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Envestra Annual Report 2007

This year marks Envestra's 10th anniversary. We set out in 1997 to build a company focused on the gas distribution and transmission sectors of the energy industry – sectors that provide lower risk exposures than others in the gas supply chain. Over the 10 years we have almost tripled revenue and assets under management, as well as the number of consumers connected to the networks. Throughout the period we have delivered attractive returns to shareholders, and operated the assets in a sustainable manner with a focus on employee safety. Our 2006-07 performance marks another year of quiet achievement.

Highlights

$2890.

(i) Assumes that distributions are reinvested at the security price as at the end of that year.

Contents

Financial calendar 2007-08

1 November 2007
2007 Annual General Meeting

30 November 2007
First-half distribution paid

27 February 2008
Half-year financial results announced

30 May 2008
Second-half distribution paid

27 August 2008
Full-year financial results announced

28 October 2008
2008 Annual General Meeting

The 2007 Annual General Meeting of Envestra Limited (ACN 078 551 685) will be held at 10:00am on Thursday, 1 November 2007 at the Adelaide Convention Centre, North Terrace, Adelaide.

Key financial results

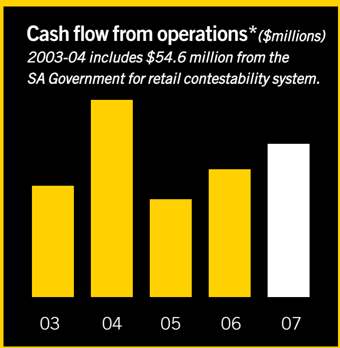
- Cash flow from operating activities increased by 20 per cent to $119.2 million.
- Profit before tax increased by 15 per cent to $25.3 million
- Loss after tax was $3.0 million compared to a loss of $6.4 million in 2005-06.

Returns to shareholders

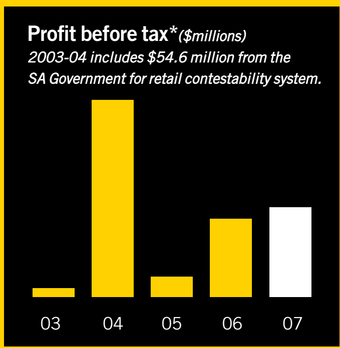
Distributions to shareholders were maintained at 9.5 cents delivering a cash yield of 8.2 per cent per security based on the price of the Company's stapled securities at 30 June 2006 of $1.15.

Equity raising

$43 million of additional share capital was raised during 2006-07 under the Company's Distribution Reinvestment Plan. The funds are being used to partly support Envestra's substantial capital expenditure program.



$119.2m



$25.3m

$77.8m

*Refer to page 15 for further details.

Regulation

Envestra lodged an appeal in November 2006 against the South Australian regulatory decision, which sets out the terms and conditions under which the Company will distribute natural gas for retailers for the five years commencing 1 July 2006. The appeal was not heard until July 2007 and it is expected that a decision will be handed down in late August.

New network operator

Australian Pipeline Group ("APA") was appointed to operate and maintain Envestra's distribution networks as from 2 July 2007. APA acquired the contract from Origin Energy, which had performed the function since 1997.

The transition occurred smoothly with almost all employees previously engaged by Origin Energy Asset Management transferring to APA.

Customer numbers

Envestra continued its steady growth through the extension of its networks into new subdivisions. During the year 21,600 new consumers were connected. Of these, almost all were domestic and small commercial consumers, from which the Company generates about 90 per cent of its revenue.

Today, Envestra delivers environment friendly natural gas to almost one million consumers.

The Company again performed well against most of its financial and operational measures in 2006-07. However, the relatively warm weather in the second-half of the year served to reduce revenues and therefore adversely affected our bottom line result.

The foreshadowed exercise by Origin Energy of its "Put Option" over the shares in what is now Envestra's subsidiary, VicGas Distribution Pty Ltd, occurred on 2 July 2007. As a result, the one-off gain of approximately $150 million resulting from that company being admitted to Envestra's tax consolidated group will occur in the 2007-08 financial year. The transaction will allow the tax values of the Victorian and Albury assets to be re-set at a level that will provide significant additional tax depreciation deductions well into the future.

"Our major focus is sustainability – doing the things that we believe will enable us to meet the long-term expectations of our shareholders and the community. Envestra is committed to protecting the environment and the communities served by its distribution networks."

The most significant event during the year was the introduction of the APA Group ("APA") as the new operator (through two of its subsidiary companies) of Envestra's network assets and as a major (17.2 per cent) shareholder, replacing Origin Energy, which had occupied that role since the float of Envestra in 1997. Whilst the completion of the Origin Energy sale occurred on 2 July 2007, substantial effort was made by management in the lead-up to the sale to ensure a seamless transition to the new operator and, most importantly, that changes were made to the various contracts that previously existed with Origin Energy to ensure Envestra's interests were protected over the longer term. These changes included setting a fixed 20-year term for the operating agreements, clarifying APA's responsibility for potential liabilities associated with the ultimate expiry of the agreements, and ensuring the Put Option was exercised with a view to simplifying Envestra's corporate structure.

It is also pleasing to report that as a result of the Origin Energy sale, the Directors approved the appointment of two APA-nominated Directors, Mick McCormack and Ross Gersbach to the Envestra Board. APA does not have an automatic right to Board participation as previously enjoyed by Origin Energy (and still held by CKI) under Envestra's Constitution. As required by the Constitution, these Directors will stand for re-election at the forthcoming Annual General Meeting.

Revenue/income earned by the Group increased marginally over the previous year due mainly to increased Put Option proceeds.

Operating costs were higher as a result of two specific events: the recording of provisions to cover an environmental clean-up on several land sites, together with costs incurred in undertaking due diligence on the proposed acquisition of the Queensland gas distributor, Allgas. Excluding these one-off matters, operating costs were up three per cent on the prior year's costs.

Net borrowing costs were $134.3 million, marginally down from the previous year.

Profit before tax was $25.3 million, compared to $22.0 million in 2005-06.

Cash generated from operating activities was $119.2 million, 20 per cent higher than in the previous year. After allowing for replacement capital expenditure, cash flow available for distributions amounted to $100.5 million.

NATHAN JUREVICIUS

Distributions to shareholders were steady in 2006-07 at 9.5 cents per security, with total distributions being $77.8 million. The Board recognises that distributions have not been adjusted since 2001-02 although the total return earned by shareholders over this time has been maintained at an attractive rate.

The Group's financial position is strong, with gearing at 66 per cent and long-term financing in place to support the long-life nature of our gas network assets. The average duration of our debt portfolio is 11 years, with approximately 6.6 per cent or $130 million, to be refinanced during 2007-08. Plans are well advanced for re-financing these maturing bonds.

Regulatory update

Envestra's monopoly position as a gas distributor is subject to regulatory oversight by the various State-based regulators, with Access Arrangements being revised at five-yearly intervals under the National Gas Code. This process determines revenue, and as a consequence tariffs, as well as contractual terms for retailers and some large volume consumers over the following five years. We reported last year that the Essential Services Commission of South Australia ("ESCOSA"), which is the responsible regulator in that State, had issued a final determination that set revenue and other conditions at levels that were unacceptable to Envestra.

We lodged a formal appeal against ESCOSA's determination contesting five issues:

- Rate of return on capital.
- Recovery of the network management fee paid to the operator (APA Group).
- The roll-forward of the asset base.
- The recovery of certain environmental costs.
- An adjustment to the credit payment terms applied to retailers using Envestra's network.

The appeal process was expected to have been completed in 2006-07. However, various legal issues arose during the preliminary hearing and as a result the formal hearing did not occur until late July 2007. A decision by the Panel (comprising a District Court judge and two economics experts) is expected to be handed down in late August 2007.

The Victorian Access Arrangement is due to expire on 31 December 2007 and significant effort has been made by management in preparing submissions to the Essential Services Commission (ESC) to justify increased revenue over the next five years.

The basis of the increase is founded on a substantial capital expenditure program planned for Victoria aimed at expanding our networks, increasing supply capacity in specific areas and renewing older cast iron mains that are exposed to increasing gas leakage and capacity constraints. The investment program would involve expenditure of $750 million over the five-year period.

The ESC is expected to issue a draft determination in late August 2007 responding to our proposals and a final determination is expected to be issued in November 2007.

On a broader level, the regulatory reforms required in the energy infrastructure industry are progressing at what can only be described as "snail's pace". We were hopeful that following the review of the Gas Access Regime prepared by the Productivity Commission in June 2004, the Federal and State Governments would move to implement reforms that had been recommended in that report. Unfortunately, a large number of the proposals put forward by the Commission have been challenged by various interest groups and regulatory bodies. The result has been a compromise legislative proposal – the "New Gas Law" which, whilst aiming to secure some of the originally proposed reforms, largely serves to entrench current arrangements and provides few benefits to consumers or indeed, additional incentive for efficient investment by the infrastructure owners. However, there are some longer-term benefits in the New Gas Law, including the replacement of the existing State-based regulators with the new Australian Energy Regulator ("AER").

Whilst the AER has been established for over two years, it has not, to date, had jurisdiction under the National Gas Code for the regulation of gas distributors. It will do so with the passing of the proposed legislation through various State and Federal Parliaments, currently expected to occur in 2008, at which time Envestra's South Australian and Queensland networks will be subject to the AER's determinations with effect from July 2011. Envestra's Victorian network will move to the AER's jurisdiction in 2013.

Equity raising

$43 million of additional share capital was raised during the year under the Company's Distribution Re-investment Plan. The funds raised in the past year are committed to partly supporting the substantial capital investment program over the 2007-08 and 2008-09 financial years.

Capital expenditure program

The Group embarked on a significant capital expenditure program in 2006-07 with approximately $108 million spent on network extensions, capacity enhancements, mains replacement and meter changes, as well as substantial investment in information technology. During the year 405 kilometres of new mains were laid, 179 kilometres of old mains were replaced, and a number of new transmission pressure mains were laid to enhance the capacity of our networks.

Our expanded capital expenditure is forecast to increase for a number of years so long as we are offered satisfactory returns by regulators on the funds being committed to what are long-term investments. Our capital expenditure forecast for Queensland over the five years from July 2006 is $175 million, for South Australia it is $200 million and for Victoria, for the five-year period from January 2008, it is $750 million. Clearly these levels of expenditure will require significant contributions from shareholders and financiers and this will only occur where we are satisfied that the returns expected from these investments exceed our cost of capital.

Queensland retail contestability

Included in the capital program for 2006-07 was a $7.5 million investment in information technology and related systems to support the introduction of full retail contestability in the Queensland market as from 1 July 2007. The major investment in these types of systems lies with the distributors, and Envestra, as one of the two gas distributors in the Queensland market, was required to incur the cost. An understanding was reached with the Queensland Competition Authority (QCA) regarding the regulatory process by which this capital, together with an appropriate return, will be recovered over the coming five years. A formal determination by the QCA is expected in October, 2007.

Envestra has had considerable experience with the introduction of full retail contestability (FRC) as well as navigating the associated regulatory hurdles having implemented major FRC systems in Victoria and South Australia in recent years.

Operator performance

Again it is pleasing to report that Origin Energy Asset Management Ltd (now APA Asset Management), as operator of our networks, performed well with overall costs coming in marginally below budget. Safety performance, both for its employees and contractors, whilst not without incident, reflects a high standard. Lost-time injuries sustained by employees were three, and eight for contractors. The number of injuries is relatively low in comparison to industry generally and other similar energy industries. Whilst we continue to target reductions, this represents a sound achievement given the difficult and hazardous working conditions often confronting the operator's field workers.

The transition to APA as our new operator took place in July 2007 and was relatively seamless with almost all OEAM employees moving to the new operator. Considerable management effort has been focused on ensuring the standards of operating performance to which we have been accustomed for the past decade are maintained by APA. We are therefore carefully monitoring the new arrangements to ensure both operational activities and costs are consistent with our requirements.

Growth strategy and industry consolidation

Whilst our substantial capital program provides for long-term revenue growth as investments in new networks expands our regulatory asset base, we were also active in 2006-07 in considering acquisitions.

