ENVESTRA
ANNUAL REPORT
2011

We delivered natural gas to over one million consumers throughout Australia in 2010-11. Despite natural disasters in Queensland, New South Wales and Victoria we continued to provide a reliable supply to almost all our consumers, sustained only minor damage to our networks, and more broadly, delivered record gas volumes, revenues and financial results.

CONTENTS

Chairman's and Managing Director's review	2
Our long-term assets	8
Financial review	10
Sustainability	12
Board of Directors	16
Management team	18
Corporate governance	20
Financial and statutory information	32
Directors' report	32
Remuneration report	35
Financial statements	43
Shareholder information	81
Glossary	83
Network Statistics	84

FINANCIAL CALENDAR[1]

2011 Annual General Meeting	20.10.2011
Final dividend paid	28.10.2011
Half-year financial results announced	24.02.2012
Interim dividend paid	27.04.2012
Full-year financial results announced	25.08.2012
2012 Annual General Meeting	31.10.2012

(1) Dates subject to confirmation

THE 2011 ANNUAL GENERAL MEETING OF ENVESTRA LIMITED (ACN 078 551 685) WILL BE HELD AT 10:00AM ON THURSDAY, 20 OCTOBER 2011 AT THE ADELAIDE CONVENTION CENTRE, NORTH TERRACE, ADELAIDE.

2011 OVERVIEW

RECORD FINANCIAL PERFORMANCE

Revenue of $424.2 million (up 11%)

Profit after tax of $45.0 million (up 21%)

Cash flow from operations of $136.2 million (up 16%)

CAPITAL EXPENDITURE PROGRAM

Total capital expenditure of $129.2 million (up 32%)

26,700 new consumer connections

511 km of new and replacement mains

COUNTRY ENERGY ACQUISITION

First acquisition since 1999 (26,500 consumers)

Good strategic fit – immediately financially positive

Expands presence in New South Wales

RETURNS TO SHAREHOLDERS

41% increase in share price

5.5 cents per share dividend

Dividend forecast to increase in 2011-12

KEY REGULATORY DETERMINATIONS

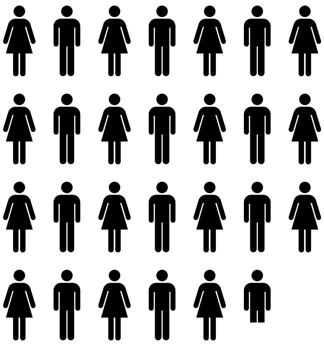
Improved regulatory outcomes for South Australian and Queensland networks - regulatory certainty for the next five years

Significant increases in revenue and capital expenditure anticipated from 2011-12

CHAIRMAN'S AND MANAGING DIRECTOR'S REVIEW

NEW CONSUMER CONNECTIONS

26,700



Whilst the Country Energy acquisition in October 2010 included some 26,500 consumers, a further 26,700 new consumers were connected to the Company's networks, adding around $8 million per annum to future revenue.

It is pleasing to report that in 2010-11 our Company recorded its highest pre-tax profit ($64.9 million) since listing on the ASX in 1997 and indeed, its second highest bottom line ($45.0 million), only exceeded in 2008 when a one-off, non-cash tax benefit arose. Cash flow from Operating Activities ($136.2 million) was also at a record level, only exceeded in 2004 when a one-off grant of $55 million was received from the South Australian Government.

Envestra's market value increased substantially during the year to just over $1 billion, up 50%, with the share price moving from 49 cents on 1 July 2010 to 69 cents at 30 June 2011, an increase of 41%. Some $44 million of new equity was contributed by shareholders, including support from our two major shareholders, APA and Cheung Kong Infrastructure, participating in the two Dividend Re-investment Plans in October 2010 and April 2011.

Strong core business growth was founded on a substantial capital expenditure program over recent years, with expenditure in the current year at a record $129.2 million. Our Company added 26,700 new consumers to its networks, also a record. We completed an acquisition with the purchase of Country Energy's gas networks located in southern New South Wales, principally in Wagga Wagga.

Our operator, APA Asset Management, faced a number of challenges during the year, including dealing with the impact of severe floods in Wagga Wagga, Queensland and Victoria, all of which affected the gas networks to differing degrees. We were fortunate in that only relatively minor damage to our networks occurred. Only a small number of consumers suffered gas supply interruptions and no lost-time injuries arose despite the huge extra manpower effort that was required in difficult circumstances to protect our assets and maintain reliable supplies to consumers.

We were again active in the capital markets, with two US Private Placements completed. A 17-year, $172 million bond was issued in July 2010, and a further $350 million of 10, 12, and 30-year bonds were issued in June and July 2011. In May 2011 we repaid $174 million of maturing 10-year bonds. We were also successful in securing a $100 million loan facility with the National Australia Bank which means that Envestra now has relationships with all four of the major Australian trading banks.

We continue to expand our networks with a record 26,700 new consumer connections.

The Group had total borrowings of $2.1 billion at 30 June, with a gearing level (based on net debt and market value of equity) of 68%, down from 75% at the beginning of the year. The average age to maturity of the Group's debt has been extended to 11 years as at 31 July 2011. Unused bank credit lines of $267 million were in place at 31 July 2011.

The Dividend Reinvestment Plan was again well supported by shareholders, with around 3,000 shareholders (17% of all shareholders) participating in the October 2010 and April 2011 issues, representing 60% of the issued capital. The Company's two major shareholders, Australian Pipeline Ltd (APA) and Cheung Kong Infrastructure Holdings (Malaysian) Ltd participated in both issues, raising their holdings in Envestra to 33% and 19.5% respectively.

Regulatory Re-sets for South Australia and Queensland

Envestra's monopoly position as a gas distributor is subject to price regulation by the Australian Energy Regulator (AER). The appropriate implementation of the regulatory regime, consistent with the objectives of the National Gas Law, is critical to Envestra's ability to fund its business and secure its future success. The AER reviews the Company's Access Arrangements at five-yearly intervals under the National Gas Law and Rules. This process determines future revenues and, as a consequence, tariffs, as well as contractual terms for retailers and some large volume customers over the following five years.

Separate Access Arrangements are in place for each of the major networks, with those for South Australia and Queensland having been revised as from 1 July 2011. These two networks comprise just over 50% of our total business.

Considerable effort and resources were devoted during the course of 2010-11 to securing an improved regulatory outcome for these businesses. The process involved putting a detailed submission (which contained over 10,000 pages of material, including independent consultants' reports and detailed economic and operational evaluations) to the AER in October 2010 to justify our claims in respect to the appropriate rate of return on assets; the required level of operating activities and associated costs over the forthcoming five-year period; the required capital expenditure over that time to sustain and grow the networks; and the required tariff increases.

The AER issued its Final Determinations in June 2011. Those decisions will give rise to material increases in Envestra's revenues in the coming years. Whilst price increases to consumers are regrettable, the AER recognised the substantial increases in capital funding costs that gas networks (and others) face in the aftermath of the global financial crisis, as well as the substantial capital expenditure program that is required in the coming years to maintain the reliability of the networks and the augmentations that are anticipated to cope with the expanding population and continued suburban growth.

Whilst we were generally satisfied with most of the AER's determinations, there are a number of important matters that we believe have been inadequately assessed by the Regulator, or are simply in error. We have therefore lodged an appeal with the Australian Competition Tribunal (ACT) to have these matters reviewed. The decision of the ACT is expected to be handed down in early 2012. Further revenue increases will occur if the ACT decides in our favour.

The existing Victorian and Albury Access Arrangements are due to expire in December 2012 and work is currently underway on our submissions to be put to the AER in March 2012. We expect many of the key issues decided in the course of the South Australian and Queensland determinations will be replicated by the AER in Victoria, so are therefore hopeful of an appropriate revenue outcome for the Victorian and Albury businesses over the next five-year period.

Country Energy Gas Networks Acquisition

We reported in October 2010 our agreement with Country Energy to acquire its gas networks in southern New South Wales for $108.7 million. The networks comprise 1,170 kilometres of gas distribution pipelines and 65 kilometres of transmission pipelines covering the towns of Wagga Wagga, Tumut, Adelong, Gundagai, Culcairn, Holbrook, Henty, Temora, Walla Walla, Bombala and Cooma. The networks deliver around three petajoules of gas annually to 26,500 gas consumers.

Operation of the network was initially undertaken under a "Transitional Services Agreement" with Country Energy, but this was largely taken over in respect to most operational activities by APA Asset Management on 1 April 2011. Certain consumer transaction processes continued to be completed by Country Energy (now known as "Essential Energy") through to July 2011, when responsibility for all activities was assumed by APA.

Apart from difficulties associated with flooding that occurred in November 2010, together with a temporary loss of supply to the town of Cooma that occurred due to an asset malfunction in March 2011, the operation of the network has gone essentially to plan with APA management integrating the business with existing operations in Albury and Victoria in an efficient and enterprising manner.

