or any of its subsidiaries, but Envestra Victoria Pty Ltd is entitled to and exposed to the full economic rewards and risks of operating the business through the Business Management Agreement, which is explained in more detail in note 1(a).

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

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

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

(v) 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 35.

35 DEED OF CROSS GUARANTEE

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

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

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

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2006 of the Closed Group consisting of Envestra Ltd, Envestra Natural Gas Networks Ltd, Envestra (SA) Ltd and Envestra (Qld) Ltd.

	2006	2005
	$'000	*$'000*
Revenue from continuing activities	218,196	203,455
Service contract costs	(38,944)	(37,126)
Gas	(8,523)	(8,129)
Network development and operations support	(6,550)	(6,820)
Administration costs	(8,632)	(10,252)
Depreciation	(29,424)	(27,133)
Amortisation	(1,176)	(883)
Loan note interest	(24,667)	(26,339)
Other borrowing costs	(71,706)	(63,674)
Profit before income tax	**28,574**	**23,099**
Income tax expense	(15,947)	(14,289)
Profit for the year	**12,627**	**8,810**
Summary of movements in consolidated retained profits		
Retained profits at the beginning of the financial year	39,186	30,376
Profit for the year	12,627	8,810
Impact of transition to AASB 139	644	-
Retained profits at the end of the financial year	**52,457**	**39,186**

(b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2006 of the Closed Group consisting of Envestra Ltd, Envestra Natural Gas Networks Ltd, Envestra (SA) Ltd and Envestra (Qld) Ltd.

	2006	2005
	$'000	$'000
Current assets		
Cash and cash equivalents	12,587	39,228
Trade and other receivables	18,911	10,901
Other	8,409	9,209
Total current assets	**39,907**	**59,338**
Non-current assets		
Receivables	352,334	332,414
Property, plant and equipment	1,098,481	1,084,487
Intangible assets	-	30,361
Total non-current assets	**1,450,815**	**1,447,262**
Total assets	**1,490,722**	**1,506,600**
Current liabilities		
Trade and other payables	14,926	14,154
Borrowings	49,333	46,100
Provisions	122	113
Other	46,506	48,873
Total current liabilities	**110,887**	**109,240**
Non-current liabilities		
Borrowings	962,084	1,032,427
Deferred tax liabilities	48,004	33,117
Provisions	621	595
Other	19,550	33,251
Total non-current liabilities	**1,030,259**	**1,099,390**
Total liabilities	**1,141,146**	**1,208,630**
Net assets	**349,576**	**297,970**
Equity		
Contributed equity	296,611	258,784
Reserves	508	-
Retained profits	52,457	39,186
Total equity	**349,576**	**297,970**

36 ECONOMIC DEPENDENCY

The Envestra Group has two major customers. They are:

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

The Envestra Group has a contract with Origin Energy Asset Management Ltd to carry out the operation and management functions of the networks.

37 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

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

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	*$'000*	*$'000*	*$'000*
Loss after income tax	(6,366)	(16,310)	(32,936)	(40,708)
Depreciation and amortisation	58,896	55,639	3,480	3,113
Indexation of Capital Indexed Bonds	11,151	9,000	7,901	6,311
Interest on loan notes	24,667	26,339	24,667	26,339
Asset retirements	724	683	-	-
Government grants recognised as income	(13,956)	(11,166)	(13,956)	(11,166)
CIB redemption costs disclosed as a financing activity	7,238	-	7,238	-
Gain on disposal of land	(38)	-	-	-
Change in operating assets and liabilities				
Increase in trade debtors	(11,966)	(11,348)	(7,216)	(19,664)
(Increase)/decrease in other operating assets	(32)	1,457	-	-
(Decrease)/increase in trade creditors and other liabilities	1,908	(21)	2,720	9,509
Decrease in derivative liabilities	(1,290)	-	-	-
Increase/(decrease) in provision for deferred income tax	28,367	21,978	(3,568)	(6,942)
Net cash inflow/(outflow) from operating activities	**99,303**	**76,251**	**(11,670)**	**(33,208)**

Non-cash investing and financing activities

Distributions satisfied by the issue of shares under the Distribution Reinvestment Plan are shown in note 27.