We reported in late 2006 that our attempt to purchase the

Allgas network in Queensland had been unsuccessful. The gas distribution business was purchased by APA. Over the past four years we have been unsuccessful in other similar acquisition opportunities. However, we are satisfied that these outcomes reflect an appropriate financial discipline and ensured that shareholders have not been exposed to any potential "downside" that may only become apparent over the long-term lives of these types of infrastructure assets and their associated regulatory regimes.

The past year has been marked by significant ownership changes within the energy utility sector, including the change in one of Envestra's major shareholders.

We expect the infrastructure industry consolidation process to continue and anticipate opportunities to arise for investment as various entities, and companies, seek realisation of "non-core" assets, or mergers to facilitate further growth.

Organisation and staffing

Most of our work is undertaken by the 1,100 employees and contractors of our operator, APA (formally Origin Energy Asset Management). We appreciate the significant effort and achievements that those people have contributed to the success of Envestra over the past year. As noted above, the introduction of a new operator raises many issues for employees and inevitably gives rise to uncertainty and in some cases, job insecurity. The organisation has responded commendably in the face of this change and we appreciate the professionalism and dedication that has been exhibited by all of the operator's team. The past year also gave rise to a number of organisational changes in the senior management team at Envestra which continues the seemless delivery of management services that our shareholders and business partners have come to expect.

On behalf of our Board, we take the opportunity to thank all employees for their substantial contribution to the performance of the Group over the past 12 months.

J G Allpass
Chairman

I B Little
Managing Director

24 August 2007

"Envestra continues to expand its networks by two to three per cent per annum, providing the stable growth that underpins reliable returns to shareholders."


DANIEL BENNETT

The Company continued to produce strong cash flows from which distributions to shareholders are paid.

Revenue

Envestra's haulage revenue, which is generated mainly from the delivery of natural gas for retailers, was $291.7 million, a decrease of $2.1 million over the previous year. This decrease was due mainly to the extremely warm weather in the second half of the year in Victoria and South Australia, which was partly offset by the annual increase in distribution tariffs and the connection of 21,600 new consumers to the Company's networks.

Earnings before Interest and Tax (EBIT)

Operating expenses of $109.5 million were up $10.1 million as a result of a provision for remediation of former gas production sites, costs associated with the Company's bid for Allgas, legal costs of the ESCOSA appeal and higher cost of gas leakage from the networks.

Operating profit

Profit before net borrowing costs and tax was down four per cent to $177.8 million, compared with $185.6 million for the previous year.

Borrowing costs

Net borrowing costs (excluding loan note interest paid to shareholders) were $134.3 million, down $4.6 million on the previous period. The decrease in 2006-07 reflects early Capital Indexed Bonds redemption costs of $7.3 million incurred in the prior year.

Loss after tax

The Company recorded a consolidated loss after tax and interest on loan notes of $3.0 million, which was an improvement of $3.4 million on the previous year's loss of $6.4 million.

Cash flows

The Company generated cash flows from operating activities, after replacement capital expenditure, of $100.5 million, up $18.3 million on the previous year due mainly to Put Option proceeds, lower borrowing costs (due mainly to the timing of an interest payment on 2 July 2007), and annual tariff adjustments, offset by warm weather for the majority of the year.

Distributions to shareholders, which are paid from cash flows, amounted to $77.8 million, with the remaining $22.7 million of cash used to partly fund extension of the Company's distribution networks and other growth activities.

Capital expenditure was $107.8 million, up $15.7 million on the previous year, reflecting a higher level of mains extension and replacement.

The Company's cash reserves at year end were $11.4 million, compared with $26.4 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 Company had available unused bank credit lines of $265 million at year end.

During the year debt, excluding loan notes, increased by $20.3 million to $1,961.5 million.

The average loan duration for the Envestra Group is 11 years.

Envestra's gearing level was 66 per cent, despite the $107.8 million capital expenditure program undertaken during the year.

Credit rating

In July 2006 Envestra's credit rating with Standard and Poor's was downgraded to A-3 short-term and BBB- long-term following the South Australian regulatory decision, which was deemed unfavourable.

Standard and Poor's confirmed this rating in August 2007.

Moody's rating of Baa2 for the Envestra Security Group associated with the Company's South Australian and Queensland assets remains unchanged.

Taxation-subvention Agreement and Put Option

Under the Subvention Agreement, Origin Energy was able to 'put', or sell, its shares in VicGas Distribution Pty Ltd to Envestra any time after March 2006, at a cost of $2. Origin Energy elected not to exercise the Put Option at this time and as a result it paid Envestra fees of $7.8 million during 2006-07. The Put Option was exercised with effect from 2 July 2007.

SUSTAINABILITY

A major focus of Envestra is sustainability – doing the things that we believe will enable us to meet the long-term expectations of our shareholders and the community. We do this by protecting the environment in which we operate, delivering high quality services to the consumers supplied with energy via our networks, providing a safe working environment for our employees, encouraging their development and rewarding success. Allied to this is the support we provide to local communities and organisations with whom we interact. By improving our performance in these areas we will create a stronger future for Envestra.

Working with the community

Envestra, through APA, 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.
- Plumbing Industry 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: APA employs 14 apprentices.
- Cookers in schools program: 950 natural gas cookers are installed in more than 130 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.
- 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.
- Queensland TAFE: gas fitting trade development support to Queensland plumbing apprentices.

The Company also continued to support a range of community organisations and events, including the Adelaide Symphony Orchestra, Trees for Life, Urban Myth Youth Theatre Group, the Jam Factory, the Governor's Leadership Foundation and the South Australian Botanic Gardens.

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

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 have responsibility to ensure that our major contractor, APA Asset Management (APA) (formerly Origin Energy Asset Management), adopts a sound approach to this important business activity. APA now has responsibility for over 1,100 employees and contractors working for Envestra. During the year three lost-time injuries were sustained by employees, and eight among contractors. These compare with five and two the previous year, respectively.

APA's focus, like OEAM's previously, is on the frequency of lost-time and moderate injuries (LMFR), which more accurately measures the organisation's occupational health and safety performance. A LMFR of 4.3 for employees was recorded in 2006-07. This is a sound performance considering the manual nature of many of the field activities undertaken.

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

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

Environmental benefits of natural gas

As one of Australia's largest distributors 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 major 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 a rainwater tank or solar hot water system in all new dwellings. Where solar hot water is the selected compliance option, units must be natural-gas-boosted solar energy hot water units wherever natural gas is available.

In South Australia and Queensland, the governments have announced that they intend 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.

> "We ensure that all of our employees and contractors are appropriately trained to operate safely in every facet of our company's daily activities."

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 gas cooling units.

Quality assurance

APA'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

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

Envestra is also included in the Socially Responsible Investment (SRI) Share Index, which comprises around 50 companies from the S&P/ASX 300 Index that have achieved a corporate social responsibility rating of A or higher.

Risk management

The Company has a risk-assessment program that is monitored by the Audit Committee.

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, various operating activities undertaken by OEAM, IT security and occupational health, safety and environmental compliance during 2006 - 07.

Further details on our risk assessment and management activities appear on page 20.

As a result of ongoing global terrorist activities we continue to review 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 16 to 22 of this report.

DONNA GYNELL

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 Australian Pipelines Group, one of Australia's largest gas transmission companies as well as representatives of Cheung Kong Infrastructure, one of the world's largest infrastructure companies. The members of the Board are:

① **John Allpass*** (66) 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: Queensland Investment Corporation (since May 1991); MBF Australia Ltd (since October 1999) and Macquarie Bank (from January 1994 until July 2007).
Former Managing Partner, KPMG (Queensland) and member, KPMG National Board.

② **Ian Little** (50) 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); Director, Energy Supply Association of Australia (since November 2006); and Director, Australian Gas Industry Trust (since December 2006).

③ **Fraser Ainsworth AM*** (61) 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); Chairman, Tarac Australia Ltd (since January 2006 – Deputy Chairman from 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).

④ **Charles Binks*** (64) 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).

⑤ **Dominic Chan** (45) FCPA, FCCA
Director since July 2005

Certified Public Accountant with over 20 years' experience in the accounting profession. Chief Financial Officer, Cheung Kong Infrastructure Holdings Ltd.
Other Directorships: Cambridge Water PLC. Former Director, Powercor Australia Ltd; CitiPower Pty Ltd; Connector Motorways Pty Ltd, and CrossCity Motorway Pty Ltd.

⑥ **Ross Gersbach** (46) B.Bus, CPA, MAICD
Director since July 2007
Member of the Audit Committee

Extensive experience in the infrastructure sector of the energy industry.
Other Directorships: Non-executive Director, APA Group (since November 2006) and former Director Elgas Ltd (2004 - 2006) and ActewAGL (2004 - 2006).

⑦ **H L Kam** (60) B.Sc, MBA
Director since September 1999

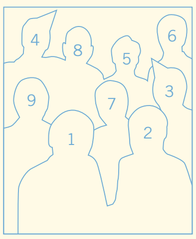
Group Managing Director, Cheung Kong Infrastructure Holdings Ltd (since May 1996); Deputy Managing Director, Cheung Kong (Holdings) Ltd (since February 1993); Executive Director, Hutchison Whampoa Ltd (since August 1993) and Hong Kong Electric Holdings Ltd (since May 1993); President and CEO, CK Life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

⑧ **Michael McCormack** (46) B.Surv, Grad Dip Eng, MBA, FAICD
Director since July 2007

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

⑨ **Olaf O'Duill*** (60) B. Comm. (Hons), FAICD, SFFin
Director since July 2000
Member 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

D1RECT0RS

MANAGEMENT TEAM

Envestra's management team has considerable experience in the operational, financial, legal and regulatory aspects of the gas distribution and transmission industry.

Andrew Staniford (51) 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.

Nigel Trewartha (33) B.Ec (Hons), M.Comm
Chief Financial Officer

Extensive domestic and international experience gained over more than 10 years in corporate finance, capital markets and business development principally with Macquarie Bank and Westpac.

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.

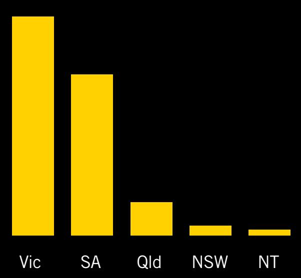
Des Petherick (55) PNA
Manager Corporate Services and Company Secretary

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 service and various administrative activities, is outsourced, largely to APA (formerly OEAM). Significant incentives are available to APA to improve productivity, increase revenue and enhance services. We require APA to employ external contractors and consultants in particular areas to ensure external benchmarks are readily available. This enables the Company to measure APA's performance and, where necessary, to drive continuing improvements in the operation and management of its assets.