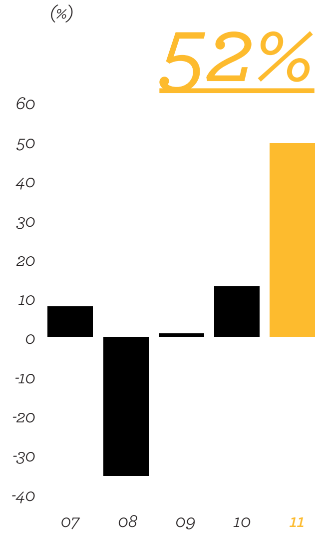
Several major unregulated commercial contracts were due to expire in the early part of 2011, and these have now been extended for up to 10 years on terms comparing favourably to what we had forecast in our pre-sale due-diligence process. A significant portion of this business is subject to regulation by the AER, with the Access Arrangement extending to June 2015, so there is a high degree of certainty in respect to the level of revenues expected over the next several years.

The acquisition was funded through a separate Envestra subsidiary outside our existing secured financing arrangements, using a combination of equity and a one-year bank loan. We were successful in February 2011 in having our financiers consent to bringing Envestra (NSW) Pty Ltd into the Envestra Group financing arrangements (governed by the "Inter-Creditor Deed Poll"), and this in turn has enabled the acquisition facility to be re-financed through our normal credit facilities. Repayment of the $65 million acquisition facility occurred in July 2011 using proceeds from the US Private Placement which settled at that time.

In summary, integration of the regional NSW business is proceeding in accordance with our expectations, with the new networks making a better than expected, albeit modest, contribution to the Group's financial performance.

*ANNUAL RETURN TO SHAREHOLDERS**

(%)

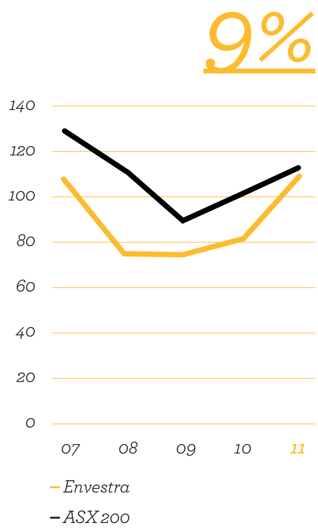


The Return to Shareholders of 52% comprised a share price appreciation of 41% together with dividends totalling 5.5 cents. Envestra recorded the best return of any ASX listed Company in its sector in 2010-11.

**Annual return to shareholders includes dividends and capital gains/(losses).*

FIVE-YEAR TOTAL SHAREHOLDER RETURN

(%) Cumulative




JCB
111

Capital Expenditure Program

The Company completed its largest ever capital expenditure program in 2010-11, with $129.2 million spent on network extensions, mains replacement, capacity augmentations and meter changeovers. During the year, 275 kilometres of new mains were laid and 236 kilometres of old mains were replaced. We also completed important initiatives including the Dandenong to Crib Point Stage 2 looping project in Victoria, the Fosters Road mains upgrade project in Adelaide, a range of mains alterations projects in the Docklands in Melbourne, Cox's Bridge in Gippsland, Victoria, Peninsula Link on the Mornington Peninsula, Airport Link in Brisbane and relocation of a pipeline for the Department of Transport and Infrastructure in Adelaide where various road upgrades necessitated major alterations. A number of information technology upgrades were also progressed with upgraded works maintenance systems expected to be completed in 2011-12.

The $129 million program represented a $31 million increase over the previous year. The expenditure is added to our Regulatory Asset Base in accordance with the National Gas Law and Rules, and as such, enhances our revenues in future years.

Consistent with our submission to the AER in respect to our South Australian and Queensland businesses, a significant increase in capital expenditure is anticipated in the next five years, with annual Queensland and South Australian capex alone expected to amount to over $100 million annually. We are forecasting capex in 2011-12 of around $200 million across all the networks and including some substantial non-regulated projects.

Envestra completed its largest capital expenditure program ever in 2010-11 with $129 million spent on network extensions and other upgrades.

This enhanced capex program is only possible if satisfactory regulatory rates of return are allowed by the AER. In respect to our recent South Australian and Queensland decisions, we are undertaking a legal challenge of certain components of the Weighted Average Cost of Capital (WACC) formula that have been adopted by the AER to determine the rate of return.

The program also will depend on being able to access funding in capital markets at suitable costs. Given that these types of investments have very long-term lives, we are mindful of the need to secure long-term funding at costs aligned with the costs approved by the AER in its regulatory determinations.

The augmented capital expenditure program will generate considerable increases in revenues over coming years. The investments will place the network business in a strong, sustainable position over the long-term, with reduced gas leakage (and associated reductions in maintenance costs) and providing a reliable gas supply to consumers.

Operator Performance

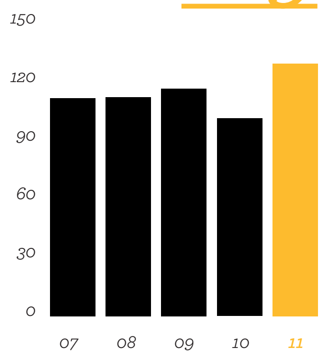
APA Asset Management, as operator of our networks, performed well during 2010-11. Whilst overall operating costs increased 8%, the majority of the increase related to acquisition and operating costs associated with the Country Energy business, and increases in the provision for remediation costs of various sites previously used for manufacturing gas from coal many years ago. On an "underlying" basis, operating costs increased by only 3%, a reflection of the "Project LEAP" initiative undertaken by APA during the year to improve various business processes and secure spending efficiencies.

Safety performance for APA's 1,100 employees and contractors continued to improve with five Lost Time Injuries recorded compared with 11 in the previous year, reflecting an Injury Frequency Rate of 4.0 per million hours worked. This is a commendable improvement and is testament to the considerable focus that APA management and staff have had on safety over recent years.

CAPITAL EXPENDITURE

$MILLION

129

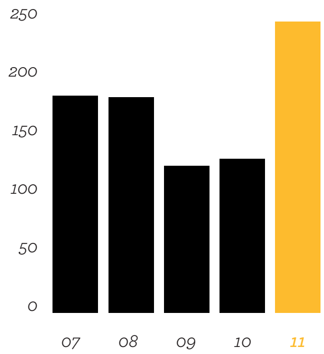


Record levels of expenditure were committed in 2010-11 upgrading our assets and installing new networks. The majority of our investments are growth orientated, with the remainder spent on replacing old assets.

MAINS REPLACEMENT

KM

236



Over the past decade we have replaced over 1,500 kilometres of old cast iron and steel pipes by inserting smaller, higher pressure, polyethylene pipes in the redundant pipes. The increase in mains replaced in 2010-11 will continue in 2011-12 as we strive to upgrade the majority of our old mains over the next five to seven years.

Image opposite
Superhighway development, Adelaide, South Australia.

Image above
Television commercial shoot for natural gas, on location at Hazelwood Park, South Australia.

Natural Gas Promotional Activities

Governments both Federally, and in all States, have spent considerable effort in recent years promoting the use of alternative energies, particularly solar water heating, photovoltaic and wind-generated electricity, with a view to reducing national carbon emissions. Policy has also been directed to improving energy efficiency through mandating improved building standards, subsidising home insulation costs and other similar measures.

Whilst we support initiatives aimed at reducing energy wastage, policies directed at subsidising more expensive energy sources such as solar rebates and feed-in tariffs serve to put competitive pressure on natural gas connections, appliance purchases and customer usage of natural gas. The result, over several years, has been declining household usage of natural gas, particularly in South Australia and Victoria.

These policies have been implemented despite the fact that natural gas produces considerably lower carbon emissions than most other energy sources, particularly given over 80% of electricity in Australia is generated from coal-fired generators. Increased usage of natural gas over the coming decades is widely recognised as an essential part of the long- term solution to greenhouse gas abatement.

In response to the deteriorating competitive position of natural gas arising from these government policies, we decided in 2010 to step up our marketing program, initially in South Australia and regional New South Wales, and gradually rolled it out in Victoria and Queensland. The program involves television and radio advertising, customer rebates for gas appliance purchases, improved gas connection processes via the internet, support for plumbers, and certain sponsorship activities.

We are already seeing material benefits from this strategic initiative, with higher levels of connections to both new and existing homes, and improvements in household volumes in particular areas. The success in 2010-11 has encouraged us to continue the program into 2011-12.

Dividend Policy

Our Board has been conscious that the existing dividend of 5.5 cents per share has been in place for some years. We have previously said that consequent to the global financial crisis and the attendant lowering of the Group's credit rating to BBB minus by Standard & Poor's (Moody's rating has always been held at Baa2), there was a need to retain cash in the business to reduce gearing levels and assist with the funding of the capital expenditure program.

Whilst we are yet to see a ratings upgrade from S&P, we believe that with the increased revenues associated with our recent regulatory determinations, the Group should achieve metrics consistent with S&P's requirements for a BBB rated network business in 2012. Cash flow coverage of dividends paid in 2010-11 was 1.7 times.

With this position in mind, the Board decided in August 2011 to increase dividends per share by 5.5% in 2011-12 to 5.8 cents, commencing with a 2.9 cent dividend payable on 28 October 2011. The increase reflects the strengthened financial prospects for the Company and provides an appropriate reward for our long-term shareholders who have seen no dividend increase since May 2009. Notwithstanding this, it is a modest increase that recognises the Board's objective of securing a ratings upgrade to BBB from Standard & Poor's, with the additional cash expenditure on dividends not expected to have a material impact on key credit metrics. Cash flow coverage of dividends in 2011-12 is expected to be maintained at around 1.7 times.