39 EARNINGS PER SHARE

(a) Basic earnings per share

	Consolidated 2006	Consolidated 2005
	Cents	*Cents*
Profit from continuing operations attributable to the ordinary equity holders of the Company	(0.8)	(2.1)

(b) Diluted earnings per share

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

(c) Weighted average number of shares used as the denominator

	Consolidated 2006	Consolidated 2005
	Number	*Number*
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	782,520,633	769,656,084

Distributions to shareholders for the period of this report and the immediate future comprise interest on the loan notes and repayment of principal on the loan notes. Distributions are payable out of cash flows and are not directly dependent on the level of earnings per share.

40 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004	Notes	Consolidated Previous AGAAP	Consolidated Effect of transition to AIFRS	Consolidated AIFRS	Parent entity Previous AGAAP	Parent entity Effect of transition to AIFRS	Parent entity AIFRS
		$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Current Assets							
Cash and cash equivalents		87,089	-	87,089	74,446	-	74,446
Receivables		28,543	-	28,543	168	-	168
Other current assets		1,886	-	1,886	6,084	-	6,084
Non-current assets classified as held for sale	(c)	-	554	554	-	-	-
Total current assets		117,518	554	118,072	80,698	-	80,698
Non-current assets							
Receivables		-	-	-	298,554	-	298,554
Other financial assets		-	-	-	833,465	-	833,465
Property, plant and equipment	(a)	1,765,580	991	1,766,571	34,457	-	34,457
Deferred tax assets		-	-	-	36,647	-	36,647
Intangible assets		615,678	-	615,678	13,277	-	13,277
Other non-current assets		750	-	750	-	-	-
Total non-current assets		2,382,008	991	2,382,999	1,216,400	-	1,216,400
Total assets		2,499,526	1,545	2,501,071	1,297,098	-	1,297,098
Current liabilities							
Payables		31,991	-	31,991	17,570	-	17,570
Borrowings		101,584	-	101,584	46,872	-	46,872
Provisions		150	-	150	150	-	150
Other current liabilities	(b)	36,178	13,327	49,505	31,217	13,327	44,544
Total current liabilities		169,903	13,327	183,230	95,809	13,327	109,136
Non-current liabilities							
Borrowings		1,974,334	-	1,974,334	1,014,164	-	1,014,164
Deferred tax liabilities	(d)	152,723	(17,468)	135,255	16,383	(16,383)	-
Provisions	(a)	563	4,063	4,626	563	-	563
Derivative financial instruments		-	-	-	-	-	-
Other non-current liabilities	(b)	-	41,282	41,282	1,605	41,282	42,887
Total non-current liabilities		2,127,620	27,877	2,155,497	1,032,715	24,899	1,057,614
Total liabilities		2,297,523	41,204	2,338,727	1,128,524	38,226	1,166,750
Net assets		202,003	(39,659)	162,344	168,574	(38,226)	130,348
Equity							
Contributed equity		258,857	-	258,857	258,857	-	258,857
Accumulated losses	(e)	(56,854)	(39,659)	(96,513)	(90,283)	(38,226)	(128,509)
Total equity		202,003	(39,659)	162,344	168,574	(38,226)	130,348

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005	Notes	Consolidated Previous AGAAP	Consolidated Effect of transition to AIFRS	Consolidated AIFRS	Parent entity Previous AGAAP	Parent entity Effect of transition to AIFRS	Parent entity AIFRS
		$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Current Assets							
Cash and cash equivalents		50,224	-	50,224	39,226	-	39,226
Receivables		39,038	-	39,038	10,901	-	10,901
Other current assets		1,781	-	1,781	9,209	-	9,209
Non-current assets classified as held for sale	(c)	-	554	554	-	-	-
Total current assets		91,043	554	91,597	59,336	-	59,336
Non-current assets							
Receivables		-	-	-	264,823	-	264,823
Other financial assets		-	-	-	833,465	-	833,465
Property, plant and equipment	(a)	1,798,471	991	1,799,462	35,534	-	35,534
Intangible assets		630,135	-	630,135	30,361	-	30,361
Deferred tax assets		-	-	-	41,560	-	41,560
Other non-current assets		255	-	255	-	-	-
Total non-current assets		2,428,861	991	2,429,852	1,205,743	-	1,205,743
Total assets		2,519,904	1,545	2,521,449	1,265,079	-	1,265,079
Current liabilities							
Payables		25,696	-	25,696	14,155	-	14,155
Borrowings		46,100	-	46,100	46,100	-	46,100
Provisions		113	-	113	113	-	113
Other current liabilities	(b)	40,257	11,796	52,053	37,077	11,796	48,873
Total current liabilities		112,166	11,796	123,962	97,445	11,796	109,241
Non-current liabilities							
Borrowings		2,057,970	-	2,057,970	1,032,425	-	1,032,425
Provisions	(a)	595	4,063	4,658	595	-	595
Deferred tax liabilities	(d)	171,369	(14,117)	157,252	13,033	(13,033)	-
Other non-current liabilities	(b)	-	31,646	31,646	1,605	31,646	33,251
Total non-current liabilities		2,229,934	21,592	2,251,526	1,047,658	18,613	1,066,271
Total liabilities		2,342,100	33,388	2,375,488	1,145,103	30,409	1,175,512
Net assets		177,804	(31,843)	145,961	119,976	(30,409)	89,567
Equity							
Contributed equity		258,784	-	258,784	258,784	-	258,784
Accumulated losses	(e)	(80,980)	(31,843)	(112,823)	(138,808)	(30,409)	(169,217)
Total equity		177,804	(31,843)	145,961	119,976	(30,409)	89,567