Consumers



Victoria	510,244
South Australia	378,931
Queensland	77,237
New South Wales	22,327
Northern Territory	1,024
Total consumers(i)	**989,763**

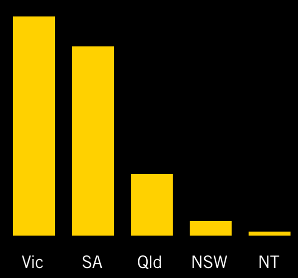
(i) Total consumers does not include properties supplied with bulk hot water via hot water meters. *Further details on inside back cover.*

Gas delivered TJ(ii)

Victoria	53,543
South Australia	36,435
Queensland	16,026
New South Wales	3,557
Northern Territory	3,335
Total gas delivered	**112,896**

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

Gas mains (km)(iii)



Victoria	8,944
South Australia	7,591
Queensland	2,443
New South Wales	581
Northern Territory	36
Total gas mains	**19,595**

(iii) Total mains takes account of mains abandoned during the year. *Further details on inside back cover.*

Summary of cash flows ($m)

	2007	*2006*	*2005*	*2004*	*2003*
Operating receipts less payments	**226.1**	**217.6**	**195.4**	**212.7**	**194.0**
South Australian Government receipt	-	-	-	54.6	-
Subvention payment[(i)]	-	-	-	4.0	10.0
Net cash flow before borrowing costs	**226.1**	**217.6**	**195.4**	**271.3**	**204.0**
Net borrowings costs	(106.9)	(118.3)	(119.2)	(117.1)	(117.6)
Cash flow from operating activities	**119.2**	**99.3**	**76.2**	**154.2**	**86.4**
Replacement capital expenditure	(18.7)	(17.1)	(14.3)	(12.4)	(10.5)
Available for distribution	**100.5**	**82.2**	**61.9**	**141.8**	**75.9**
Distributions/dividends	(77.8)	(73.8)	(73.1)	(69.5)	(67.0)
Contribution to growth capital expenditure	**22.7**	**8.4**	**(11.2)**	**72.3**	**8.9**
Loan drawdowns for growth capital expenditure	59.9	39.8	57.0	72.6	47.0
Cash available for growth capital expenditure	**82.6**	**48.2**	**45.8**	**144.9**	**55.9**
Growth capital expenditure	(89.1)	(75.0)	(72.5)	(79.1)	(65.0)
Cashflow available pre-debt/equity re-financing	**(6.5)**	**(26.8)**	**(26.7)**	**65.8**	**(9.1)**
Debt (drawdowns net of repayments)	(53.5)	(34.2)	8.9	(30.2)	(3.2)
Proceeds from sale of land	2.4	0.1	-	0.2	-
Equity raising	43.0	49.9	-	42.9	21.3
Capital raising costs	(0.4)	(12.8)	(19.1)	(2.2)	(8.0)
Change in cash	**(15.0)**	**(23.8)**	**(36.9)**	**76.5**	**1.0**
Opening cash	**26.4**	**50.2**	**87.1**	**10.6**	**9.6**
Closing cash	**11.4**	**26.4**	**50.2**	**87.1**	**10.6**

(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)

	2007	*2006*	*2005*[(i)]	*2004*	*2003*
Revenue / income (excluding interest received)	**344.5**	**340.2**	**314.6**	**299.5**	**277.5**
South Australian Government receipt	-	-	-	54.6	-
Total revenue / income (excluding interest received)	**344.5**	**340.2**	**314.6**	**354.1**	**277.5**
Operating costs	(109.5)	(99.4)	(99.6)	(97.5)	(80.2)
Depreciation / amortisation	(57.2)	(55.2)	(51.7)	(44.8)	(41.2)
Profit before net borrowing costs and income tax	**177.8**	**185.6**	**163.3**	**211.8**	**156.1**
Net borrowing costs	(134.3)	(138.9)	(131.3)	(130.8)	(130.2)
Profit before interest on loan notes	**43.5**	**46.7**	**32.0**	**81.0**	**25.9**
Interest on loan notes	(18.2)	(24.7)	(26.3)	(25.6)	(23.5)
Profit before income tax	**25.3**	**22.0**	**5.7**	**55.4**	**2.4**
Income tax	(28.3)	(28.4)	(22.0)	(32.7)	10.3
Profit/(Loss) after income tax	**(3.0)**	**(6.4)**	**(16.3)**	**22.7**	**12.7**

(i) AIFRS adjusted.

CORPORATE GOVERNANCE

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

Each year a review of the Company's corporate governance framework is carried out against the best-practice recommendations of the Australian Stock Exchange Corporate Governance Council.

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

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

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.

"Envestra continues to generate strong cash flows from which it provides stable and tax effective returns to shareholders."

Board composition

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

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

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

Membership of the Board comprises:

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

The Chairman must be an independent Director.

To comply with the ASX 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.

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

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.

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CONSISTENCY

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

Performance appraisal

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

Board responsibilities

The most significant responsibilities of the Board include:

- Setting strategic objectives, long-term business plans and annual budgets.
- Regularly reviewing the operational and financial performance of the Company.
- Ensuring that the requirements are met of continuous disclosure to the investment market and 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 pages 65 and 66.

Origin Energy entities connected with Mr G A King (who resigned on 2 July 2007) and Mr B G Beeren (who resigned on 27 June 2007), had dealings with the Company during the year.

Almost all transactions were associated with the contractual arrangements under the Operating and Management Agreements, together with the Haulage Agreements entered into with Envestra. In respect to other matters which arose with the Origin Energy Group during 2006-07, in accordance with the Board's guidelines, the Directors concerned declared their interest in those dealings to the Company and, after discussion, the remaining Directors determined whether the potential conflict of interest disqualified them from being present or voting on the matter.

The same assessment is now being applied by the Directors when considering possible conflicts with APA.

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 2006-07 was $720,000.

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

Details relating to the remuneration paid to non-executive Directors appear on pages 28 and 29.

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

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

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

At 30 June 2007, the benefit payable on retirement of each non-executive Director was:

- Mr J G Allpass $157,819
- Mr C C A Binks $27,750
- Mr H L Kam $59,361
- Mr G A King $94,875 *
- Mr O B O'Duill $41,121

** Paid out in July 2007*

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

Mr E F Ainsworth and Mr D Chan joined the Board after the scheme was suspended, so do not participate in the Retirement Benefit Scheme. Mr M McCormack and Mr R Gersbach joined the Board on 2 July 2007.

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;
- Mr C C A Binks; and
- Mr R M Gersbach.

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

The key responsibilities of the committee are:

- Reviewing the annual and half-year financial reports and recommending their adoption by the Board.
- Reviewing other financial information distributed externally.
- Reviewing management of financial risks.
- Recommending the appointment and remuneration of the auditors, and reviewing the terms and scope of engagement and assessing their performance.
- Reviewing the effectiveness of the internal control environment.
- Approving the scope of the internal audit program.
- Overseeing the risk management program.
- Reviewing compliance with corporate policies, controls and delegated authorities.
- Reviewing compliance with the requirements of energy regulatory bodies, including the approval of regulatory accounts.
- Considering the independence of the auditor and approving non-audit services 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. KPMG was appointed as internal auditor in 2002. Their audit partner was rotated in 2006.

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 security holders.

Remuneration Committee

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

"The reliability of our long-life assets provide a solid foundation for the Company's future."

Members of the committee are:

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

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

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

The committee, having regard to personal and corporate performance and relevant comparative information, reviews remuneration of the senior management team annually. The remuneration of all senior managers 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, 2008 for the Commercial Manager and 2010 for the Chief Financial Officer.

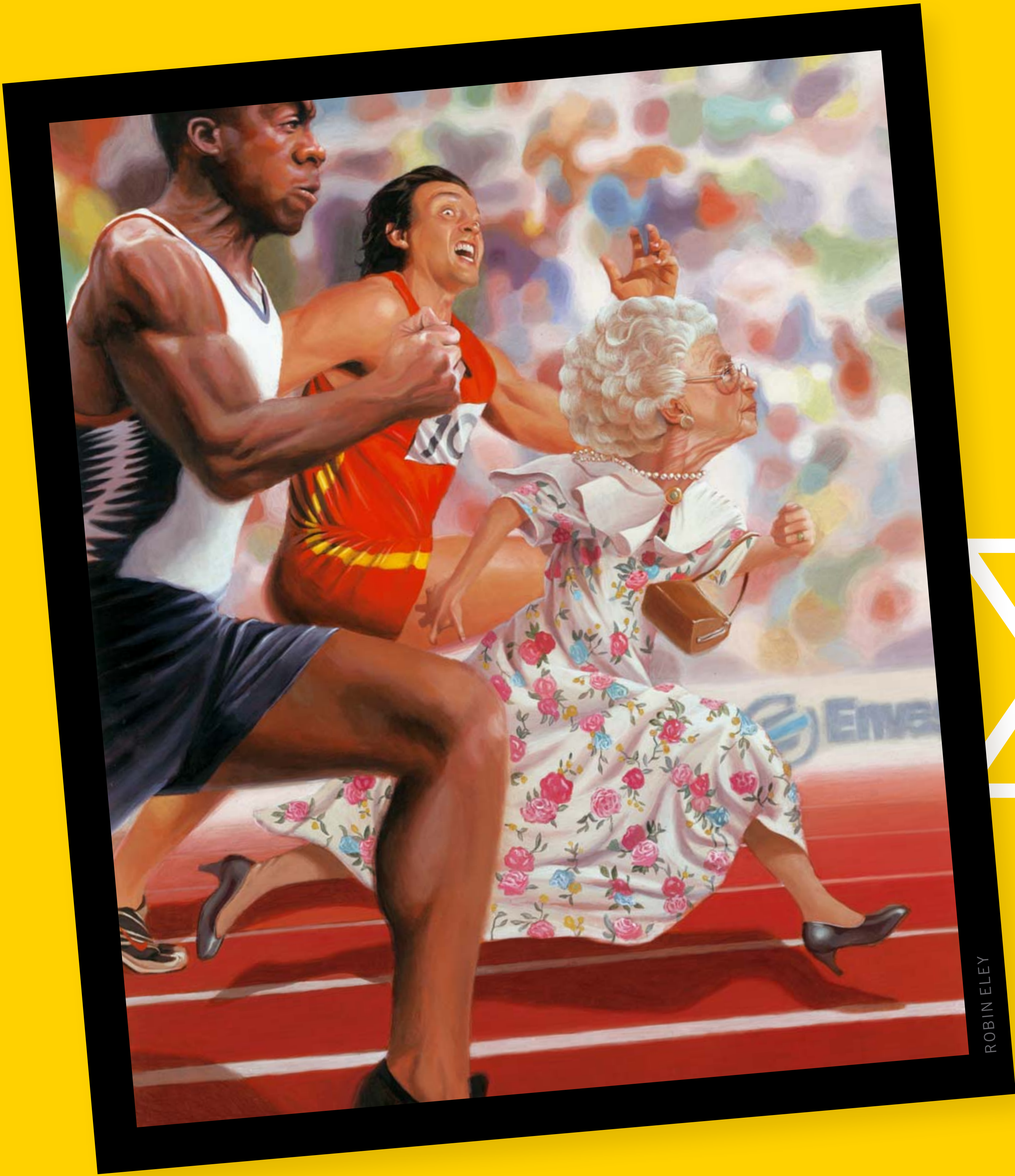
The Company does not operate an Employee Share Option Plan.

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 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.

APA is required to operate and manage Envestra's networks in accordance with the Operating and Management Agreements and to legal and prudential standards.



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LONGEVITY

Envestra's management has the responsibility to monitor the risks and compliance issues associated with APA's performance and to report to the Board on these matters. As part of this process, independent engineering audits are conducted each year.

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

Indemnities

The Directors are indemnified under deeds against liability in the fulfillment of their duties unless the liability arises out of conduct involving a lack of good faith or willful 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, securityholders, 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 security holders 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.

FINANCIAL AND STATUTORY INFORMATION

Directors' Report

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Envestra Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2007 in accordance with a resolution of the Directors.

Directors

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

John Geoffrey Allpass (Chairman)
Ian Bruce Little (Managing Director)
Eric Fraser Ainsworth AM
Charles Christopher Agar Binks
Hing Lam Kam
Olaf Brian O'Duill
Dominic Loi Shun Chan

Mr B G Beeren was a Director from the beginning of the financial year until his resignation on 27 June 2007.

Mr G A King was a Director from the beginning of the financial year until his resignation on 2 July 2007.

Mr M J McCormack and Mr R M Gersbach were appointed as Directors on 2 July 2007.

Details of the Directors' and Company Secretary qualifications, experience and special responsibilities appear on pages 12 to 14 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 and construction of new networks.

Review of operations

The review of operations of the Group and the results of those operations are discussed in detail in the Chairman's and Managing Director's Review of Operations on pages 2 to 6 of the annual report.

Consolidated results

For the year ended 30 June 2007, revenue/income was $347.3 million, profit before interest on loan notes and tax was $43.5 million and loss after tax was $3.0 million. The aggregate of cash flows decreased cash on hand at 30 June 2007 by $15.0 million, as capital expenditure was largely funded from cash held at 30 June 2006, equity raised during the year and internally generated cash flows.

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 33.

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 APA Asset Management ("APA", formerly Origin Energy Asset Managment Services Ltd). 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.

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

Likely developments and expected results of operations

Information regarding future prospects and likely developments has been included in the Chairman's and Managing Director's Review on pages 2 to 6 of the Annual Report, and the Financial Review on page 8 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/dividend on 30 November 2006	5.70	46,415
Distribution/dividend on 31 May 2007	3.80	31,351
Total distributions/dividends for 2006-07	**9.50**	**77,766**

Indemnity and insurance of officers

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

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

A condition of the insurance 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 30.