Organisation and Staffing

Envestra's network operations are largely outsourced to APA Asset Management. Envestra's management team oversees those activities undertaken by some 1,100 employees and contractors working for APA. Once again, we put on record our appreciation of the effort and commitment by all these people in ensuring the safe and reliable operation of the networks and the provision of the essential support services that are fundamental to the success of our business. In particular, we note the considerable extra efforts by those working through the Queensland, Victorian and New South Wales floods to ensure our networks were protected and the vast majority of consumers continued to receive uninterrupted natural gas supply.

Envestra's management team comprises experienced professionals with significant expertise across financial, regulatory, commercial and engineering disciplines. The success of the business in securing capital funding, in financial management and reporting generally, and in managing our regulatory and commercial requirements, is a reflection of the dedication and professionalism of this group.

On behalf of the Board, we take the opportunity to thank our employees, and those of APA involved in our network business for their contribution to ensuring that Envestra achieved its operational objectives and saw a significant growth in the value of the Company during the course of 2010-11.

John Allpass

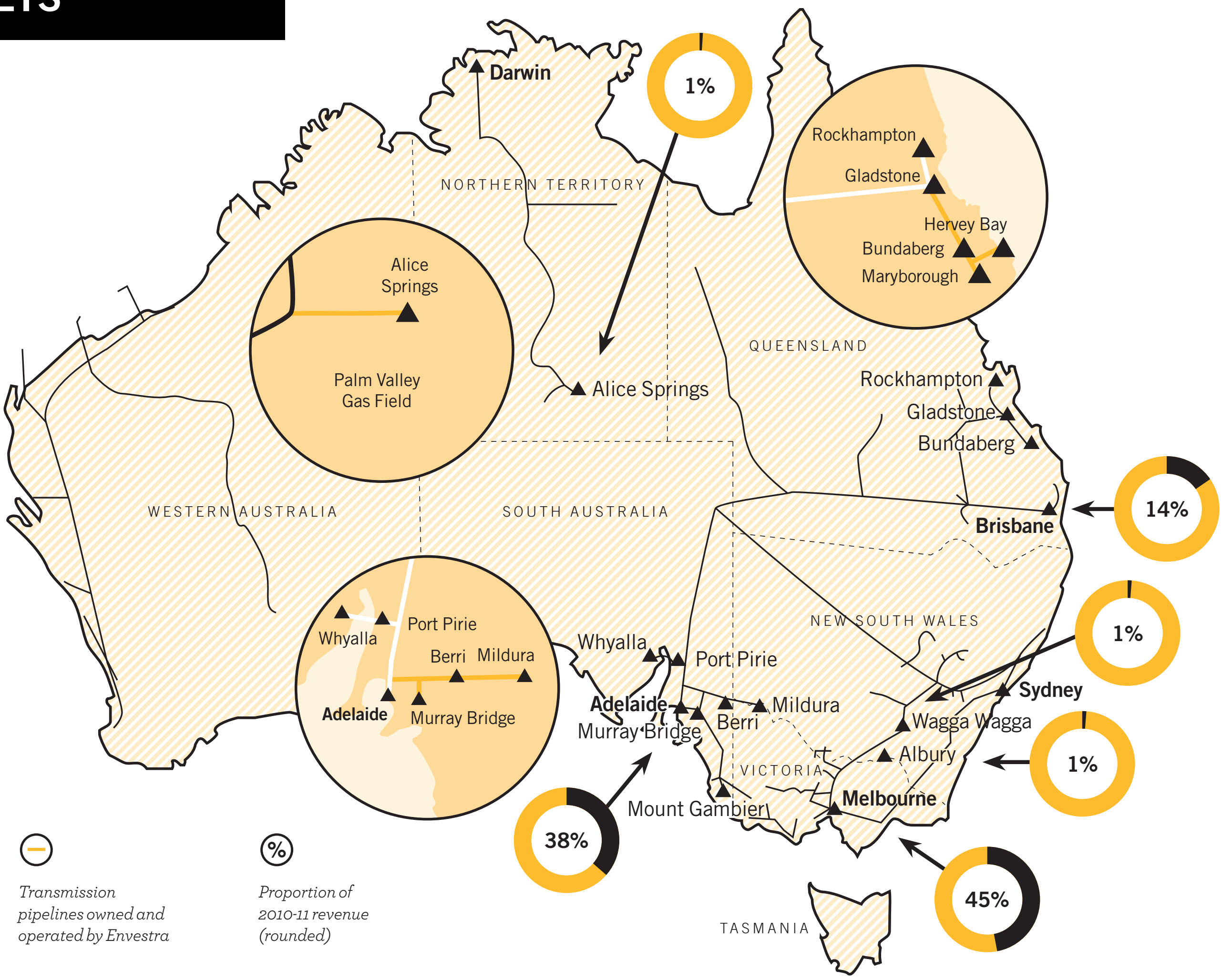
J G Allpass
Chairman

Ian Little

I B Little
Managing Director

25 August 2011

OUR LONG-TERM ASSETS



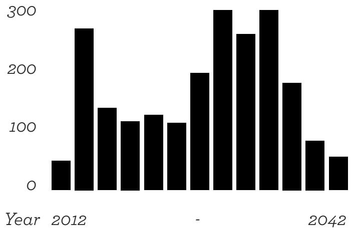
	SA	VIC	QLD	NSW	NT
Metropolitan networks	Adelaide	Melbourne	Brisbane		
Regional networks	Whyalla Port Pirie Mt Gambier Riverland	Mildura Shepparton Wangaratta Wodonga Moe Morwell Traralgon Sale Bairnsdale	Rockhampton Bundaberg Maryborough Hervey Bay	Albury Wagga Wagga	Alice Springs
Transmission pipelines	Riverland (including Mildura and Murray Bridge)	12 short-length pipelines	Wide Bay	Wagga Wagga region	Palm Valley
Distribution networks	8,000 km	9,800 km	2,600 km	1,800 km	40 km
Consumers	410,000	565,000	87,000	51,000	1,100
Transmission pipelines	372 km	225 km	284 km	84 km	153 km
Contribution to 2010-11 EBITDA	$110m	$127m	$45m	$8m	$3m

Image opposite
Robinsons Road transmission main alteration, Frankston, Victoria.

FINANCIAL REVIEW

DEBT MATURITY PROFILE

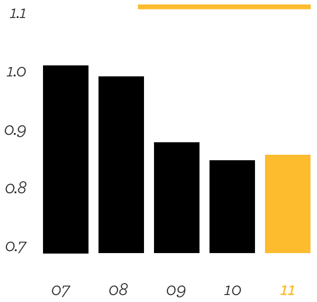
$MILLION



Envestra's financing strategy for many years has been to extend the duration of its debt portfolio. The average maturity at 31 July 2011 was 11.1 years.

DEBT TO REGULATED ASSET BASE (RAB)

0.86



The continued increase in funding of growth capital expenditure from surplus cash flow will further improve this gearing measure.

Profit after tax – $45 million ($37.2 million in 2009-10)

Envestra's revenue excluding interest, which is generated mainly from the delivery of natural gas for retailers, was $424.2 million, up $41.5 million on the previous year. The improvement in revenue was due mainly to an increase in gas distribution volumes, particularly in the southern States which was a result of significantly cooler weather than the previous year. Increases in distribution tariffs across all three major States (South Australia, Victoria and Queensland), as well as revenue from the 26,700 new consumers added to the Company's networks' revenue. In addition, $8.1 million of revenue was generated from the recently acquired Country Energy Gas networks in southern New South Wales.

A significant increase of 16% in cash flow in 2010-11 was largely due to strong volume growth.

Cash flows – $136.2 million ($117.1 million in 2009-10)

Dividends to shareholders amounted to $77.5 million, up $4.5 million on the prior year, due to the increased number of shares on issue resulting from new shares issued under the Dividend Re-investment Plan. The remaining $58.7 million of operating cash flow was available to fund the $129.2 million capex program. The balance of the capex program was financed by a combination of equity raised during the year, and debt drawdowns. Cash flow cover of dividends, after financing costs and stay-in-business capital expenditure, was 167%.

Capital expenditure – $129.2 million ($97.8 million in 2009-10)

Capital expenditure was $129.2 million, an increase of $31.4 million on the previous year. Around $114 million was spent on growth projects and $15 million on replacement of "old" mains and other "stay-in-business" activities.

Treasury

The Company's cash balances are normally maintained at modest levels to minimise debt and enhance returns to shareholders. At 30 June 2011, the cash balance was $7.3 million ($6.4 million at 30 June 2010).

The Company had available unused bank credit lines of $140 million at year end. At 31 July 2011, unused bank credit lines had risen to $267 million as a result of the issuance of a further $242 million of US Private Placement Notes, the proceeds of which were used to repay short-term bank loans.

During the year, debt increased by $140.6 million to $2,149.2 million. $65 million of this increase was used to partly fund the acquisition of Country Energy Gas Networks Pty Ltd.