(2) Reconciliation of profit for the year ended 30 June 2005

	Notes	Consolidated Previous AGAAP	Consolidated Effect of transition to AIFRS	Consolidated AIFRS	Parent entity Previous AGAAP	Parent entity Effect of transition to AIFRS	Parent entity AIFRS
		$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue	(b)	305,907	11,166	317,073	192,289	11,166	203,455
Other income		550	-	550	-	-	-
Intercompany charges		-	-	-	(97,778)	-	(97,778)
Service contract operating costs		(71,708)	-	(71,708)	(37,126)	-	(37,126)
Network development and operations support		(8,286)	-	(8,286)	(6,820)	-	(6,820)
Gas		(8,129)	-	(8,129)	(8,129)	-	(8,129)
Administration costs		(11,489)	-	(11,489)	(9,661)	-	(9,661)
Depreciation		(50,598)	-	(50,598)	(695)	-	(695)
Amortisation of capital raising and formation costs		(1,123)	-	(1,123)	(883)	-	(883)
Amortisation of borrowing costs		(3,918)	-	(3,918)	(1,535)	-	(1,535)
Depreciation and amortisation expense		(130,365)	-	(130,365)	(62,139)	-	(62,139)
Interest/(loss) on loan notes		(26,339)	-	(26,339)	(26,339)	-	(26,339)
Profit/(loss) before income tax		**(5,498)**	**11,166**	**5,668**	**(58,816)**	**11,166**	**(47,650)**
Income tax expense		(18,628)	(3,350)	(21,978)	10,292	(3,350)	6,942
Loss from continuing operations		(24,126)	7,816	(16,310)	(48,524)	7,816	(40,708)
Loss for the year		**(24,126)**	**7,816**	**(16,310)**	**(48,524)**	**7,816**	**(40,708)**

(3) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Restoration liabilities

Under AIFRS the cost of restoring contaminated sites is required to be included in the cost of the asset that the restoration relates to. The amount recognised as a provision is the best estimate of the expenditure required to remediate the sites to industrial zoning use. The effect of this at 1 July 2004 and 30 June 2005 is for the Group there has been an increase in provisions of $4.1 million, and a corresponding increase in property, plant and equipment, net of impairment. There is no effect on the parent entity.

(b) Government grants

Under AASB 120 'Accounting for Government Grants and Disclosure of Government Assistance', amounts received in the form of government grants are recognised as revenue in the period the expenses to which they relate are incurred, rather than recognised as revenue in the year the funds were received. The effect of this is:

(i) At 1 July 2004

For the Group and the parent entity there has been an increase of liabilities of $54.6 million and a corresponding increase in accumulated losses.

(ii) At 30 June 2005

For the Group and the parent entity there has been an increase of liabilities of $43.4 million and a corresponding increase in accumulated losses.

(iii) For the year ended 30 June 2005

For the Group and the parent entity revenue has increased by $11.2 million and income tax expense increased by $3.3 million.

(c) Property, plant and equipment

Under AASB 5 'Non-current assets held for sale and discontinued operations', non-current assets identified as held for sale are required to be re-classified as current. A parcel of land that the Group intends to sell has been re-classified following the transition to AIFRS as a current asset in accordance with these requirements.