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 30, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

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

Matters subsequent to the end of the financial year

On 2 July 2007 Origin Energy Ltd sold its 17.2 per cent interest in Envestra to the APA Group. The APA Group has also taken over the Operating and Management Agreements related to Envestra's gas distribution networks. As part of the sale process, Origin Energy has exercised the Put Option associated with Envestra's Victorian and NSW gas distribution network. As a consequence Vic Gas Distribution Pty Ltd and The Albury Gas Company Ltd are now part of the Envestra tax consolidated Group. Joining the Envestra tax consolidated Group will result in an increase in the tax base of the distribution assets. The financial effect of this restatement is expected to result in a reduction in the reported Deferred Tax Liability and a commensurate consolidated tax benefit of approximately $150 million in the 2007-08 financial year.

Other than that disclosed above, the Directors are not aware at the date of this report of any other matter or circumstance which has arisen since 30 June 2007 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 2006 to 30 June 2007, and the numbers of meetings attended by each Director were:

	Full meetings of Directors	Full meetings of Directors	Special Board meetings	Special Board meetings	Audit Committee	Audit Committee	Remuneration Committee	Remuneration Committee
	Held	*Attended*	*Held*	*Attended*	*Held*	*Attended*	*Held*	*Attended*
J G Allpass	7	7	5	5	-	-	1	1
I B Little	7	7	5	5	-	-	-	-
E F Ainsworth	7	7	5	5	6	6	-	-
B G Beeren	7	5	5	4	6	4	-	-
C C A Binks	7	7	5	5	6	6	-	-
D L S Chan	7	7	5	2	-	-	-	-
H L Kam(i)	7	7	5	3	-	-	-	-
G A King	7	7	5	3	-	-	1	1
O B O'Duill	7	7	5	4	6	6	1	1

(i) Mr H L Kam was represented at nine of these meetings by an alternate Director, being Mr I Chan.

Remuneration report

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

A) Principles used to determine the nature and amount of remuneration;
B) Details of remuneration;
C) Service agreements; and
D) Additional information.

The information provided under headings A-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 Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market 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; and
- attracts and aims to retain high calibre executives.

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

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

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

Non-executive Directors

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

Directors' fees

The current base remuneration was last increased with effect from 1 July 2006. 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 is 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; and
- short-term performance incentives.

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

Base pay

This is structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' 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, and salary continuance 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 2007, 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 per page 24 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

- N Trewartha - Chief Financial Officer
- A Staniford - Commercial Manager
- D Petherick - Manager, Corporate Services and Company Secretary
- G Meredith - Manager, Treasury and Economics
- P May - Financial Controller.

Key management personnel of Envestra Ltd and the Group

	Short-term employee benefits			Post-employment benefits		Long-term benefits	Other payments	
Name	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement benefits	Long service leave	Termination	Total
2007	$	$	$	$	$	$	$	$
Non-executive Directors								
J G Allpass *Chairman*	50,000	-	-	100,000	6,782	-	-	156,782
E F Ainsworth	77,350	-	-	7,650	-	-	-	85,000
B G Beeren	85,000	-	-	-	55,597	-	-	140,597
C C A Binks	77,350	-	-	7,650	-	-	-	85,000
D L S Chan(i)	75,000	-	-	-	-	-	-	75,000
H L Kam(i)	75,000	-	-	-	-	-	-	75,000
G A King(i)	75,000	-	-	-	-	-	-	75,000
O B O'Duill	81,900	-	-	8,100	1,939	-	-	91,939
Sub-total non-executive Directors	**596,600**	**-**	**-**	**123,400**	**64,318**	**-**	**-**	**784,318**

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

Name	Short-term employee benefits			Post-employment benefits		Long-term benefits	Other payments	
	Cash salary and fees	Cash bonus[iv]	Non-monetary benefits	Super-annuation[iv]	Retirement benefits	Long service leave	Termination	Total
2007	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*
Executive Director								
I B Little *Managing Director*	407,425	-	-	100,160	-	-	-	507,585
Other key management personnel								
L Reed[ii]	96,797	-	10,037	12,520	-	55,521	-	174,875
A Staniford	198,908	-	17,278	76,250	-	-	-	292,436
M Brophy[ii]	65,492	-	3,284	3,372	-	-	232,000	304,148
D Petherick	130,789	-	15,544	93,000	-	-	-	239,333
G Meredith	127,654	17,600	13,746	20,000	-	-	-	179,000
N Trewartha[iii]	105,086	21,000	-	6,360	-	-	-	132,446
P May	104,402	20,000	11,198	12,750	-	-	-	148,350
Total key management personnel compensation	**1,833,153**	**58,600**	**71,087**	**447,812**	**64,318**	**55,521**	**232,000**	**2,762,491**

(ii) Ms L Reed and Ms M Brophy resigned from the Group on 22 December 2006 and 4 October 2006 respectively.
(iii) Mr N Trewartha joined the Group on 18 December 2006.
(iv) Bonus payments to key management personnel may be taken either as cash or superannuation.

Key management personnel of Envestra Ltd and the Group

Name	Short-term employee benefits			Post-employment benefits		
	Cash salary and fees	Cash bonus[ii]	Non-monetary benefits	Super-annuation[ii]	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
Total key management personnel compensation	**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.
(ii) Bonus payments to key management personnel may be taken either as cash or superannuation.

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, and salary continuance insurance, and the provision of a fully-maintained motor vehicle. Other major provisions of the agreements relating to remuneration are set out below.

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

I Little *Managing Director*

- Term of agreement - non-specific, commencing 28 March 2003.
- Base salary, inclusive of superannuation, for the year ending 31 August 2007 of $425,000.
- 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 per cent of the short-term bonus paid three years earlier.
- Payment of a termination benefit on termination by the Company, other than for gross misconduct, after six months' notice, equal to 12 months' base salary plus an amount equal to the last short-term incentive paid prior to the termination.

N Trewartha *Chief Financial Officer*

- Term of agreement - non-specific, commencing 18 December 2006.
- Base salary, inclusive of superannuation, for the year ending 31 August 2007 of $240,000.
- 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 2010, equal to 50 per cent of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the employer, other than for gross misconduct, equal to 12 months' base salary (including the period of notice).

A Staniford *Commercial Manager*

- Term of agreement - non-specific, commencing 1 August 2000.
- Base salary, inclusive of superannuation, for the year ending 31 August 2007 of $248,000.
- 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 per cent of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the employer, other than for gross misconduct, equal to 18 months' base salary (including the period of notice).

D Petherick *Manager, Corporate Services and Company Secretary*

- Term of agreement - non-specific, commencing 1 September 1997.
- Base salary, inclusive of superannuation, for the year ending 31 August 2007 of $208,000.
- Subject to performance, an annual bonus of up to 20 per cent of base salary is payable.
- Payment of termination benefit on termination by the employer, other than for gross misconduct, equal to 18 months' base salary (including the period of notice).

G Meredith *Manager, Treasury and Economics*

- Term of agreement - non-specific, commencing 1 August 2000.
- Base salary, inclusive of superannuation, for the year ending 31 August 2007 of $160,000.
- Subject to performance, an annual bonus of up to 20 per cent of base salary is payable.
- Payment of termination benefit on termination by the employer, other than for gross misconduct, equal to 15 months' base salary (including the period of notice).

P May *Financial Controller*

- Term of agreement - non-specific, commencing 4 April 2005.
- Base salary, inclusive of superannuation, for the year ending 31 August 2007 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 termination by the employer, other than for gross misconduct, equal to 15 months' base salary (including the period of notice).

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 six years have been:

Distributions		Movement in ASX price of stapled securities	
year	*cents per stapled security*	*date*	*$*
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
2006-07	9.50	30/6/2007	1.15

Details of remuneration: cash bonuses

For each short-term cash bonus included in the tables on page 29, the percentage of the available bonus paid, in the financial year, is set out below. No part of the bonuses is payable in future years.

Name	Paid %	Name	Paid %
I Little	66	G Meredith	69
A Staniford	74	N Trewartha(i)	70
D Petherick	79	P May	70

(i) Mr N Trewartha joined the Group on 18 December 2006.

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 2007 were:

Directors	Holding 30 June 2007	Directors	Holding 30 June 2007
J G Allpass	130,987	D L S Chan(i)	-
I B Little	33,000	H L Kam(i)	-
E F Ainsworth	45,000	R M Gersbach(ii)	-
M J McCormack(ii)	-	O B O'Duill	55,000
C C A Binks	23,737		

(i) Mr H L Kam and Mr D L S Chan are Directors of Cheung Kong Infrastructure Holdings Ltd which owns 139,252,541 stapled securities in Envestra.
(ii) Mr M J McCormack and Mr R M Gersbach were appointed as Directors on 2 July 2007.

Auditor's independence declaration

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

John Geoffrey Allpass
Chairman

Adelaide
24 August 2007

PricewaterhouseCoopers

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AUDITORS' INDEPENDENCE DECLARATION

As lead auditor for the audit of Envestra Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been:

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

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

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

AG Forman
Partner
PricewaterhouseCoopers

Adelaide
24 August 2007

Liability limited by a scheme approved under Professional Standards Legislation

INCOME STATEMENTS

	Notes	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
		$'000	$'000	$'000	$'000
Revenue from continuing operations					
Services		311,759	314,185	169,468	169,619
Interest		2,782	2,793	34,889	31,870
Dividends		-	-	45,000	-
Customer contributions		8,596	6,241	5,035	2,741
Government grants (SA FRC revenue)	5	10,572	13,956	10,572	13,956
Total revenue from continuing activities		**333,709**	**337,175**	**264,964**	**218,186**
Net gain on disposal of property, plant and equipment		2,078	38	-	-
Put Option proceeds	5	7,757	1,932	-	-
Government grants	5	3,799	3,900	-	-
Total revenue / income		**347,343**	**343,045**	**264,964**	**218,186**
Intercompany charges		-	-	(93,749)	(94,253)
Service contract operating costs		(74,987)	(72,611)	(38,449)	(38,944)
Network development and operations support		(8,352)	(8,100)	(6,737)	(6,550)
Gas		(8,981)	(8,520)	(8,981)	(8,523)
Corporate development, property and administration costs		(17,175)	(10,142)	(9,161)	(7,977)
Total operating costs		(109,495)	(99,373)	(157,077)	(156,247)
Earnings before interest, tax, depreciation and amortisation		**237,848**	**243,672**	**107,887**	**61,939**
Depreciation	6	(55,505)	(53,679)	(922)	(894)
Amortisation of capital raising and formation costs	6	(1,729)	(1,657)	(1,245)	(1,176)
Profit before borrowing costs and tax		**180,614**	**188,336**	**105,720**	**59,869**
Amortisation of borrowing costs		(3,721)	(3,560)	(1,708)	(1,410)
Interest and indexation		(133,376)	(130,870)	(62,200)	(63,058)
Capital Indexed Bonds redemption costs		-	(7,238)	-	(7,238)
Total borrowing costs (excluding interest on loan notes)	6	(137,097)	(141,668)	(63,908)	(71,706)
Profit/(loss)before interest on loan notes and income tax expense		**43,517**	**46,668**	**41,812**	**(11,837)**
Interest on loan notes	6	(18,203)	(24,667)	(18,203)	(24,667)
PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE		**25,314**	**22,001**	**23,609**	**(36,504)**
Income tax (expense)/benefit	7	(28,320)	(28,367)	(12,721)	3,568
NET (LOSS)/PROFIT		**(3,006)**	**(6,366)**	**10,888**	**(32,936)**
Basic earnings per share (cents)	38	(0.37)	(0.80)		