The average loan duration for the Envestra Group, at 31 July 2011, was 11.1 years.

Envestra's gearing level was 74% at year-end with gearing defined as net debt divided by total non-cash assets. It was 68% where gearing reflects the market value of the Company at 30 June 2011. Whilst the level of gearing is relatively high compared to industrial and property companies, it is considered appropriate in the context of the reliable cash flow expectations that are associated with a regulated monopoly service provider.

Credit rating

Envestra's credit rating with Standard & Poor's of BBB-/A-3 was affirmed in March 2011, and the long-term ratings outlook was maintained as stable.

In May 2011, the Moody's rating of Baa2 Outlook Stable was reaffirmed.

The Moody's Baa2 rating is equivalent to Standard & Poor's "BBB" rating.

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

SUMMARY OF CASH FLOWS ($M)

	2011	2010	2009	2008	2007
Net operating cash flow before borrowing costs	**297.2**	**260.5**	**257.4**	**230.2**	**226.1**
Net borrowing costs	(161.0)	(143.4)	(135.1)	(135.4)	(106.9)
Cash flow from operating activities	**136.2**	**117.1**	**122.3**	**94.8**	**119.2**
Proceeds from sale of land / assets	7.8	1.0	1.0	-	2.4
Replacement capital expenditure	(14.9)	(10.7)	(18.4)	(16.8)	(18.7)
Available for distribution	**129.1**	**107.4**	**104.9**	**78.0**	**102.9**
Distributions / dividends	(77.5)	(73.0)	(75.8)	(81.7)	(77.7)
Contribution to growth capital expenditure	**51.6**	**34.4**	**29.1**	**(3.7)**	**25.2**
Growth capital expenditure	(114.3)	(87.1)	(94.1)	(91.5)	(89.1)
Cashflow available pre-debt / equity re-financing	**(62.7)**	**(52.7)**	**(65.0)**	**(95.2)**	**(63.9)**
Debt (drawdowns net of repayments)	130.5	21.0	(70.2)	60.3	6.3
Acquisition of subsidiary	(108.7)	-	-	-	-
Equity raising	44.3	42.3	133.9	34.6	43.0
Capital raising costs	(2.5)	(10.4)	(3.3)	(0.3)	(0.4)
Change in cash	**0.9**	**0.2**	**(4.6)**	**(0.6)**	**(15.0)**
Opening cash	**6.4**	**6.2**	**10.8**	**11.4**	**26.4**
Closing cash	**7.3**	**6.4**	**6.2**	**10.8**	**11.4**

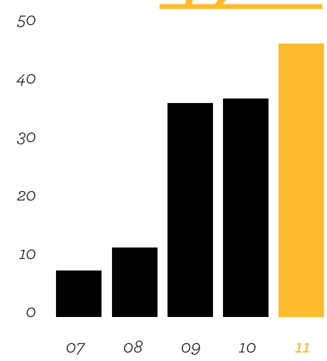
INCOME STATEMENT ($M)

	2011	2010	2009	2008	2007
Revenue / income (excluding interest received)	**424.2**	**382.7**	**388.1**	**344.5**	**344.5**
Operating costs	(131.3)	(121.8)	(113.1)	(111.2)	(108.4)
EBITDA	**292.9**	**260.9**	**275.0**	**233.3**	**236.1**
Depreciation / amortisation / impairment	(53.4)	(53.0)	(63.0)	(59.7)	(58.3)
Profit before net borrowing costs and income tax	**239.5**	**207.9**	**212.0**	**173.6**	**177.8**
Net borrowing costs	(174.6)	(156.3)	(157.3)	(143.3)	(134.3)
Profit before interest on loan notes	**64.9**	**51.6**	**54.7**	**30.3**	**43.5**
Interest on loan notes	-	-	(2.3)	(10.8)	(18.2)
Profit before income tax	**64.9**	**51.6**	**52.4**	**19.5**	**25.3**
Income tax	(19.9)	(14.4)	(12.1)	144.1	(28.3)
Profit / (Loss) after income tax	**45.0**	**37.2**	**40.3**	**163.6**	**(3.0)**

UNDERLYING PROFIT AFTER TAX

$MILLION

47.6

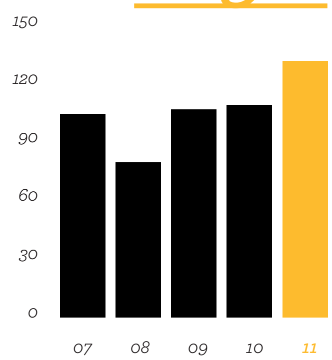


The Company recorded an underlying profit after tax of $47.6 million, marking another year of steady improvement.

CASH FLOW AVAILABLE FOR DISTRIBUTION

$MILLION

129.1



A key measure of our success is cash flow available to pay dividends to shareholders. Cash flow was 1.7 times dividends in 2010-11.

SUSTAINABILITY

A major focus of Envestra is sustainability. Sustainability is about the prudent, long-term management of our business to ensure we deliver value for our shareholders, employees, consumers and the community – today and tomorrow.

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

Envestra's company objectives are intrinsically linked to its sustainability intent and are embedded in the key sustainability focus areas outlined above. A summary of performance in 2010-11 against these operational objectives is provided on the following pages. Envestra delivered improved sustainability performance in many areas including:

- Returns to shareholders.
- Safety performance of our operator.
- Promotion of our Company and natural gas.
- Increased levels of mains replacement.
- Support of various charitable, arts and sporting organisations.

Sustainability is about the prudent, long-term management of all aspects of our business.

Environment

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

While natural gas is a fossil fuel, it is more greenhouse efficient than either coal or oil. Consequently, natural gas is widely recognised as a fuel with potential to contribute significantly to lower greenhouse gases (GHGs). Examples of the benefits of natural gas as an energy provider are as follows:

- Gas hot water systems produce about one third of the GHGs compared with electric systems.
- Gas heaters produce less than half of the GHGs of equivalent electric models.
- Gas cook tops produce less than half of the GHG emissions of standard electric units.
- Gas heat pump air conditioners produce approximately 30% fewer GHGs than electric units.

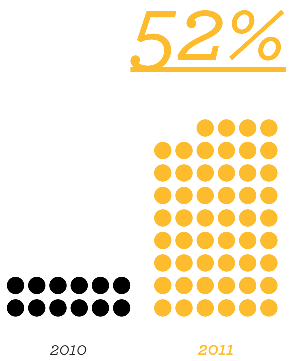
Envestra has played a key role in promoting the use of natural gas through advertising and network development programs, particularly through direct promotional activities with land and property developers and builders, as well as gas connection and appliance installation incentives to consumers and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

In order to realise the potential for natural gas, there is a need to expand the footprint and the capacity of our networks. This is necessary so that natural gas optimises its contribution to the solution to climate change and a sustainable energy future, as well as meeting the demands of consumers.

Image opposite
Mains replacement, Foster's Road, Northgate, South Australia


YANMAR

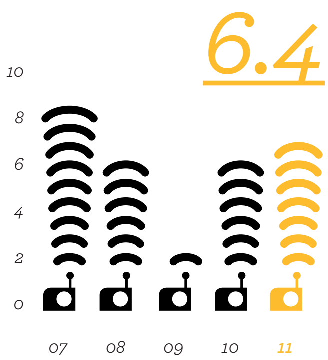
SHAREHOLDER RETURNS



Total shareholder return for 2010-11 was 52%, comprising a 41% share price increase and a dividend yield of 11%. This was a significant improvement on the previous year where the total return was 12.3%.

MARKETING EXPENDITURE

$MILLION



Whilst our marketing expenditure was restricted during the GFC, we are now again focused on promoting the use of natural gas.

OPERATIONAL OBJECTIVES	2010-11 PERFORMANCE
Shareholders	
Achieve acceptable long-term returns to our shareholders	Total shareholder returns for 2010-11 were 52%, comprising a 41% share price increase and a dividend yield of 11%. This was a significant improvement on the previous year where total returns were 12.3%.
Continue business growth through network expansion and making appropriate acquisitions	Record amounts of capital expenditure were recorded in 2010-11 with $129 million spent on new gas mains and connections, replacing old mains and maintenance of the networks. In October 2010, the Company further expanded its networks by acquiring the gas distribution business from Country Energy in southern New South Wales. Key aspects of the year's outcomes were as follows: • 275 kms of new mains were laid, bringing total mains to over 23,000 kms. • $47 million was spent on connecting 26,700 new consumers to Envestra's gas networks. This brought total consumers to 1.114 million, adding around $8 million in annual revenue. • Acquired Country Energy's NSW gas business in October 2010 for $108.7 million.
Maintain the integrity of the Company's gas networks	During the year 236 kms of old cast iron and steel mains throughout our networks in South Australia, Victoria and Queensland were replaced at a cost of $35 million. This expenditure is expected to deliver long-term benefits to Envestra, by reducing operating costs in the future and reducing gas leakage.
Maintain robust risk management and corporate governance functions	• The Company, through its Executive Risk Management Committee, undertook comprehensive risk management assessments on two occasions during the year. These assessments aim to identify key business risks and ensure appropriate control mechanisms or other actions are in place to minimise exposures. • Our internal audit program is conducted by KPMG and focuses on controls associated with major risk areas. During 2010-11 KPMG undertook reviews of Envestra's compliance with its Treasury Policy, cashflow forecasting, capital project management and procurement by APA under the Operating and Management Agreements, Envestra's IT security and APA's reporting framework to Envestra. • Corporate Governance practices were consistent with Corporate Governance Principles issued by the Australian Securities Exchange.
Environment	
Promote the use of natural gas, the most environment-friendly fossil fuel	In 2010-11 Envestra continued the expansion of its marketing program focusing primarily on securing higher gas consumption from existing homes. The new campaign, promoting the use of natural gas, has resulted in positive outcomes for the Company, with increases in new central gas heaters and new hot water service installations. A total of $6.4 million was spent on advertising, incentive and sponsorship initiatives.
Deliver natural gas to our consumers in a manner that has minimal effect on the environment	• Envestra's operations are conducted under the relevant environmental protection Acts and Regulations and associated legislation in South Australia, New South Wales, Queensland, Victoria and in the Northern Territory. No material breaches of the Company's environmental obligations occurred during the year and there were no significant environmental incidents. • During the year two environmental audits and seven environmental emergency response exercises were conducted on our networks. These activities did not identify any major issues.