(d) Deferred tax liability

Adjustments relating to Government grants and Restoration liabilities have been tax effected, resulting in the recognition of deferred tax assets with the offsetting amounts recorded in retained profits. The effects are as follows:

(i) At 1 July 2004

For the Group there has been a decrease of deferred tax liability of $17.5 million with a corresponding decrease in accumulated losses. For the parent entity there has been a decrease of deferred tax liability of $16.4 million with a corresponding decrease in accumulated losses.

(ii) At 30 June 2005

For the Group there has been a decrease of deferred tax liability of $14.1 million with a corresponding decrease in accumulated losses. For the parent entity there has been a decrease of deferred tax liability of $13.0 million with a corresponding decrease in accumulated losses.

(iii) For the year ended 30 June 2005

For the Group and the parent entity income tax expense has increased by $3.3 million.

(e) Accumulated losses

The effect on accumulated losses of the changes set out above are as follows:

	Notes	Consolidated 1 July 2004	Parent entity 1 July 2004	Parent entity 30 June 2005	Parent entity 30 June 2005
		$'000	*$'000*	*$'000*	*$'000*
Property, plant and equipment/restoration liabilities	(a)(c)	(2,518)	-	(2,518)	-
Government grants	(b)	(54,609)	(54,609)	(43,442)	(43,442)
Deferred tax	(d)	17,468	16,383	14,117	13,033
Total adjustment		**(39,659)**	**(38,226)**	**(31,843)**	**(30,409)**
Attributable to:					
Equity holders of the parent		(39,659)	(38,226)	(31,843)	(30,409)

(5) Adjustments on transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement: 1 July 2005*

	Consolidated 30 June 2005	Consolidated Adjustment	Consolidated 1 July 2005	Parent entity 30 June 2005	Parent entity Adjustment	Parent entity 1 July 2005
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Current Assets						
Cash and cash equivalents	50,224	-	50,224	39,226	-	39,226
Receivables	39,038	-	39,038	10,901	-	10,901
Other current assets	1,781	-	1,781	9,209	-	9,209
Non-current assets classified as held for sale	554	-	554	-	-	-
Total current assets	91,597	-	91,597	59,336	-	59,336
Non-current assets						
Receivables	-	-	-	264,823	-	264,823
Other financial assets	-	-	-	833,465	-	833,465
Property, plant and equipment	1,799,462	-	1,799,462	35,534	-	35,534
Intangible assets	630,135	(44,541)	585,594	30,361	(30,361)	-
Deferred tax assets	-	-	-	41,560	-	41,560
Other non-current assets	255	-	255	-	-	-
Total non-current assets	2,429,852	(44,541)	2,385,311	1,205,743	(30,361)	1,175,382
Total assets	2,521,449	(44,541)	2,476,908	1,265,079	(30,361)	1,234,718
Current liabilities						
Payables	25,696	-	25,696	14,155	-	14,155
Borrowings	46,100	-	46,100	46,100	-	46,100
Provisions	113	-	113	113	-	113
Other current liabilities	52,053	-	52,053	48,873	(1,605)	47,268
Total current liabilities	123,962	-	123,962	109,241	(1,605)	107,636
Non-current liabilities						
Borrowings	2,057,970	(64,804)	1,993,166	1,032,425	(24,735)	1,007,690
Provisions	4,658	-	4,658	595	-	595
Derivative financial instruments	-	29,644	29,644	-	2,463	2,463
Deferred tax liabilities	157,252	(2,816)	154,436	-	(1,949)	(1,949)
Other non-current liabilities	31,646	-	31,646	33,251	-	33,251
Total non-current liabilities	2,251,526	(37,976)	2,213,550	1,066,271	(24,221)	1,042,050
Total liabilities	2,375,488	(37,976)	2,337,512	1,175,512	(25,826)	1,149,686
Net assets	145,961	(6,565)	139,396	89,567	(4,535)	85,032
Equity						
Contributed equity	258,784	(3,455)	255,329	258,784	(3,455)	255,329
Reserves	-	(974)	(974)	-	(1,724)	(1,724)
Accumulated losses	(112,823)	(2,136)	(114,959)	(169,217)	644	(168,573)
Total equity	145,961	(6,565)	139,396	89,567	(4,535)	85,032

Refer to notes 1(k) and 1(t) for further information on the transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* on 1 July 2005.