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

Balance Sheets

	Notes	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
		$'000	$'000	$'000	$'000
Current assets					
Cash and cash equivalents	8	11,390	26,436	367	12,587
Receivables	9	51,254	51,925	21,209	18,915
Other current assets	11	1,794	867	9,388	8,406
Total current assets		64,438	79,228	30,964	39,908
Non-current assets					
Receivables	12	-	-	893,830	782,352
Other financial assets	13	-	-	833,465	833,465
Property, plant and equipment	14	1,888,761	1,836,642	36,549	36,105
Intangible assets	16	585,594	585,594	-	-
Deferred tax assets	15	-	-	24,352	43,404
Derivative financial instruments	10	-	-	13,246	769
Other non-current assets	17	530	286	-	31
Total non-current assets		2,474,885	2,422,522	1,801,442	1,696,126
Total assets		**2,539,323**	**2,501,750**	**1,832,406**	**1,736,034**
Current liabilities					
Payables	18	23,495	25,948	12,589	14,900
Borrowings	19	182,294	74,314	52,330	49,333
Provisions	20	123	122	123	122
Other current liabilities	21	59,093	50,170	55,043	46,506
Total current liabilities		265,005	150,554	120,085	110,861
Non-current liabilities					
Borrowings	22	1,766,567	1,921,945	1,556,717	1,509,983
Provisions	24	10,540	4,862	585	621
Derivative financial instruments	10	64,242	48,526	-	-
Deferred tax liabilities	23	214,268	182,734	-	-
Other non-current liabilities	25	9,109	18,920	9,109	18,920
Total non-current liabilities		2,064,726	2,176,987	1,566,411	1,529,524
Total liabilities		**2,329,731**	**2,327,541**	**1,686,496**	**1,640,385**
Net assets		**209,592**	**174,209**	**145,910**	**95,649**
Equity					
Contributed equity	26	334,851	296,591	334,851	296,591
Reserves	27(a)	6,566	(1,185)	9,273	538
Accumulated losses	27(b)	(131,825)	(121,197)	(198,214)	(201,480)
Total equity		**209,592**	**174,209**	**145,910**	**95,649**
Equity and loan notes					
Total equity		209,592	174,209	145,910	95,649
Loan notes		98,960	142,688	98,960	142,688
Total equity and loan notes		**308,552**	**316,897**	**244,870**	**238,337**

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

Statements of Changes in Equity

	Notes	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Total equity at the beginning of the financial year		**174,209**	**145,707**	**95,649**	**89,596**
Adjustment on adoption of AASB 132 and AASB 139, net of tax to:					
Accumulated losses		-	(1,754)	-	644
Reserves and contributed equity		-	(4,429)	-	(5,179)
Restated total equity at the beginning of the financial year		**174,209**	**139,524**	**95,649**	**85,061**
Deferred tax recorded in equity		253	(20)	253	(20)
Changes in the fair value of cash flow hedges, net of tax		7,751	(211)	8,735	2,262
Net income recognised directly in equity		**8,004**	**(231)**	**8,988**	**2,242**
Profit/(loss) for the year		**(3,006)**	**(6,366)**	**10,888**	**(32,936)**
Total recognised income and expense for the year		**4,998**	**(6,597)**	**19,876**	**(30,694)**
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	26	38,007	41,282	38,007	41,282
Dividends paid	28	(7,622)	-	(7,622)	-
		30,385	41,282	30,385	41,282
Total equity at the end of the financial year		**209,592**	**174,209**	**145,910**	**95,649**

Restated total equity at the beginning of the 2006 financial year differs from that disclosed in the 2006 financial statements by $0.1 million (net of tax), due to restatements principally in relation to land held for resale and borrowings.

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

Cash Flow Statements

	Notes	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
		$'000	*$'000*	*$'000*	*$'000*
Cash flows from operating activities					
Receipts from customers (inclusive of Goods and Services Tax)		367,293	351,102	186,443	184,760
Payments to suppliers and employees (inclusive of Goods and Services Tax)		(141,170)	(133,524)	(173,533)	(173,705)
		226,123	**217,578**	**12,910**	**11,055**
Interest received		2,789	2,879	34,037	32,953
Borrowing costs		(109,671)	(121,154)	(42,499)	(55,678)
Net cash inflow/(outflow) from operating activities	36	**119,241**	**99,303**	**4,448**	**(11,670)**
Cash flows from investing activities					
Payments for property, plant and equipment		(107,805)	(92,136)	(599)	(3,076)
Proceeds from sale of property, plant and equipment		2,408	58	-	-
Net cash outflow from investing activities		**(105,397)**	**(92,078)**	**(599)**	**(3,076)**
Cash flows from financing activities					
Proceeds from issue of stapled securities		43,009	49,905	43,009	49,905
Proceeds from borrowings		107,857	229,714	107,857	220,000
Loans (to)/from related parties		-	-	(14,854)	31,681
Repayment of borrowings		(101,590)	(224,007)	(73,979)	(226,854)
Distributions paid	28	(77,766)	(73,790)	(77,766)	(73,790)
Debt and capital raising costs		(400)	(12,835)	(336)	(12,835)
Net cash outflow from financing activities		**(28,890)**	**(31,013)**	**(16,069)**	**(11,893)**
Net decrease in cash and cash equivalents		**(15,046)**	**(23,788)**	**(12,220)**	**(26,639)**
Cash and cash equivalents at the beginning of the financial year		26,436	50,224	12,587	39,226
Cash and cash equivalents at the end of the financial year	8	**11,390**	**26,436**	**367**	**12,587**

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

1 Summary of significant accounting policies

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

(a) Basis of preparation

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

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). 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: Disclosure and Presentation*.

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 and cashflow hedge reserve.

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 were owned by the Origin Energy Group of companies until 2 July 2007 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. Dividends are recognised as revenue when the right to receive payment is established.

(e) Government grants

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

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

(f) Income tax

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

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

Tax consolidation legislation

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

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 were not part of the Envestra tax consolidated group during the year because they were wholly owned subsidiaries of Origin Energy Ltd. Origin Energy Ltd 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 that Group.

(g) Impairment of assets

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

(h) Cash and cash equivalents

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

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

(i) Receivables

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

The Access Arrangements covering the South Australia networks require the retailer to prepay for haulage services. The initial prepayment is an estimate of two months' haulage charges. An adjustment is made each month for variances between the actual charges and the prepaid estimate and 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) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either (1) hedges of the fair value of recognised 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 hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

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

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

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

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

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

(k) Property, plant and equipment

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

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

Category	Useful life (years)
Buildings	40
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.

(l) Intangible assets

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

(m) Trade and other payables

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

(n) Borrowings

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

(o) Borrowing costs

Borrowing costs include:

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

(p) Employee benefits

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

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

(ii) Long service leave

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

(iii) Other

The number of employees in the Envestra Group was 14 as at 30 June 2007 (15 as at 30 June 2006). The operational activities of the Group are undertaken by APA Asset Management and associated subcontractors.

(q) 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 2007 is 12.0 cents (2006: 18.14 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.

(r) 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.

(s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's and the parent entity'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 and the parent entity's financial instruments.

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

(t) Revaluation 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.

(u) Restoration, rehabilitation and environmental expenditure

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

(v) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

(w) Leases

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

2 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk), 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, Treasury and Economics 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 22(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 relatively minor interest-bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest-rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. At the year end, 25.6 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 the relevant regulatory period. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

3 Critical Accounting Estimates

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

The key estimates and assumptions are discussed below.

(i) Estimated impairment of intangibles

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

(ii) Useful lives of property, plant and equipment

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

4 Segment Information

(a) Description of segments

Geographical segments

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

(b) Primary reporting format - geographical segments

	Victoria and New South Wales	South Australia	Queensland and other	Total continuing operations	Inter-segment eliminations/ unallocated	Consolidated
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
2007						
Sales to external customers/ Total sales revenue	145,852	137,966	47,109	330,927	-	330,927
Other revenue/income	13,634	-	-	13,634	2,782	16,416
Total segment revenue/income	159,486	137,966	47,109	344,561	2,782	347,343
Profit before net interest	82,085	66,869	25,157	174,111	-	174,111
Net interest (including interest on loan notes, excluding amortisation of borrowing costs)					-	(148,797)
Profit before income tax					-	25,314
Income tax expense					-	(28,320)
Net loss for the year					-	(3,006)
Segment assets	1,381,916	818,991	326,051	2,526,958	-	2,526,958
Unallocated assets					-	12,365
Total assets					-	2,539,323
Segment liabilities	10,830	34,427	5,419	50,676	-	50,676
Unallocated liabilities					-	2,279,055
Total liabilities					-	2,329,731
Acquisitions of property, plant and equipment	51,491	37,160	19,808	108,459	-	108,459
Depreciation expense	24,544	24,940	6,021	55,505	-	55,505
Other non-cash expenses	8,151	3,013	-	11,164	-	11,164

(b) Primary reporting format - 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	148,605	141,516	44,261	334,382	-	334,382
Other revenue/income	5,870	-	-	5,870	2,793	8,663
Total segment revenue/income	154,475	141,516	44,261	340,252	2,793	343,045
Profit before net interest	87,714	69,302	24,967	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	1,357,170	808,835	308,997	2,475,002	-	2,475,002
Unallocated assets					-	26,748
Total assets					-	2,501,750
Segment liabilities	10,998	36,690	6,777	54,465	-	54,465
Unallocated liabilities					-	2,273,076
Total liabilities					-	2,327,541
Acquisitions of property, plant and equipment	47,573	27,120	16,910	91,603	-	91,603
Depreciation expense	24,254	23,778	5,647	53,679	-	53,679
Other non-cash expenses	2,631	2,586	-	5,217	-	5,217

(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 Other Income

(a) Government grants

$10.6 million of grants (2006: $13.9 million) were recognised as revenue from continuing operations by the Group during the financial year, which represented the 2007-08 portion of the grant received from the South Australian Government in June 2004 ($54.6 million) to compensate for the development of systems to support the introduction of full retail contestability in South Australia.

Also during the financial year, grants received from the Victorian Government of $3.8 million (2006: $3.9 million) in respect of work completed on the Victorian regional towns projects were recognised as other income. There are no material unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

(b) Put Option proceeds

A management fee was paid by Origin Energy Ltd under the Put Option Deed where it continued to hold its shares in Vic Gas Distribution Pty Ltd after 31 March 2006. The Put Option was exercised on 2 July 2007 (refer note 7).

6 Expenses

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Profit before income tax includes the following specific expenses:				
Depreciation				
Buildings	166	166	-	-
Plant and equipment	55,339	53,513	922	894
Total depreciation	**55,505**	**53,679**	**922**	**894**
Amortisation				
Capital raising/formation costs	1,729	1,657	1,245	1,176
Other charges against assets				
Asset retirements	722	724	-	-
Bad and doubtful debts – trade debtors	49	21	43	8
Borrowing costs				
Interest and indexation excluding interest on loan notes	133,376	130,870	62,200	63,058
Amortisation of borrowing costs	3,721	3,560	1,708	1,410
Capital Indexed Bonds redemption costs	-	7,238	-	7,238
	137,097	**141,668**	**63,908**	**71,706**
Interest on loan notes	18,203	24,667	18,203	24,667
Borrowing costs expensed	**155,300**	**166,335**	**82,111**	**96,373**
Employee benefits expense	3,664	3,159	3,664	3,159
Land management provision expense	5,714	232	-	-

7 Income Tax Expense

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
(a) Income tax expense				
Deferred tax	28,320	28,367	12,721	(3,568)
Attributable to:				
Profit from continuing operations	28,320	28,367	12,721	(3,568)
Deferred income tax (revenue)/expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets (note 15)	5,262	715	11,541	(4,800)
Increase in deferred tax liabilities (note 23)	23,058	27,652	1,180	1,232
	28,320	28,367	12,721	(3,568)

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	25,314	22,001	23,609	(36,504)
Tax at the Australian tax rate of 30 per cent (2006 – 30 per cent)	7,594	6,600	7,083	(10,951)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Interest on loan notes not deductible	5,461	7,402	5,461	7,402
Losses transferred or transferable (i)	15,098	14,428	-	-
Sundry items	167	(63)	177	(19)
Total income tax expense	**28,320**	**28,367**	**12,721**	**(3,568)**
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax debited/(credited) directly to equity	3,213	(75)	3,492	984
(d) Unrecognised temporary differences				
Deferred tax assets not recognised	831	1,160	-	-

(i) The tax expense was higher than the prima facie tax expense in 2007 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 were a series of fixed payments that Origin Energy Ltd 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 $15.1 million (2006: an increase of $14.4 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 exercised on 2 July 2007. Revenue of $7.8 million was received by the Envestra Group in the year ended 30 June 2007 (2006: $1.9 million) as compensation fo the non-exercise of the Put Option through to 30 June 2007.