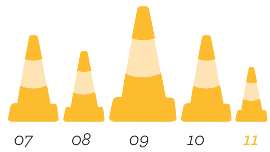
OPERATIONAL OBJECTIVES	2010-11 PERFORMANCE
Employees	
Maintain a work environment for our employees and contractors that encourages innovation and professionalism	Envestra and APA Asset Management promote skills enhancement of employees and contractors through Company funded training programs. This includes tertiary courses, specialised training and attendance at industry conferences.
Promote safety in the workplace	• Management of occupational health and safety associated with the Company's operations continued to receive close attention. Our major contractor, APA, has more than 1,100 employees and contractors working for Envestra. APA achieved targeted improvements in its safety performance over the past 12 months. • During the year, two lost-time injuries were sustained by APA employees, and three among contractors. These compare with five and six respectively in the previous year. • APA's focus is on the frequency of lost-time and moderate injuries, defined as the Serious Injuries Frequency Rate (SIFR) and a range of activities aimed at preventing injuries. A SIFR of 4.0 for employees and contractors was recorded in 2010-11, compared with 10.5 in 2009-10.
Customers	
Provide outstanding service to our retail and commercial consumers that ensures continuing growth in connections and gas deliveries	• Around 70 complaints were received from the Energy Ombudsmen across all States in relation to the Company's assets and activities. This represents a sound performance as more than one million consumers are connected to our networks. • In 2010-11, a further 26,700 consumers were connected to our gas networks. 26,500 consumers were also added via the Country Energy acquisition.
Community	
Develop strategic partnerships to promote the benefits of natural gas, and build and maintain business relationships and generate new growth opportunities	• Envestra provided financial support to a range of community organisations in 2010-11, including the South Australian State Theatre, various sporting organisations, including the Port Adelaide Football Club, the Hutt Street Centre and other charitable groups. • Envestra, through APA Asset Management (APA), undertakes strategic partnerships to promote the benefits of natural gas, to build and maintain business relationships, source market intelligence and generate new growth opportunities. • Partnerships undertaken in 2010-11 with a range of key market participants included the: - Housing Industry Association - Master Builders' Association - Plumbing Industry Association - Urban Development Institute of Australia - Property Council of Australia - Australian Land Development Engineers - Australian Institute of Air Conditioning and Heating. 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.

SAFETY STATISTICS

LTIs

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

5



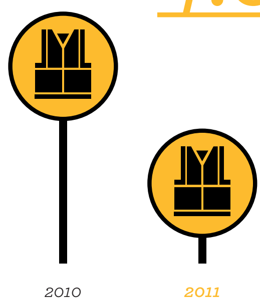
Our major contractor, APA, has over 1,100 employees and subcontractors working for Envestra. APA's increased effort delivered an improvement in employee safety.

SAFETY STATISTICS

SIFRs

APA's focus is on the frequency of lost-time and moderate injuries defined as the Serious Injuries Frequency Rate (SIFR).

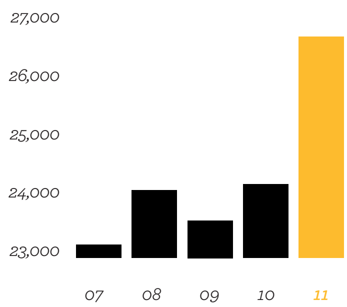
4.0



A SIFR of 4.0 for employees and contractors was recorded in 2010-11, compared with 10.5 in 2009-10.

NEW CONSUMER CONNECTIONS

26,700



Envestra's monopoly position in the Adelaide network and network locations in Melbourne's "growth corridors" in the North and South East of the city have ensured steady increases in new consumer connections.

BOARD OF DIRECTORS

Envestra's Board has extensive industry, banking and commercial experience. The Company benefits from also having on the board representatives of Australian infrastructure companies.

John Allpass* (70) FCA, FCPA, FAICD
Director since June 1997
Chairman of the Board (since 2002).
Chairman of the Remuneration Committee.
Chartered accountant with over 30 years' experience in the accounting profession.
Other Directorships: BUPA Australia Pty Ltd (since October 1999); BUPA Australia Holdings Pty Ltd (since May 2008); BUPA Australia Health Pty Ltd (since May 2008); BrisConnections Management Company Ltd (since May 2008); and Schiphol Australia Pty Ltd (since November 2010).
Alternate Directorships: BAC Holdings Limited; BAC Holdings No. 2 Pty Ltd; and Brisbane Airport Corporation Pty Ltd (since September 2009). He is a former Managing Partner, KPMG (Queensland) and member, KPMG National Board and former Director, Macquarie Bank Ltd (1994-2007); and Queensland Investment Corporation (1991-2008).

Ian Little (54) FCA, BCA, MBA, MAICD
Managing Director since April 2003
Chartered accountant with some 30 years' experience in the energy industry.
Other Directorships: Chairman, Australian Gas Industry Trust (since December 2006); Director and former Chairman, South Australian Botanic Gardens & State Herbarium (since July 2005); Director, Phoenix Society (since 2009); Member, University of South Australia Business Advisory Council (since May 2010); and former Deputy Chairman, Energy Supply Association of Australia.

Fraser Ainsworth AM* (65) B.Com, FCPA, FAICD
Director since February 2004
Member of the Audit and Risk Committee.
Member of the Remuneration Committee.
More than 30 years' experience in the Australian resources and energy sectors.
Other Directorships: Chairman, Horizon Oil Ltd (since December 2001); and Chairman, Tarac Australia Ltd (since January 2006 – Deputy Chairman from 1996-2005). He is a former Managing Director, SAGASCO Holdings Group (1988-1994) and Delhi Petroleum Pty Ltd (1983-1987); former Chairman, SA Generation Corporation (1996-2000) and Bionomics Ltd (1997-2004); former Director, Oil Search Ltd (2002-2010).

Image above
Directors pictured from left to right: Ivan Chan, Fraser Ainsworth, Michael McCormack, Ian Little, John Allpass, Dominic Chan, Olaf O'Duill, Ross Gersbach.

Dominic Chan** (49) FCPA, FCCA
Director since July 2005
Certified Public Accountant with over 25 years' experience in accounting and financial management. Executive Director and Chief Financial Officer, Cheung Kong Infrastructure Holdings Ltd.
Other Directorships: Former Director, Spark Infrastructure Group; Cambridge Water PLC; ETSA Utilities; Powercor Australia Ltd and CitiPower Pty Ltd.

Ivan Chan** (48) BSc, LLB, MBA
Director since August 2007
More than 20 years' experience in banking, investment and finance. Chief Planning and Investment Officer, Cheung Kong Infrastructure Holdings Ltd.

Ross Gersbach (50) B.Bus, CPA, MAICD
Director since July 2007
Member of the Audit and Risk Committee. Extensive experience in the infrastructure sector of the energy industry. He is Group Manager, Commercial, APA Group.
Other Directorships: Former Director, APA Group (2006-2008), Elgas Ltd (2004-2006) and ActewAGL (2004-2006).

Michael McCormack (50) B.Surv, Grad Dip Eng, MBA, FAICD
Director since July 2007
More than 25 years' experience in the infrastructure sector of the energy industry.
Other Directorships: Managing Director, APA Group (since July 2006) and Chairman of a number of APA subsidiary companies. He is a Director, Australian Pipeline Industry Association (since October 2004).

Olaf O'Duill* (64) B. Comm. (Hons), FAICD, SFFin
Director since July 2000
Chairman of the Audit and Risk Committee. Member of the Remuneration Committee. Extensive experience in financial markets.
Other Directorships: Former Chairman, National Electricity Market Management Company Ltd (1996-1999), Southern Healthcare Network (1995-1999), Amrad Corporation Ltd (2002-2004) and Tower Ltd (2000-2006). Former Director, McPhersons Ltd (1995-2003), Sigma Company Ltd (1995-2002), and Sunraysia Television Ltd (1992-2008).