41 COMMITMENTS

Operating leases

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

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

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

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	*$'000*	*$'000*	*$'000*
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	600	-	600	-
Later than one year but not later than five years	2,400	-	2,400	-
Later than five years	2,400	-	2,400	-
	5,400	-	5,400	-
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	5,400	-	5,400	-

ENVESTRA LTD DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 33 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 Company's and consolidated entity's financial position as at 30 June 2006 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out on pages 25 to 30 of the Directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

(d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 35 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 35.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

John Geoffrey Allpass
Chairman

Adelaide
25 August 2006

PricewaterhouseCoopers

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ENVESTRA LIMITED

Audit opinion

In our opinion:

1. the financial report of Envestra Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Envestra Limited and the Envestra Group (defined below) as at 30 June 2006, and of their performance for the year ended on that date; and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

2. the remuneration disclosures contained in the Directors' report, which are clearly marked as audited, comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report, remuneration disclosures and Directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the Directors' declaration for both Envestra Limited (the Company) and the Envestra Group (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the Company and the entities it controlled during that year.

The Company has disclosed information about the remuneration of Directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" in the Directors' report, as permitted by the *Corporations Regulations 2001*.

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The Directors are also responsible for the remuneration disclosures contained in the Directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with

PRICEWATERHOUSECOOPERS

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ENVESTRA LIMITED *(continued)*

AASB 124 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

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

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

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers
PricewaterhouseCoopers
Charted Accountants

Andrew Forman
Partner

Adelaide
25 August 2006

Liability limited by a scheme approved under Professional Standards Legislation

SHAREHOLDER INFORMATION

Number of shareholders

At 25 August 2006, there were 20,580 shareholders

Sharegrouping	Number of shareholders	Stapled securities held	Percentage
1 - 1,000	417	275,635	0.03
1,001 - 5,000	2,797	10,389,856	1.28
5,001 - 10,000	4,702	37,824,937	4.64
10,001 - 100,000	12,347	309,694,558	38.03
100,001 and over	317	456,115,505	56.01
Total	**20,580**	**814,300,491**	**100**
Shareholders holding less than a marketable parcel of 433 shares	78	12,053	<0.01

Twenty largest shareholders

The percentage of the total holdings held by or on behalf of the 20 largest holders of stapled securities at 25 August 2006 was as follows:

Organisation	Stapled securities	Percentage of stapled securities
Cheung Kong Infrastructure Holdings (Malaysian) Ltd	134,955,100	16.57
Origin Energy Ltd	134,955,000	16.57
National Nominees Ltd	26,029,486	3.20
Citicorp Nominees Pty Ltd	25,255,393	3.10
Bond Street Custodians Ltd	15,694,101	1.93
ANZ Nominees Ltd	11,649,512	1.43
JP Morgan Nominees Australia Ltd	11,281,942	1.39
Australian Executor & Trustees Ltd	6,503,183	0.80
Sandhurst Trustees Ltd	6,380,516	0.78
Questor Financial Services Ltd	5,959,456	0.73
RBC Dexia Services Australia Nominees Pty Ltd	5,780,858	0.71
BT Portfolio Services Ltd (WA)	5,521,690	0.68
UBS Wealth Management Australia Nominees Pty Ltd	4,348,575	0.53
Corporate Positioning Pty Ltd	4,000,000	0.49
Westpac Custodian Nominees Ltd	3,759,458	0.46
Ramsleigh Pty Ltd	3,000,000	0.37
Argo Investments Ltd	2,928,139	0.36
Allundy Pty Ltd	2,500,000	0.31
Sellers Holdings Pty Ltd	2,375,208	0.29
Cambooya Pty Ltd	1,867,742	0.23
Total for top 20	**414,745,359**	**50.93**

Substantial shareholders

Substantial shareholder notices have been received as follows:

Organisation	Stapled securities	Percentage of stapled securities
Cheung Kong Infrastructure Holdings (Malaysian) Ltd	134,955,100	16.57
Origin Energy Ltd	134,955,000	16.57

Voting rights

Each stapled security consists of one share in the Company and one loan note. The voting rights attached to the stapled securities at a meeting of shareholders of the Company are one vote per stapled security on a poll and one vote per shareholder on a show of hands.

Payment of distributions

Distributions are paid directly to bank, building society or credit union accounts in Australia. The payments are electronically credited on the distribution payment date and confirmed by payment advices sent through the mail.