(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. No funding obligations have arisen to date as no tax payments have been made.

8 Current Assets – Cash and Cash Equivalents

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Cash at bank and on hand	2,967	906	367	587
Deposits at call	8,423	25,530	-	12,000
	11,390	26,436	367	12,587

(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 5.75 per cent and 6.38 per cent (2006 - 5.70 per cent and 5.97 per cent). These deposits have an average maturity of 40 days.

9 Current Assets – Receivables

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Trade receivables	51,288	51,952	21,207	18,912
Provision for doubtful receivables	(50)	(50)	-	-
	51,238	51,902	21,207	18,912
Interest receivable	16	23	2	3
	51,254	51,925	21,209	18,915

(a) Impaired trade receivables

The Group has recognised a loss of $48,527 (2006: $20,806) in the income statement, in respect of bad and doubtful trade receivables during the year ended 30 June 2007.

(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 and Northern Territory 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.

(10) Derivative Financial Instruments

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	$'000	$'000	$'000
Non-current assets				
Interest rate swaps – cashflow hedges	-	-	13,246	769
Total derivative financial instrument assets	**-**	**-**	**13,246**	**769**
Non-current liabilities				
Interest rate and cross-currency swap contracts – cashflow and fair value hedges	64,242	48,526	-	-
Total derivative financial instrument liabilities	**64,242**	**48,526**	**-**	**-**
Net derivatives	**(64,242)**	**(48,526)**	**13,246**	**769**

(a) Instruments used by the Group

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

(i) Interest rate swap contracts - cash flow hedges

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

The tables below include all swaps in place at the end of the financial year.

At 30 June 2007, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

Maturity	2007	2006
	$'000	$'000
Less than 1 year	745,000	-
1-2 years	20,000	745,000
3-4 years	505,000	-
4-5 years	-	505,000
	1,270,000	**1,250,000**

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 2007, the ineffective portion was $0.01 million of profit (2006: $0.3 million).

Group

At balance date these contracts were assets with fair value of $16.1 million (2006: $4.3 million). In the year ended 30 June 2007 there was an increase in fair value of $11.8 million during the year (2006: $11.7 million).

Parent entity

At balance date these contracts were assets with fair value of $13.2 million (2006: $0.8 million). In the year ended 30 June 2007 there was an increase in fair value of $12.4 million during the year (2006: $3.3 million).

(ii) 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	2007	2006
	$'000	*$'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 $80.3 million (2006: $52.8 million). In the year ended 30 June 2007 there was a decrease in fair value of $27.5 million (2006: $31.5 million).

(b) Credit risk exposures

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises with amounts receivable from unrealised gains on derivative financial instruments. At balance date, $16.1 million (2006: $4.3 million) is receivable (Australian dollar equivalents) for the Group from interest rate 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.

(c) Interest rate risk exposures

Refer to note 22 for the Group's exposure to interest rate risk on interest rate swaps.

11 Current Assets – Other Current Assets

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Intercompany interest receivable	-	-	8,818	7,965
GST receivable	882	357	443	441
Deferred licence fees	785	510	-	-
Prepayments	127	-	127	-
	1,794	**867**	**9,388**	**8,406**

12 Non-Current Assets – Receivables

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Receivable from wholly owned entities	-	-	893,830	782,352

13 Non-Current Assets – Other Financial Assets

Other (non-traded) investments	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Shares in subsidiaries (note 32)	-	-	833,465	833,465

(14) Non-Current Assets – Property, Plant and Equipment

	Freehold land	Freehold buildings	Plant and equipment	Total
	$'000	*$'000*	*$'000*	*$'000*
Consolidated				
At 1 July 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	-	-	91,603	91,603
Disposals	(20)	-	-	(20)
Depreciation charge	-	(166)	(53,513)	(53,679)
Retirements	-	-	(724)	(724)
Closing net book amount	3,319	3,548	1,829,775	1,836,642
At 30 June 2006				
Cost	3,319	4,750	2,154,502	2,162,571
Accumulated depreciation	-	(1,202)	(324,727)	(325,929)
Net book amount	3,319	3,548	1,829,775	1,836,642
Year ended 30 June 2007				
Opening net book amount	3,319	3,548	1,829,775	1,836,642
Additions	-	-	108,459	108,459
Disposals	-	-	(113)	(113)
Depreciation charge	-	(166)	(55,339)	(55,505)
Retirements	-	-	(722)	(722)
Closing net book amount	3,319	3,382	1,882,060	1,888,761
At 30 June 2007				
Cost	3,319	4,750	2,262,019	2,270,088
Accumulated depreciation	-	(1,368)	(379,959)	(381,327)
Net book amount	3,319	3,382	1,882,060	1,888,761

	Plant and equipment	Total
	$'000	*$'000*
Parent		
At 1 July 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
Year ended 30 June 2007		
Opening net book amount	36,105	36,105
Additions	1,366	1,366
Depreciation charge	(922)	(922)
Closing net book amount	36,549	36,549
At 30 June 2007		
Cost	42,174	42,174
Accumulated depreciation	(5,625)	(5,625)
Net book amount	36,549	36,549

(a) Valuations of land and buildings

An independent valuation of land and buildings was undertaken during the 2006-07 year by registered valuers. The market valuations of these properties were in excess of the carrying values by approximately $15.4 million. The valuation of the properties has not taken into account any potential remediation costs. A restoration provision of $5.4 million (2006: $4.2 million) has been included in the financial statements at 30 June 2007 in relation to these land and buildings.

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

(b) Non-current assets pledged as security

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

15 Non-Current Assets – Deferred Tax Assets

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
The balance comprises temporary differences attributable to:				
Accrued expenses	200	194	185	170
Employee benefits	212	223	212	223
Equity and debt raising	97	18	97	18
Deferred revenue	5,948	9,334	5,948	9,334
Derivatives	1,019	643	-	-
Tax losses[(i)]	45,750	47,700	30,185	41,181
	53,226	58,112	36,627	50,926
Set-off of deferred tax liabilities pursuant to set-off provisions (note 23)	(53,226)	(58,112)	(12,275)	(7,522)
Net deferred tax assets	-	-	24,352	43,404
Movements				
Opening balance at 1 July	58,112	58,098	50,926	48,813
Credited/(charged) to the income statement (note 7)	(5,262)	(715)	(11,541)	4,800
Credited to equity	376	729	80	-
Deferred tax assets relating to tax losses transferred	-	-	(2,838)	(2,687)
Closing balance at 30 June	53,226	58,112	36,627	50,926

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

16 Non-Current Assets – Intangible Assets

	Debt establishment costs	Loan note raising / formation costs	Distribution licence	Total
	$'000	*$'000*	*$'000*	*$'000*
Consolidated				
At 1 July 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

	Debt establishment costs	Loan note raising / formation costs	Distribution licence	Total
	$'000	*$'000*	*$'000*	*$'000*
Consolidated				
At 30 June 2006				
Cost	-	-	585,594	585,594
Accumulated amortisation	-	-	-	-
Net book amount	-	-	585,594	585,594
Year ended 30 June 2007				
Opening net book amount	-	-	585,594	585,594
Closing net book amount	-	-	585,594	585,594
At 30 June 2007				
Cost	-	-	585,594	585,594
Accumulated amortisation	-	-	-	-
Net book amount	-	-	585,594	585,594

	Debt establishment costs	Loan note raising / formation costs	Total
	$'000	*$'000*	*$'000*
Parent			
At 1 July 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	-	-	-
At 30 June 2006			
Net book amount	-	-	-
At 30 June 2007			
Net book amount	-	-	-

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

Victorian Distribution Licence

The recoverable amount of the Victorian cash-generating unit is based on value-in-use calculations. Those calculations use cash flow projections based on current and expected regulatory outcomes for gas distributors. Cash flow projections are estimated for a period of 20 years, with a terminal value, recognising the long-term nature of the assets. The pre-tax discount rate used is 8.43 per cent.

(17) Non-Current Assets – Other Non-Current Assets

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Deferred licence fees	530	255	-	-
Deferred costs	-	31	-	31
	530	286	-	31

(18) Current Liabilities – Payables

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Trade payables	23,495	25,948	12,589	14,900

(19) Current Liabilities – Borrowings

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Secured				
Medium Term Notes	105,000	-	-	-
Total secured current borrowings	105,000	-	-	-
Unsecured				
Mezzanine debt	24,964	24,981	-	-
Loan notes	52,330	49,333	52,330	49,333
Total unsecured current borrowings	77,294	74,314	52,330	49,333
Toal current borrowings	182,294	74,314	52,330	49,333

(a) 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.

(b) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on borrowings are set out in note 22.

(c) Fair value disclosures

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

(20) Current Liabilities – Provisions

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Employee benefits	123	122	123	122

21 Current liabilities – Other Current liabilities

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Prepayments from energy retailers	27,228	28,544	27,228	28,544
Interest accrued on loan notes	3,825	5,524	3,825	5,524
Accrued costs	1,687	1,228	766	727
Other interest accrued	14,630	4,308	11,501	1,145
Other deferred income	1,917	-	1,917	-
Government grant deferred income	9,806	10,566	9,806	10,566
	59,093	50,170	55,043	46,506

22 Non-Current liabilities – Borrowings

The Envestra Group is focused on the ownership of gas distribution networks and transmission pipelines. Whilst the assets generally have very long lives, the financing of those assets is undertaken using a range of instruments with varying terms, including capital markets debt and bank loans, with maturities spread over the next 26 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 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Secured				
Bank loans	-	6,791	-	6,791
Medium Term Notes	1,033,335	1,135,867	582,437	581,488
Commercial Paper	88,408	75,214	40,779	-
Capital Indexed Bonds	407,792	393,443	290,669	280,450
US Private Placement Notes	190,402	217,275	-	-
Total secured non-current borrowings	1,719,937	1,828,590	913,885	868,729
Unsecured				
Payable to wholly owned entities	-	-	596,202	547,899
Loan notes	46,630	93,355	46,630	93,355
Total unsecured non-current borrowings	46,630	93,355	642,832	641,254
Total non-current borrowings	**1,766,567**	**1,921,945**	**1,556,717**	**1,509,983**

(a) Total secured liabilities

The total secured liabilities are as follows:

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Bank loans	-	6,791	-	6,791
Medium Term Notes	1,138,335	1,135,867	582,437	581,488
Commercial Paper	88,408	75,214	40,779	-
Capital Indexed Bonds	407,792	393,443	290,669	280,450
US Private Placement Notes	190,402	217,275	-	-
Total secured liabilities	1,824,937	1,828,590	913,885	868,729

(b) Assets pledged as security

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

	Notes	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
		$'000	*$'000*	*$'000*	*$'000*
Current					
Floating charge					
Cash and cash equivalents	8	11,390	26,436	367	12,587
Receivables	9	51,254	51,925	21,209	18,915
Other current assets	11	1,794	867	9,388	8,406
Total current assets pledged as security		**64,438**	**79,228**	**30,964**	**39,908**
Non-current					
Floating charge					
Distribution licence	16	585,594	585,594	-	-
Plant and equipment	14	1,888,761	1,836,642	36,549	36,105
Total non-current assets pledged as security		**2,474,355**	**2,422,236**	**36,549**	**36,105**
Total assets pledged as security		**2,538,793**	**2,501,464**	**67,513**	**76,013**

(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 2007 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 2007 was $1,948.9 million. These debts include stapled loan notes owing to shareholders of $99.0 million (of which $52.3 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 $1,849.9 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 seven years.

Commercial Paper

The Envestra Group had Commercial Paper on issue at 30 June 2007 of $88.4 million (2006: $75.2 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 (varying terms to May 2011) is supported by liquidity support agreements 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 three to five-year committed bank facilities of $100 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 $15 million which are undrawn at 30 June 2007.

Capital Indexed Bonds

These bonds were issued for varying terms of four to 18 years. The principal component is indexed by the quarterly movement in the CPI.

Medium Term Notes

Medium Term Notes totalling $1,138.3 million (2006: $1,135.9 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 have varying maturity dates and are classifed as either current or non-current in accordance with these dates.