* *Independent non-executive Director*
** *In most respects, other than matters directly involving Cheung Kong Infrastructure, their representatives on the Board are considered independent.*

MANAGEMENT TEAM

Ian Little (54) FCA, BCA, MBA, MAICD
Managing Director since April 2003

(see details on page 16 - Board of Directors).

Paul May (39) B.Acc, CA
Group Manager, Finance and Risk

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

Greg Meredith (43) B.Ec (Hons), MBA, F Fin
Group Manager, Treasury and Planning

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

Des Petherick (60) FIPA
Manager, Corporate Services and Company Secretary

More than 30 years' experience in the energy infrastructure industry. Former Group Manager, Corporate Services, South Australian Gas Company; and Secretary to various South Australian Government Ministers, including the Deputy Premier.

Andrew Staniford (55) M.Ec
Group Manager, Commercial

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

The management team at Envestra provides a combination of extensive experience in operational, financial and regulatory aspects of the gas distribution sector.

Outsourced operations

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

Image opposite
Management team pictured from left to right:
Des Petherick, Paul May, Ian Little, Greg Meredith, Andrew Staniford.

CORPORATE GOVERNANCE

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

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

The Company's framework largely complies with these recommendations (refer to the table on pages 30 and 31). Consistent with the Company's approach to sound corporate governance, opportunities for improvement are regularly considered.

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

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

(a) 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 (Malaysian) Ltd (CKI).

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

The APA Group and CKI Directors are not regarded as being independent under the ASX Corporate Governance Guidelines, as the organisations hold 33.0% and 19.5% respectively 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.

The existence of a shareholder with more than a 30% holding in the Company mitigates the non-independent status of CKI.

Envestra's Policy on Independence of Directors is available on the Company's website.

(b) Membership of the Board comprises:

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

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

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

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

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

Details of the members of the Board, their experience, qualifications and special responsibilities are set out on pages 16 and 17.

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

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

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

(c) Performance appraisal

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

(d) Board responsibilities

The most significant responsibilities of the Board include:

- Setting strategic objectives, long-term business plans and annual budgets.
- Regularly reviewing the operational and financial performance of the Company.
- Ensuring that the requirements are met of continuous disclosure to the investment market and security holders about the performance and activities of the Company.
- Ensuring that appropriate risk management systems are in place and reports on performance are regularly reviewed.
- Overseeing the Company's commitment to the health and safety of employees and contractors, the environment and sustainable development.
- Evaluating potential business development opportunities.
- Appointing the Managing Director and 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.

Our recent network acquisition is a commitment to growth and reinforces our position as Australia's largest distributor of natural gas.

(e) Delegated Authority

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

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

(f) Independence of Board members

Envestra's Constitution provides that Directors or their firms may act in a professional capacity for the Company, other than acting as an auditor for the Company. Disclosure of related party transactions is set out on pages 72 and 73.

APA Group entities connected with Mr M J McCormack and Mr R M Gersbach had dealings with the Company during the year. Almost all transactions were associated with the contractual arrangements under the Operating and Management Agreements entered into with Envestra. In respect to other matters

which arose with the APA Group during the year, in accordance with the Board's guidelines, the APA Directors declared their interest in those dealings to the Company and, after discussion, the remaining Directors determined whether the potential conflict of interest disqualified them from being present or voting on the matter.

(g) Resources available to the Board

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

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

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

(h) Remuneration of non-executive Directors

The maximum aggregate remuneration for non-executive Directors is set out in the Company's Constitution and can be varied only at a general meeting. Shareholders approved the current maximum aggregate remuneration of $900,000 per annum in October 2010. The amount paid in 2010-11 was $762,000.

Board fees were last reviewed with effect from 1 July 2010. The Chairman's fees are $180,000 and for other Directors they are $90,000. The Chairman of the Audit and Risk Committee receives a fee of $18,000 and other members $12,000.

Details relating to the remuneration paid to non-executive Directors appear on page 38.

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 is offset from the retirement benefit, when paid to Directors.

Image above
Mains replacement, Campbelltown, South Australia.

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

At 30 June 2011, the benefit payable on retirement of each non-executive Director was:

- Mr J G Allpass $185,012;
- Mr O B O'Duill $48,930.

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

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

(i) Board committees

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

Each of the Audit and Risk, and Remuneration Committees has its own charter setting out its role and responsibilities. The charters are approved by the Board and copies 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 for consideration.

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

(j) Audit and Risk Committee

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

Members of the committee are:

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

Each of the external and internal auditors, together with the Managing Director, Company Secretary and Group Manager, Finance and Risk, 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.
- Overseeing corporate governance.
- Reviewing compliance with corporate policies, controls and delegated authorities.
- Reviewing compliance with the requirements of energy regulatory bodies, including the approval of regulatory accounts.
- Considering the independence of the auditor and approving non-audit services during 2010-11 provided by the audit firm.

The Audit Committee's Charter is available on the Company's website www.envestra.com.au.

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 2009.

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

KPMG was appointed as internal auditor in 2002. The responsible audit partner rotated in late 2006, following the retirement of the incumbent partner.

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

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

(k) Remuneration Committee

Members of the Remuneration Committee must be non-executive Directors and consist of a majority of Independent Directors. The Committee is chaired by an Independent Director and consists of at least three Directors. The Managing Director is invited to attend meetings to discuss senior executives' performance and remuneration.

Members of the committee are:

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

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

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

The Committee, having regard to personal and corporate performance and relevant comparative information, reviews remuneration of the senior management team annually. The remuneration of senior managers is assessed, in part, by reference to a remuneration survey conducted by an external professional human resources consultant to which the Company as well as a large number of other energy infrastructure organisations subscribe. The survey is submitted to the Committee for consideration as part of the review of packages.

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

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

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

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

The Company's risk assessment program is designed to ensure strategic, operational, legal, financial and reputational risks are identified, assessed, addressed and monitored.

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

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

The Company does not operate an Employee Share Option Plan.

(I) Risk assessment and management

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

The Managing Director, Group Manager, Finance and Risk, and Company Secretary manage the Company's risk-management program in conjunction with the Executive Risk Management Committee.

The Board and Audit and Risk Committee have received an assurance from the Managing Director and the Group Manager, Finance and Risk that the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management.

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

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

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

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

(m) Indemnities

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

(n) Code of Conduct and Ethics

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

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

(o) Dealings in Envestra's Securities by Directors and employees

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

Directors and officers are also subject to the provisions of the *Corporations Act 2001* relating to conduct by a person in possession of inside information. A person possesses inside information if they know, or ought to reasonably know, that if the information were generally available a reasonable person would expect it to have a material effect on the price of Envestra's securities. Directors and officers in possession of inside information are prohibited from trading in Envestra's securities.

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

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

(p) Continuous disclosure and shareholder communication

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

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

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

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

Image opposite
Gas mains relocation as part of the Airlink Development, Brisbane, Queensland.


GAS
C52182
APA Group
DANGER
GAS
NO SMOKING

(q) Diversity

Envestra recognises the benefits arising from employee and Board diversity.

To the extent practicable, the Company has implemented the recommendations of the ASX Corporate Governance Council on diversity. However, with only 14 employees, there are inherent constraints on Envestra's ability to comply with all aspects of the guidelines.

Progress as at 30 June 2011 is as follows:

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

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

Disclose the policy on the entity's website:

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

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

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

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

(b) Progress: There are no females on the Board at present. Four of the seven non-executive Directors are nominees of Envestra's two largest shareholders: APA Group (33%) and Cheung Kong Infrastructure (19%). CKI has a right under Envestra's Constitution to appoint two Directors. Although these shareholders support Envestra's Diversity Policy, the ultimate responsibility for their nominees rests with APA and CKI.

We aim to have at least two female Directors of the eight member Board by 2014, subject to the constraints noted above.

Of the 10 senior executives/managers in the Company, one is a female. Of the total 14 employees, five (or 36%) are females.

Envestra contracts the operation and maintenance of its gas networks to APA Asset Management. APA has around 1,100 employees and sub-contractors working for Envestra. Of the 16 senior executives/managers within APA Asset Management as at 30 June 2011, five, or 31% were female. Across the entire APA workforce there were 137 females (or 26%).

The following corporate policies of Envestra support diversity:

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

Proportion of women in the whole organisation, in senior executive positions and on the Board:

POSITIONS WITHIN ENVESTRA	NUMBER OF WOMEN	%
Whole organisation (14 employees)	5	36
Senior executives/managers (10 employees)	1	10
Board (seven non-executive Directors)	0	0

Mix of skills and diversity which the Board is looking to achieve in membership of the Board:

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

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

Envestra achieved its operational objectives and saw significant growth in the value of the Company during the course of 2010-11.

Key Policies

The following corporate governance policies are available on the Company's website www.envestra.com.au.

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

ASX Corporate Governance Council Recommendations Checklist

The table on the following pages cross-references the recommendations to the relevant sections of Envestra's Corporate Governance Statement and Remuneration Report.