Instructions received remain in force until amended or cancelled in writing.

	Repayment of loan note(i)	Interest (i)	Total payment (i)	Loan note balance
Distributions to shareholders (date paid)	*Cents*	*Cents*	*Cents*	*Cents*
28 November 1997	3.77	0.88	4.65	66.23
29 May 1988	1.45	1.65	3.10	64.78
Total	**5.22**	**2.53**	**7.75**	-
27 November 1998	3.06	1.83	4.89	61.72
28 May 1999	1.54	1.72	3.26	60.18
Total	**4.60**	**3.55**	**8.15**	-
26 November 1999	3.59	1.81	5.40	56.59
	3.59[ii]	0.09[ii]	3.68[ii]	56.59
26 May 2000	1.90	1.70	3.60	54.69
Total	**5.49**	**3.51**	**9.00**	-
	5.49[ii]	**1.79**[ii]	**7.28**[ii]	-
24 November 2000	3.77	1.78	5.55	50.92
25 May 2001	2.05	1.65	3.70	48.87
Total	**5.82**	**3.43**	**9.25**	-
26 November 2001	3.98	1.72	5.70	44.89
29 April 2002	2.23	1.57	3.80	42.66
	2.23[iii]	0.20	2.43[iii]	42.66
Total	**6.21**	**3.29**	**9.50**	-
	2.23[iii]	**0.20**	**2.43**[iii]	-
25 November 2002	3.99	1.71	5.70	38.67
29 April 2003	2.26	1.54	3.80	36.41
Total	**6.25**	**3.25**	**9.50**	-
28 November 2003	3.87	1.83	5.70	32.54
30 April 2004	2.18	1.62	3.80	30.36
Total	**6.05**	**3.45**	**9.50**	-
30 November 2004	3.87	1.83	5.70	26.49
29 April 2005	2.21	1.59	3.80	24.28
Total	**6.08**	**3.42**	**9.50**	-
30 November 2005	3.87	1.83	5.70	20.41
26 May 2006	2.27	1.53	3.80	18.14
Total	**6.14**	**3.36**	**9.50**	-

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

(ii) Securities issued 24 September 1999.

(iii) Securities issued 8 March 2002.

Tax file numbers, Australian business numbers or exemptions

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

Annual Report mailing list

Shareholders not wishing to receive the annual report should advise the share registry in writing so that their names can be removed from the mailing list. Alternatively, you can advise the registry via their website: www.asxperpetual.com.au.

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

Change of address

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

Share trading and price

Envestra Ltd stapled securities are traded on the Australian Stock Exchange. The symbol under which they are traded is ENV and the details of trading activity are published in most daily newspapers under that abbreviation.

2006-2007 financial calendar *(Likely dates. Subject to confirmation.)*

30 November 2006	First-half distribution paid
27 February 2007	Half-year financial results announced
31 May 2007	Second-half distribution paid
24 August 2007	Full-year financial results announced
1 November 2007	Annual General Meeting

2006 Annual General Meeting

The Annual General Meeting of Envestra will be held at 10:00am on Wednesday 1 November 2006 at the Adelaide Convention Centre, North Terrace, Adelaide. Details of the business of the meeting are contained in the separate Notice of Meeting sent to shareholders.

Distribution Reinvestment Plan

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

New stapled securities allotted under the DRP may be issued at a discount to the weighted average market price of the securities over a period determined by the Directors. DRP registration forms are available from Link Market Services. Please refer to contact details on the inside back cover.

Electronic Notice of Meeting

The Company offers shareholders the opportunity to receive their Notice of Meeting via email. A form is available from the Share Registry office for this purpose, or alternatively shareholders can register for this service via Link Market Services' website: www.linkmarketservices.com.au.

Information on Envestra

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

Consumers

	Victoria		South Australia		Queensland		New South Wales		Northern Territory		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Domestic	476,045	464,494	361,592	353,875	70,852	69,935	20,688	19,951	902	896	930,079	909,151
Industrial & commercial <10TJ	21,823	21,294	9,486	9,677	5,243	5,150	949	915	96	96	37,597	37,132
Industrial & commercial >10TJ	230	229	184	180	80	79	11	12	1	1	506	501
Total consumers[i]	498,098	486,017	371,262	363,732	76,175	75,164	21,648	20,878	999	993	968,182	946,784

(i) Total consumers does not include properties supplied with bulk hot water via hot water meters.