US Private Placement Notes

Notes totalling A$190.4 million (2006: A$217.3 million) are issued in the United States of America for terms ending in 2015, 2018 and 2033. There are cross-currency swaps in place to swap both the principal and interest payments from the US$ 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 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	$'000	$'000	$'000
Bank loan facilities				
Total facilities	265,000	265,000	110,000	110,000
Used at balance date	-	7,000	-	7,000
Unused at balance date	265,000	258,000	110,000	103,000

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 2007 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	1 year or less	Over 1 to 2 years	Over 3 to 4 years	Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2007						
Medium Term Notes	1,073,335	20,000	-	-	45,000	1,138,335
Capital Indexed Bonds	407,792	-	-	-	-	407,792
Mezzanine debt	24,964	-	-	-	-	24,964
Commercial Paper	88,408	-	-	-	-	88,408
US Private Placement Notes	190,402	-	-	-	-	190,402
Interest rate swaps(i)	(1,270,000)	745,000	20,000	505,000	-	-
	514,901	765,000	20,000	505,000	45,000	1,849,901
Weighted average interest rate	6.1%	5.7%	6.8%	6.1%	6.3%	

(i) Notional principal amounts

	Floating interest rate	Fixed 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	1,070,867	20,000	-	45,000	1,135,867
Capital Indexed Bonds	393,443	-	-	-	393,443
Mezzanine debt	24,981	-	-	-	24,981
Commercial Paper	75,214	-	-	-	75,214
US Private Placement Notes	217,275	-	-	-	217,275
Interest rate swaps(i)	(1,250,000)	745,000	505,000	-	-
	538,571	765,000	505,000	45,000	1,853,571
Weighted average interest rate	6.0%	5.7%	6.1%	6.3%	

(i) Notional principal amounts

(g) Fair value

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

	Carrying amount 2007	Fair value 2007	Carrying amount 2006	Fair value 2006
	$'000	*$'000*	*$'000*	*$'000*
On-balance sheet				
Non-traded financial liabilities				
Bank loans	-	-	6,791	7,000
Mezzanine debt	24,964	25,000	24,981	25,000
US Private Placement Notes	190,402	192,373	217,275	218,980
Loan notes	98,960	102,271	142,688	147,712
Traded financial liabilities				
Capital Indexed Bonds	407,792	411,450	393,443	417,570
Medium Term Notes	1,138,335	1,160,000	1,135,867	1,160,000
Commercial Paper	88,408	88,408	75,214	75,214
Total financial liabilities	**1,948,861**	**1,979,502**	**1,996,259**	**2,051,476**

(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.

(23) Non-Current Liabilities - Deferred Tax Liabilities

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
The balance comprises temporary differences attributable to:				
Debtors	6	6	1	1
Equity and debt raising	5,838	5,170	3,742	2,932
Other	160	179	18	-
Derivatives	3,974	231	3,974	231
Provisions	(2,986)	(1,272)	-	-
Depreciation	260,502	236,532	4,540	4,358
	267,494	240,846	12,275	7,522
Set-off of deferred tax assets of parent entity pursuant to set-off provisions (note 15)	(53,226)	(58,112)	(12,275)	(7,522)
Net deferred tax liabilities	214,268	182,734	-	-
Movements:				
Opening balance at 1 July	240,846	215,188	7,522	7,253
Change on adoption of AASB 132 and AASB 139	-	(2,652)	-	(1,949)
Charged to the income statement (note 7)	23,058	27,652	1,180	1,232
Charged to equity	3,590	658	3,573	986
Closing balance at 30 June	267,494	240,846	12,275	7,522

(24) Non-Current Liabilities - Provisions

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Long service leave	159	163	159	163
Other employee and Director entitlements	426	458	426	458
Land management costs	9,955	4,241	-	-
	10,540	4,862	585	621

Land management costs

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.

(a) Movements in provisions

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

	Land management costs	Total
	$'000	*$'000*
Consolidated – 2007		
Non-current		
Carrying amount at start of year	4,241	4,241
Additional provision recognised	5,714	5,714
Carrying amount at end of year	9,955	9,955
Consolidated – 2006		
Non-current		
Carrying amount at start of year	4,063	4,063
Additional provision recognised	232	232
Payments	(54)	(54)
Carrying amount at end of year	4,241	4,241

25 Non-Current Liabilities – Other Non-Current Liabilities

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Deferred Government grant income	9,109	18,920	9,109	18,920

26 Contributed Equity

	Parent entity 2007	Parent entity 2006	Parent entity 2007	Parent entity 2006
	Securities	*Securities*	*$'000*	*$'000*
(a) Share capital				
Ordinary shares				
Issued and paid up capital	852,278,514	814,300,491	334,580	296,573
(b) Other equity components				
Deferred tax liability component			271	18
Total contributed equity			334,851	296,591

(c) Movements in ordinary share capital	Date	Number of securities	Issue price	Cost
			$	*$'000*
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 on adoption of AASB 139		-		(3,455)
Less: Transaction costs arising on share issues		-		(123)
Balance	**30-6-2006**	**814,300,491**		**296,573**
Opening balance	1-7-2006	814,300,491		296,573
Distribution reinvestment plan	30-11-2006	10,715,245	1.09	10,151
Distribution reinvestment plan	31-5-2007	27,262,778	1.15	28,081
				334,805
Less: Transaction costs arising on share issues				(225)
Balance	**30-6-2007**	**852,278,514**		**334,580**

(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 have been issued under the Plan at a 2.5 per cent discount to the market price.

27 Reserves and Accumulated losses

(a) Reserves	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Hedging reserve – cash flow hedges	6,566	(1,185)	9,273	538
Movements				
Hedging reserve – cash flow hedges				
Balance 1 July	(1,185)	-	538	-
Adjustment on adoption of AASB 132 and AASB 139, net of tax	-	(974)	-	(1,724)
Fair value movements	11,213	(301)	12,478	3,232
Deferred tax	(3,462)	90	(3,743)	(970)
Balance 30 June	6,566	(1,185)	9,273	538

(b) Accumulated losses	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Movements in accumulated losses were as follows:				
Accumulated losses at the beginning of the financial year	(121,197)	(113,077)	(201,480)	(169,188)
Loss for the year	(3,006)	(6,366)	10,888	(32,936)
Adjustment on adoption of AASB 139	-	(1,754)	-	644
Dividends paid	(7,622)	-	(7,622)	-
Balance 30 June	(131,825)	(121,197)	(198,214)	(201,480)

(c) Nature and purpose of reserves

(i) Hedging reserve - cash flow hedges

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

28 Distributions / Dividends

	Parent entity 2007 $'000	Parent entity 2006 $'000
Stapled securities		
Amounts paid in November (cents per stapled security)		
Interest on loan notes: 1.36 cents (2007); 1.83 cents (2006)	11,075	14,085
Dividend: 0.47 cents (2007); nil (2006)	3,827	-
Principal on loan notes: 3.87 cents (2007); 3.87 cents (2006)	31,513	29,786
	46,415	43,871
Amounts paid in May (cents per stapled security)		
Interest on loan notes: 1.07 cents (2007); 1.53 cents (2006)	8,828	12,046
Dividend: 0.46 cents (2007); nil (2006)	3,795	-
Principal on loan notes: 2.27 cents (2007); 2.27 cents (2006)	18,728	17,873
	31,351	29,919
Total annual distribution: 9.5 cents (2007); 9.5 cents (2006)		
Interest on loan notes: 2.43 cents (2007); 3.36 cents (2006)	19,903	26,131
Dividend: 0.93 cents (2007); nil (2006)	7,622	-
Principal on loan notes: 6.14 cents (2007); 6.14 cents (2006)	50,241	47,659
	77,766	73,790

29 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 (resigned 27 June 2007)
Dominic Loi Shun Chan
Hing Lam Kam
Grant Alfred King
Olaf Brian O'Duill

(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 (to December 2006)	Envestra Ltd
Nigel Trewartha	Chief Financial Officer (from December 2006)	Envestra Ltd
Andrew Staniford	Commercial Manager	Envestra Ltd
Mary Anne Brophy	Company Secretary and Legal Counsel (to October 2006)	Envestra Ltd
Des Petherick	Manager, Corporate Services and Company Secretary	Envestra Ltd
Greg Meredith	Manager, Treasury and Economics	Envestra Ltd
Paul May	Financial Controller	Envestra Ltd

All of the persons listed on the previous page (with the exception of N Trewartha and P May) were also key management persons during the year ended 30 June 2006.

(c) Key management personnel compensation

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$	$	$	$
Short-term employee benefits	1,962,840	1,987,496	1,962,840	1,987,496
Post-employment benefits	512,130	263,483	512,130	263,483
Other long-term benefits	55,521	73,755	55,521	73,755
Termination payments	232,000	-	232,000	-
	2,762,491	2,324,734	2,762,491	2,324,734

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 on pages 26 to 31.

(d) Equity instrument disclosures relating to key management personnel

(i) Share holdings

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

Ordinary shares
2007

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	59,210	-	3,174	62,384
C C A Binks	23,737	-	-	23,737
G A King	81,025	-	1,600	82,625
O B O'Duill	55,000	-	-	55,000
Other key management personnel of the Group				
D Petherick	31,917	-	-	31,917
G Meredith	4,000	-	-	4,000

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

30 Remuneration of Auditors

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

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$	$	$	$
(a) Audit services				
PricewaterhouseCoopers Australian firm				
Audit of financial statements provided to regulators	90,000	-	20,000	-
Audit and review work and other audit work under the *Corporations Act 2001*	255,541	225,970	127,771	112,260
Total remuneration for audit services	**345,541**	**225,970**	**147,771**	**112,260**
(b) Non-audit services				
Taxation services				
PricewaterhouseCoopers Australian firm				
Tax services	139,975	46,111	98,650	37,611
Total remuneration for taxation services	**139,975**	**46,111**	**98,650**	**37,611**
Other services				
PricewaterhouseCoopers Australian firm				
Management advisory	39,195	39,331	36,198	35,631
Total remuneration for other services	**39,195**	**39,331**	**36,198**	**35,631**
Total remuneration for non-audit services	**179,170**	**85,442**	**134,848**	**73,242**
	524,711	**311,412**	**282,619**	**185,502**

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 and auditing of regulatory statements.

31 Related Party Transactions

(a) Parent entity

The ultimate parent entity within the Group is Envestra Ltd.

(b) Subsidiaries

Interests in subsidiaries are set out in note 32.

(c) Key management personnel compensation

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

(d) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$	$	$	$
Revenue				
Revenue from the provision of haulage services to Origin Energy Ltd	184,082,000	199,513,000	124,781,000	131,115,000
Put Option proceeds	7,757,000	1,932,000	-	-
Expenses				
Costs incurred to use gas distribution networks owned by controlled entities	-	-	93,749,000	94,253,000
Payments to Origin Energy Ltd for system use gas	8,941,000	8,108,000	8,941,000	8,108,000
Payments to Origin Energy Asset Management for operation and management of the networks	84,026,000	80,711,000	45,191,000	45,494,000
Payments to Origin Energy Asset Management for capital expenditure relating to the networks	108,431,000	91,295,000	56,873,000	43,884,000
Interest revenue				
Subsidiaries	-	-	33,272,000	29,685,000
Dividend revenue				
Subsidiaries	-	-	45,000,000	-

(e) Loans to/from related parties

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$	$	$	$
Loans to subsidiaries				
Beginning of the year	-	-	234,454,000	264,823,000
Loans advanced	-	-	111,998,000	68,744,000
Loan repayments received	-	-	(48,788,000)	(99,113,000)
End of year	-	-	297,664,000	234,454,000

(f) Terms and conditions

All other 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.