PRINCIPLE	ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS	REFERENCE (PP20-29)	
1	**Lay a solid foundation for management and oversight**		
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	(d) (e)	✓
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Remuneration Report	✓
1.3	Companies should provide the information indicated in the Guide to Reporting on Principle 1.	Remuneration Report	✓
2	**Structure the Board to add value**		
2.1	A majority of the Board should be independent Directors.	(a) (f)	✗
2.2	The chair should be an independent Director.	(b)	✓
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	(b)	✓
2.4	The Board should establish a Nomination Committee.	(i)	✗
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.	(c)	✓
2.6	Companies should provide the information indicated in the Guide to Reporting on Principle 2.	(as above)	✓
3	**Promote ethical and responsible decision-making**		
3.1	Companies should establish a Code of Conduct and disclose the code or summary of the code as to: • The practices necessary to maintain confidence in the Company's integrity. • The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders. • The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	(n)	✓
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	(q)	✓
3.3	Companies should disclose in each Annual Report the measurable objectives for achieving gender diversity set by the Board in accordance with the Diversity Policy and progress towards achieving them.	(q)	✓
3.4	Companies should disclose in each Annual Report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	(q)	✓
3.5	Companies should provide the information indicated in the Guide to Reporting on Principle 3.	(as above)	✓
4	**Safeguard integrity in financial reporting**		
4.1	The Board should establish an Audit Committee.	(j)	✓
4.2	The Audit Committee should be structured so that it: • Consists only of non-executive Directors. • Consists of a majority of independent Directors. • Is chaired by an independent chair, who is not chair of the Board. • Has at least three members.	(j)	✓
4.3	The Audit Committee should have a formal charter.	(j)	✓
4.4	Companies should provide the information indicated in the Guide to Reporting on Principle 4.	(as above)	✓

PRINCIPLE	ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS	REFERENCE (PP20-29)	
5	**Make timely and balanced disclosure**		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	(p)	✓
5.2	Companies should provide the information indicated in the Guide to Reporting on Principle 5.	(as above)	✓
6	**Respect the rights of shareholders**		
6.1	Companies should design a Communications Policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	(p)	✓
6.2	Companies should provide the information indicated in the Guide to Reporting on Principle 6.	(as above)	✓
7	**Recognise and manage risk**		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	(l)	✓
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	(l)	✓
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	(l)	✓
7.4	Companies should provide the information indicated in the Guide to Reporting on Principle 7.	(as above)	✓
8	**Remunerate fairly and responsibly**		
8.1	The Board should establish a Remuneration Committee.	(k)	✓
8.2	The Remuneration Committee should be structured so that it: • Consists of a majority of independent Directors. • Is chaired by an independent chair. • Has at least three members.	(k)	✓
8.3	Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of Executive Directors and senior executives.	Remuneration Report	✓
8.4	Companies should provide the information indicated in the Guide to Reporting on Principle 8.	(as above)	✓

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 2011 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
Dominic Loi Shun Chan
Ivan Kee Ham Chan
Ross Murray Gersbach
Michael Joseph McCormack
Olaf Brian O'Duill.

Details of the Directors' and Company Secretary's qualifications, experience and special responsibilities appear on pages 16 to 18 of the Annual Report. Directors' shareholdings are disclosed on page 41 of the Annual Report.

PRINCIPAL ACTIVITIES

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

(a) Provision of natural gas haulage services to retailers through the transmission pipelines and distribution networks it owns and manages.

(b) Development of the business through expansion of the existing networks, acquisition of 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 on pages 2 to 7 of the Annual Report.

CONSOLIDATED RESULTS

For the year ended 30 June 2011, revenue/income was $425.0 million, profit before tax was $64.9 million and profit after tax was $45.0 million. The aggregate of cash flows increased cash on hand at 30 June 2011 by $0.9 million leaving a cash balance of $7.3 million at 30 June 2011.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

On 29 October 2010, Envestra acquired 100% of the issued shares of Country Energy Gas Pty Ltd for $108.7 million. The gas networks acquired comprises 1,160 kilometres of distribution pipelines and 65 kilometres of transmission pipelines in southern New South Wales. Around three petajoules of gas is delivered annually to 26,000 gas consumers. In the year ended 30 June 2011, Country Energy Gas Pty Ltd (now Envestra (NSW) Pty Ltd) contributed $8.1 million of revenue to the Envestra Group.

ENVIRONMENTAL REGULATION

The NSW Office of Environment and Heritage ("OEH") (formerly Department of Environment, Climate Change and Water) notified the Company in 2005 that it is required to provide a Remediation Action Plan in respect to land formerly owned by the Company in Albury and used for the manufacture of town gas. A plan is currently being prepared, in conjunction with the current owners of that land, the Albury City Council, and is expected to be provided to OEH in late 2011.

The Victorian Environmental Protection Authority ("EPA") has agreed that the Company prepare voluntary Risk Assessments for sites owned by the Company at Sale and Warragul that were formerly used for the manufacture of town gas.

Investigations and assessments are currently being carried out in conjunction with environmental auditors appointed by the Company in respect to the necessity or otherwise for a voluntary Risk Assessment for the site owned at Benalla.

Provision for the Company's estimated cost of possible remediation at all sites is included in the Financial Statements.

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 7 of the Annual Report, and the Financial Review on pages 10 to 11 of the Annual Report.

DIVIDENDS – ENVESTRA LTD

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

	Cents per ordinary share	*Total dividend*
		$M
Dividend on 29 October 2010	2.75	38.1
Dividend on 29 April 2011	2.75	39.4
Total dividends for 2010-11	**5.50**	**77.5**

INDEMNITY AND INSURANCE OF OFFICERS

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

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

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

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 26.

The Board of Directors has considered the position and, in accordance with 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 26, 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 13 July 2011 the proceeds from a new US Private Placement Note facility were received. This consisted of two A$ amounts: a $65 million 12-year Note maturing on 12 July 2023; and a $50 million 30-year Note maturing on 12 July 2041, and a US$130 million, 12-year Note maturing on 12 July 2023. The principal and interest on the US dollar portion of the Notes was fully hedged for the term of the debt so that there is no foreign exchange risk.

In addition to this, on 29 July 2011, documentation was executed to extend two bank facilities maturing in November 2011 and January 2012, for $100 million and $60 million respectively, for a further three years. The facilities have been recorded in the financial statements as current liabilities but these facilities now mature in July and August 2014.

The Directors are not aware at the date of this report of any other matter or circumstance which has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

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

MEETINGS OF DIRECTORS

The number of Directors' meetings and meetings of committees of Directors held during the period for which each Director held office during the period 1 July 2010 to 30 June 2011, and the number of meetings attended by each Director were:

	Full meetings of Directors	Full meetings of Directors	Special meetings of Directors	Special meetings of Directors	Audit Committee meetings	Audit Committee meetings	Remuneration Committee meetings	Remuneration Committee meetings
	Held	*Attended*	*Held*	*Attended*	*Held*	*Attended*	*Held*	*Attended*
J G Allpass	7	7	2	2	-	-	2	2
I B Little	7	7	2	2	-	-	-	-
E F Ainsworth	7	7	2	2	5	5	2	2
D L S Chan	7	7	2	2	-	-	-	-
I K H Chan	7	6	2	2	-	-	-	-
R M Gersbach	7	7	2	2	5	5	-	-
M J McCormack	7	7	2	2	-	-	-	-
O B O'Duill	7	6	2	2	5	5	2	2

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

The information provided in this Remuneration Report has been audited as required by Section 308(3C) of the *Corporations Act 2001*.

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

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

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

The framework caters for shareholders' interests in that it:

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

The framework caters for employees' interests in that it:

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

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

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

The Committee, having regard to personal and corporate performance and relevant comparative information provided by an external professional human resources consultant, reviews remuneration of the senior management team annually.

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

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

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

The maximum bonus for the Managing Director is 45% (15% deferred), for the Group Manager, Commercial it is 37.5% (12.5% deferred), and for all other senior executives it is 20%.

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

The Company does not operate an Employee Share Option Plan.

Non-executive Directors

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

Directors' fees

The current base remuneration was last increased with effect from 1 July 2010. The non-executive Director who chairs the Audit Committee receives additional fees and additional fees are also payable to Directors who are members of the Committee.

Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $900,000.

Retirement allowances for Directors

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

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

Executive pay

The executive pay and reward framework has three components:

- Base pay and benefits.
- Superannuation.
- Performance incentive (bonus).

Base Pay

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

The Remuneration Committee and management received information from Geoff Nunn and Associates (GNA) on the annual survey conducted in April 2011 by the consultant of remuneration packages in the utilities sector. The advice was used to ensure base pay reflects the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executives' pay is competitive with the market. The Board's decisions on senior executives' packages are made independently using the advice provided by GNA and having regard to Envestra's financial circumstances.

Benefits

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

Superannuation

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

Short-term performance bonus

Each year, the Remuneration Committee considers the performance against the appropriate targets and key performance indicators (KPIs) to assist in determining bonuses. The payment of bonuses is at the discretion of the Board acting on advice from the Remuneration Committee.

For the year ended 30 June 2011, the KPI targets reflect performance against operating costs, cash flow, financing costs, corporate financing outcomes, regulatory outcomes and shareholder returns, as well as other key strategic measures related to drivers of performance in future reporting periods.

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

- Financial measures

  Objectives: Profit after tax, cashflow available for dividends and completion of required debt financing.

  Outcomes: A 21% increase in profit after tax to $45 million was recorded; the ratio of cashflow available for dividends increased to 167% (147% in 2009-10); and all maturing debt facilities were put in place, with those facilities refinancing existing loans put in place well in advance of maturity dates.