Gas Delivered (TJ)[i]

	Victoria		South Australia		Queensland		New South Wales		Northern Territory		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Domestic, industrial & commercial <10TJ	32,309	31,264	11,564	10,549	2,094	2,091	1,282	1,157	68	65	47,317	45,126
Industrial & commercial >10TJ	23,012	23,061	25,812	26,205	12,708	12,639	2,234	2,356	3,212	3,020	66,978	67,281
Total gas delivered	55,322	54,325	37,376	36,754	14,802	14,730	3,515	3,513	3,280	3,085	114,295	112,407

(i) Joules are a measure of energy. A terajoule (TJ) is equal to one joule multiplied by 10^{12}. A petajoule (PJ) is equal to one joule multiplied by 10^{15}.

Assets

	Victoria		South Australia		Queensland		New South Wales		Northern Territory		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
New mains (km)	237	223	107	95	36	28	7	19	0	-	388	365
New inlets	12,119	12,095	9,312	8,687	1,383	1,561	624	745	19	-	23,457	23,088
Replacement mains (km)	45	24	84	66	36	61	-	-	-	-	165	151
Total mains (km)[i]	8,594	8,419	7,492	7,384	2,408	2,371	556	539	35	35	19,085	18,748
Transmission pipelines (km)[i]	205	205	373	373	284	284	20	20	147	147	1,029	1,029

(i) Reconciles to respective GIS.

GLOSSARY OF TERMS

AIFRS
Australian equivalents to International Financial Reporting Standards.

Access Arrangement
An arrangement for access to a distribution network or transmission pipeline that has been approved by the relevant Regulator. The Access Arrangement sets out the terms on which third parties (retailers and large-volume consumers) may use Envestra's networks and pipelines to deliver natural gas.

OEAM
Origin Energy Asset Management Limited.

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

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

Moderate Medical Treatment Injury
An injury that does not require more than a day off work, but results in an employee performing alternative duties until fit.

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

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

Regulator
The State Regulator for distribution networks referred to in the National Access Code. In Victoria it is the Essential Services Commission (ESC); in New South Wales it is the Independent Pricing and Access Regulatory Tribunal (IPART); in South Australia it is the Essential Services Commission of South Australia (ESCoSA); and in Queensland it is the Queensland Competition Authority (QCA).

LM Frequency Rate (LMFR)
LMFR is the total of Lost Time Injuries and Moderate Medical Treatment Injuries multiplied by one million and divided by the hours worked by all employees for the period measured.

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

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

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

SHAREHOLDERS WHO WISH TO ENQUIRE ABOUT THEIR HOLDINGS IN ENVESTRA SHOULD CONTACT THE COMPANY'S SHARE REGISTRY

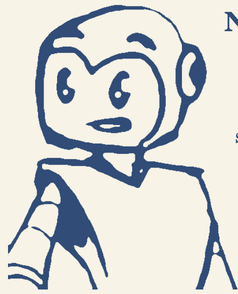
LOOK

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

DESIGNED for success

BURTON NESBITT GRAPHIC DESIGN has worked with Envestra since the production of its first annual report in 1998. Creativity and innovation form the backbone of their design work, placing Envestra's report at the forefront of investor communications.

COMIC collaboration



NAHUM ZIERSCH has worked as a freelance illustrator since 2000. His confidence with the comic book style lead to his selection by Burton Nesbitt for this year's Envestra annual report. Nahum's character designs have appeared in television commercials, music videos and on websites.

ENVIRONMENTALLY conscious

The 2006 annual report was printed by Finsbury Green Printing, Australia's leading certified environmental printer. Finsbury were winners of "Business Enterprise Awards - Environmental Best Practice Program" in the 2006 United Nations Association of Australia, World Environment Day Awards.

VEGETABLE NOT CHEMICAL

ENVESTRA delivers environmentally friendly natural gas to almost one million consumers and is proud to support the ongoing protection of the environment through its work practices. The 2006 annual report and all associated documents were printed using "eco" vegetable based inks. The papers chosen have the highly accredited FSC rating (Forest Stewardship Council) which is the international certification for supporting responsible forest management worldwide.

Want more INFORMATION?

HERE'S ALL YOU DO!

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Email des.petherick@envestra.com.au


Envestra