32 Subsidiaries

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

Name of entity	Country of incorporation	Class of shares	Equity holding of Envestra Ltd 2007	Equity holding of Envestra Ltd 2006
			%	%
Envestra Natural Gas Networks Ltd (vi)	Australia	Ordinary	100	100
Envestra (SA) Ltd (ii)(vi)	Australia	Ordinary	-	-
Envestra (Qld) Ltd (vi)	Australia	Ordinary	100	100
EnVic Holdings 1 Pty Ltd (iii)	Australia	Ordinary	100	100
EnVic Holdings 2 Ltd (iv)	Australia	Ordinary	-	-
Envestra Victoria Pty Ltd (v)	Australia	Ordinary	-	-
Vic Gas Distribution Pty Ltd (i)	Australia	Ordinary	-	-
The Albury Gas Company Ltd (i)	Australia	Ordinary	-	-
Envestra Transmission Pty Ltd	Australia	Ordinary	100	100
Envestra Transmission Holdings 1 Pty Ltd	Australia	Ordinary	100	100
Envestra Transmission Holdings 2 Pty Ltd	Australia	Ordinary	100	100

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

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

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

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

33 Deed of Cross Guarantee

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

(a) Consolidated income statement and a summary of movements in consolidated retained 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 2007 of the Closed Group consisting of Envestra Ltd, Envestra Natural Gas Networks Ltd, Envestra (SA) Ltd and Envestra (Qld) Ltd.

	2007	2006
Income Statement	*$'000*	*$'000*
Revenue from continuing activities	219,964	218,196
Service contract costs	(38,449)	(38,944)
Gas	(8,981)	(8,523)
Network development and operations support	(6,737)	(6,550)
Administration costs	(9,811)	(8,632)
Depreciation	(30,961)	(29,424)
Amortisation	(1,245)	(1,176)
Loan note interest	(18,203)	(24,667)
Other borrowing costs	(63,908)	(71,706)
Profit before income tax	**41,669**	**28,574**
Income tax expense	(18,147)	(15,947)
Profit for the year	**23,522**	**12,627**
Summary of movements in consolidated retained profits		
Retained profits at the beginning of the financial year	52,486	39,215
Profit for the year	23,522	12,627
Impact of transition to AASB 139	-	644
Dividends paid	(7,622)	-
Retained profits at the end of the financial year	**68,386**	**52,486**

(b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2007 of the Closed Group consisting of Envestra Ltd, Envestra Natural Gas Networks Ltd, Envestra (SA) Ltd and Envestra (Qld) Ltd.

	2007	2006
	$'000	*$'000*
Current assets		
Cash and cash equivalents	367	12,587
Trade and other receivables	21,209	18,911
Other	9,388	8,409
Total current assets	**30,964**	**39,907**
Non-current assets		
Receivables	405,571	352,334
Derivative financial instruments	13,246	769
Property, plant and equipment	1,123,837	1,098,481
Total non-current assets	**1,542,654**	**1,451,584**
Total assets	**1,573,618**	**1,491,491**

	2007	2006
	$'000	$'000
Current liabilities		
Trade and other payables	12,577	14,897
Borrowings	52,330	49,333
Provisions	123	122
Other	55,043	46,506
Total current liabilities	**120,073**	**110,858**
Non-current liabilities		
Borrowings	960,516	962,084
Deferred tax liabilities	70,825	48,004
Provisions	585	621
Other	9,109	20,319
Total non-current liabilities	**1,041,035**	**1,031,028**
Total liabilities	**1,161,108**	**1,141,886**
Net assets	**412,510**	**349,605**
Equity		
Contributed equity	334,851	296,611
Reserves	9,273	508
Retained profits	68,386	52,486
Total equity	**412,510**	**349,605**

34 Economic Dependency

The Envestra Group has two major customers. They are:

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

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

35 Events Occurring after the Balance Sheet Date

On 2 July 2007 Origin Energy Ltd sold its 17.2 per cent interest in Envestra to the APA Group. The APA Group has also taken over the Operating and Management Agreements related to Envestra's gas distribution networks. As part of the sale process, Origin Energy has exercised the Put Option associated with Envestra's Victorian and NSW gas distribution network. As a consequence Vic Gas Distribution Pty Ltd and The Albury Gas Company Ltd are now part of the Envestra tax consolidated Group. Joining the Envestra tax consolidated Group will result in an increase in the tax base of the distribution assets. The financial effect of this restatement is expected to result in a reduction in the reported Deferred Tax Liability and a commensurate consolidated tax benefit of approximately $150 million in the 2007-08 financial year.

Other than that disclosed above, there have been no significant events that have occurred after the balance sheet date.

36 Reconciliation of loss after Income Tax to net cash inflow from Operating Activities

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
(Loss)/profit after income tax	(3,006)	(6,366)	10,888	(32,936)
Depreciation and amortisation	60,955	58,896	3,875	3,480
Indexation of Capital Indexed Bonds	13,382	11,151	9,607	7,901
Interest on loan notes	18,203	24,667	18,203	24,667
Asset retirements	722	724	-	-
Government grants recognised as income	(10,572)	(13,956)	(10,572)	(13,956)
CIB redemption costs disclosed as a financing activity	-	7,238	-	7,238
Intercompany dividend	-	-	(45,000)	-
Gain on disposal of land	(2,078)	(38)	-	-
Change in operating assets and liabilities				
Decrease/(increase) in trade debtors	147	(11,966)	(3,143)	(7,216)
Increase in other operating assets	(569)	(32)	(20)	-
Increase in trade creditors and other liabilities	13,748	1,908	7,889	2,720
Decrease in derivative liabilities	(11)	(1,290)	-	-
Increase/(decrease) in provision for deferred income tax	28,320	28,367	12,721	(3,568)
Net cash inflow/(outflow) from operating activities	**119,241**	**99,303**	**4,448**	**(11,670)**

37 Non-cash investing and Financing Activities

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

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

38 Earnings per Share

(a) Basic earnings per share

	Consolidated 2007	Consolidated 2006
	Cents	*Cents*
Profit from continuing operations attributable to the ordinary equity holders of the Company	(0.37)	(0.80)

(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 2007	Consolidated 2006
	Number	*Number*
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	822,764,916	782,520,633

Distributions to shareholders for the period of this report and the immediate future comprise interest on the loan notes, repayment of principal on the loan notes and dividends.

39 Commitments

(i) Operating leases

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

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

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

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	*$'000*	*$'000*	*$'000*
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	600	600	600	600
Later than one year but not later than five years	2,400	2,400	2,400	2,400
Later than five years	1,800	2,400	1,800	2,400
	4,800	5,400	4,800	5,400
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	4,800	5,400	4,800	5,400

Envestra Ltd Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 33 to 71 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 2007 and of their performance 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 26 to 31 of the Directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

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

The Directors have been given the 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 Allpass

John Geoffrey Allpass
Chairman

Adelaide
24 August 2007

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENVESTRA LIMITED

Report on the financial report and the AASB 124 remuneration disclosures contained in the Directors' report

We have audited the accompanying financial report of Envestra Limited (the Company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration for both Envestra Limited and the Envestra Limited Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the Directors' report. As permitted by the *Corporations Regulation 2001*, the Company has disclosed information about the remuneration of Directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 26 to 31 of the Directors' report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 remunerations disclosures contained in the Directors' report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The Directors of the Company are also responsible for the remuneration disclosures contained in the Directors' report.

Auditor's responsibility

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENVESTRA LIMITED *(continued)*

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by Directors or management. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

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

Audit opinion on the financial report

In our opinion:

(a) the financial report of Envestra Limited is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date;
- complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financing Reporting Standards as disclosed in Note 1(a).

Auditor's opinion on the AASB 124 remuneration disclosures contained in the Directors' report

In our opinion, the remuneration disclosures that are contained in pages 26 to 31 of the Directors' report comply with Accounting Standard AASB 124.

PricewaterhouseCoopers
Charted Accountants

Andrew Forman
Partner

Adelaide
24 August 2007

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Shareholder Information

Number of shareholders

At 24 August 2007, there were 20,309 shareholders

Sharegrouping	Number of shareholders	Stapled securities held	Percentage
1 - 1,000	437	281,172	0.03
1,001 - 5,000	2,611	9,653,595	1.13
5,001 - 10,000	4,516	36,476,966	4.28
10,001 - 100,000	12,398	315,822,298	37.06
100,001 and over	347	490,044,483	57.50
Total	**20,309**	**852,278,514**	**100.00**
Shareholders holding less than a marketable parcel of 451 shares	103	17,899	<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 24 August 2007 was as follows:

Organisation	Stapled securities	Percentage of stapled securities
Australian Pipeline Ltd	146,704,860	17.21
Cheung Kong Infrastructure Holdings (Malaysian) Ltd	139,252,541	16.34
Citicorp Nominees Pty Ltd	31,069,702	3.65
National Nominees Ltd	24,153,052	2.83
JP Morgan Nominees Australia Ltd	18,114,653	2.13
Bond Street Custodians Ltd	16,224,532	1.90
HSBC Custody Nominees (Australia) Ltd	14,568,950	1.71
ANZ Nominees Ltd	9,736,660	1.14
RBC Dexia Investor Services Australia Nominees Pty Ltd	5,848,900	0.69
Questor Financial Services Ltd	5,719,863	0.67

Organisation	Stapled securities	Percentage of stapled securities
BT Portfolio Services Ltd (WA)	4,483,457	0.53
Australian Executor & Trustees Ltd	4,447,996	0.52
Corporate Positioning Pty Ltd	4,000,000	0.47
UBS Wealth Management Australia Nominees Pty Ltd	3,917,020	0.46
Ramsleigh Pty Ltd	3,000,000	0.35
Argo Investments Ltd	2,928,139	0.34
Invia Custodian Pty Ltd	2,634,401	0.31
Allundy Pty Ltd	2,500,000	0.29
Sellers Holdings Pty Ltd	2,375,208	0.28
Cambooya Pty Ltd	1,867,742	0.22
Total for top 20	**443,547,676**	**52.04**

Substantial shareholders

Substantial shareholder notices have been received as follows:

Organisation	Stapled securities	Percentage of stapled securities
Australian Pipeline Ltd	146,704,860	17.21
Cheung Kong Infrastructure Holdings (Malaysian) Ltd	139,252,541	16.34
Macquarie Bank Ltd	53,625,187	6.29

Distributions to shareholders

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

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

(ii) Securities issued 24 September 1999.

(iii) Securities issued 8 March 2002.

Voting rights

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.

Tax file numbers, Australian business numbers or exemptions

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

Annual Report mailing list

Shareholders 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.linkmarketservices.com.au.

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

Change of address

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

Share trading 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.

2007 Annual General Meeting

The Annual General Meeting of Envestra will be held at 10:00am on Thursday 1 November 2007 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.

Enquiries

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

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

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

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

Consumers

	Victoria		South Australia		Queensland		New South Wales		Northern Territory		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Domestic	487,657	476,045	369,090	361,592	72,277	70,852	21,338	20,688	926	902	951,288	930,079
Industrial & commercial <10TJ	22,355	21,823	9,658	9,486	4,886	5,243	978	949	97	96	37,974	37,597
Industrial & commercial >10TJ	232	230	183	184	74	80	11	11	1	1	501	506
Total consumers(i)	510,244	498,098	378,931	371,262	77,237	76,175	22,327	21,648	1,024	999	989,763	968,182

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

Gas Delivered (TJ)

	Victoria		South Australia		Queensland		New South Wales		Northern Territory		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Domestic, industrial & commercial <10TJ	30,838	32,309	10,602	11,564	2,084	2,094	1,179	1,282	64	68	44,767	47,317
Industrial & commercial >10TJ	22,705	23,012	25,833	25,812	13,942	12,708	2,378	2,234	3,271	3,212	68,129	66,978
Total gas delivered	53,543	55,322	36,435	37,376	16,026	14,802	3,557	3,515	3,335	3,280	112,896	114,295

Assets

	Victoria		South Australia		Queensland		New South Wales		Northern Territory		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
New mains (km)	262	237	90	107	47	36	5	7	1	0	405	388
New inlets	13,089	12,119	8,659	9,312	2,196	1,383	670	624	-	19	24,614	23,457
Replacement mains (km)	64	45	75	84	40	36	-	-	-	-	179	166
Total mains (km)	8,944	8,594	7,591	7,492	2,443	2,408	581	556	36	35	19,595	19,085
Transmission pipelines (km)	208	205	373	373	284	284	20	20	147	147	1,032	1,029

Glossary of Terms

AIFRS
Australian equivalents to International Financial Reporting Standards.

Access Arrangement
An arrangement for access to a distribution network 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 to deliver natural gas.

APA
Australian Pipelines Group and APA Asset Management.

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

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

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

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

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

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}.

Burton Nesbitt Graphic Design


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