- Commercial measures

  Objectives: Efficient completion of regulatory reviews for the South Australian and Victorian networks with a view to achieving appropriate shareholder returns. These businesses represent 55% of the Envestra Group. Other measures were to connect more than 23,000 new gas consumers to Envestra's networks, and to meet the target of $128 million in capital expenditure.

  Outcomes: The regulatory processes were efficiently completed with increases in revenue expected over the 2011-2016 period.

  Over 26,000 new consumers were connected to the networks and the investment in capital projects was $129 million. The new consumers are expected to generate around $8 million of extra revenue annually.

- Environmental measures

  Objectives: Progressing the environmental reviews and ultimate remediation of the former gas works sites.

  Outcomes: Solid progress has been achieved in all areas. Agreed site works are scheduled to commence in late 2011 on the clean-up of the Albury site.

- Total Shareholder Returns (TSR)

  Objective: Achieve a TSR in excess of 13% for the year (includes movement in the market price of the securities).

  Outcome: 52%.

  Sound results were achieved across most corporate measures. In addition, each of the executives performed to a high standard against their personal KPIs.

Deferred bonuses

Deferred bonuses are payable, on a rolling basis, after three years' service and are linked to the bonus paid in the year prior to the commencement of the three-year period. The provision of a deferred bonus recognises the need to ensure short-term targets are not achieved at the expense of the longer-term success of the business. Although executives are entitled to these further payments on completion of three years' service, the amount of any bonus in that third year will reflect any potential change in performance that has occurred as a result of inappropriate short-term bonus focus in previous years. The short-term bonus also recognises the small executive team within the business and the need to retain these senior executives in order to provide management stability. The structuring of the deferred bonus such that it is linked to the short-term bonus earned three years previously provides an additional compensation mechanism that acts as an incentive for the executives to remain with the Group for the long-term. Deferred bonuses are only payable to the Managing Director and the Group Manager, Commercial.

B) DETAILS OF REMUNERATION

Amounts of remuneration

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

The key management personnel of Envestra Ltd and the Group includes the Directors as per page 32 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

- A Staniford – Group Manager, Commercial
- D Petherick – Company Secretary and Manager, Corporate Services
- G Meredith – Group Manager, Treasury and Planning
- P May – Group Manager, Finance and Risk

Key management personnel of Envestra Ltd and the Group

	Short-term employee benefits			Post-employment benefits		
Name	Cash salary and fees	Cash bonus(ii)	Non-monetary benefits	Super-annuation(ii)	Retirement benefits	Total
2011	*$*	*$*	*$*	*$*	*$*	*$*
Non-executive Directors						
J G Allpass *Chairman*	164,800	-	-	15,200	11,390	191,390
E F Ainsworth	92,820	-	-	9,180	-	102,000
D L S Chan(i)	90,000	-	-	-	-	90,000
I K H Chan(i)	90,000	-	-	-	-	90,000
R M Gersbach(i)	102,000	-	-	-	-	102,000
M J McCormack(i)	90,000	-	-	-	-	90,000
O B O'Duill	98,280	-	-	9,720	2,985	110,985
Sub-total non-executive Directors	**727,900**	**-**	**-**	**34,100**	**14,375**	**776,375**
Executive Director						
I B Little *Managing Director*	465,127	151,100	16,908	40,207	-	673,342
Other key management personnel						
A Staniford	260,674	89,100	34,840	42,966	-	427,580
D Petherick	207,667	45,300	15,313	45,000	-	313,280
G Meredith	191,439	31,000	23,715	21,567	-	267,721
P May	193,467	37,000	21,849	15,207	-	267,523
Total key management personnel compensation	**2,046,274**	**353,500**	**112,625**	**199,047**	**14,375**	**2,725,821**

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

(ii) Bonus payments to key management personnel may be taken either as cash or superannuation. A deferred bonus of $27,000 is included in the amount of cash bonus paid to the Managing Director, and a deferred bonus of $17,500 is included in the amount of cash bonus paid to the Group Manager, Commercial.

	Short-term employee benefits			Post-employment benefits		
Name	Cash salary and fees	Cash bonus[ii]	Non-monetary benefits	Super-annuation[ii]	Retirement benefits	Total
2010	$	$	$	$	$	$
Non-executive Directors						
J G Allpass *Chairman*	136,500	-	-	13,500	(2,296)	147,704
E F Ainsworth	77,350	-	-	7,650	-	85,000
C C A Binks[iii]	250	-	-	58,769	-	59,019
D L S Chan[i]	75,000	-	-	-	-	75,000
I K H Chan[i]	75,000	-	-	-	-	75,000
R M Gersbach[i]	85,000	-	-	-	-	85,000
M J McCormack[i]	75,000	-	-	-	-	75,000
O B O'Duill	81,900	-	-	8,100	(968)	89,032
Sub-total non-executive Directors	**606,000**	**-**	**-**	**88,019**	**(3,264)**	**690,755**
Executive Director						
I B Little *Managing Director*	447,523	116,000	15,883	38,310	-	617,716
Other key management personnel						
A Staniford	249,422	66,900	35,517	39,630	-	391,469
D Petherick	199,298	29,300	16,115	43,618	-	288,331
G Meredith	174,528	17,200	21,964	21,600	-	235,292
P May	174,284	26,000	21,206	14,520	-	236,010
P Ryan[iii]	232,387	-	10,875	7,968	-	251,230
Total key management personnel compensation	**2,083,442**	**255,400**	**121,560**	**253,665**	**(3,264)**	**2,710,803**

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

(ii) Bonus payments to key management personnel may be taken either as cash or superannuation. A deferred bonus of $42,500 is included in the amount of cash bonus paid to the Managing Director, and a deferred bonus of $23,000 is included in the amount of cash bonus paid to the Group Manager, Commercial.

(iii) Mr C C A Binks retired from the Board on 28 October 2009, and Mr P Ryan resigned from the Group on 31 October 2009.

C) SERVICE AGREEMENTS

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

I Little *Managing Director*

- Term of agreement – non-specific, commencing 28 March 2003.
- Base salary, inclusive of superannuation, for the year ended 31 August 2011 of $508,600.
- Subject to performance, an annual bonus of up to 30% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of a termination benefit on termination by the Company, other than for gross misconduct, after six months' notice (subject to certain conditions), equal to 12 months' base salary plus an amount equal to the last short-term bonus paid prior to the termination.

A Staniford *Group Manager, Commercial*

- Term of agreement – non-specific, commencing 1 August 2000.
- Base salary, inclusive of superannuation, for the year ended 31 August 2011 of $322,400.
- Subject to performance, an annual bonus of up to 25% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the employer, other than for gross misconduct, equal to 18 months' base salary (including six months period of notice).

D Petherick *Company Secretary and Manager, Corporate Services*

- Term of agreement – non-specific, commencing 1 September 1997.
- Base salary, inclusive of superannuation, for the year ended 31 August 2011 of $254,300.
- Subject to performance, an annual bonus of up to 20% of base salary is payable.
- Payment of termination benefit on termination by the employer, other than for gross misconduct, equal to 18 months' base salary (including six months period of notice).

G Meredith *Group Manager, Treasury and Planning*

- Term of agreement – non-specific, commencing 1 August 2000.
- Base salary, inclusive of superannuation, for the year ended 31 August 2011 of $225,700.
- Subject to performance, an annual bonus of up to 20% of base salary is payable.
- Payment of termination benefit on termination by the employer, other than for gross misconduct, equal to 15 months' base salary (including three months period of notice).

P May *Group Manager, Finance and Risk*

- Term of agreement – non-specific, commencing 4 April 2005.
- Base salary, inclusive of superannuation, for the year ended 31 August 2011 of $225,700.
- Subject to performance, an annual bonus of up to 20% of base salary is payable.
- Payment of termination benefit on termination by the employer, other than for gross misconduct, equal to 15 months' base salary (including three months period of notice).

D) ADDITIONAL INFORMATION

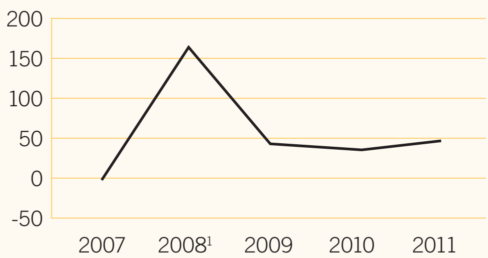
Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance

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

	2007	2008	2009	2010	2011
Gas volumes <10TJ consumers	44,767	46,777	49,169	47,228	52,878
New consumers(i)	21,581	23,692	23,470	24,101	26,712
Total revenue / income ($M)	347.3	346.0	389.1	383.3	425.0
Net profit / (loss) after tax ($M)	(3.0)	163.6	40.3	37.2	45.0
Cashflow available for dividends ($M)	102.9	78.0	104.9	107.4	129.1
Capital expenditure ($M)	107.8	108.3	112.5	97.8	129.2
Return to shareholders (%)	8.2	(36.8)	0.4	12.3	52.0
Earnings per share (cents)	(0.4)	18.9	3.8	2.8	3.2

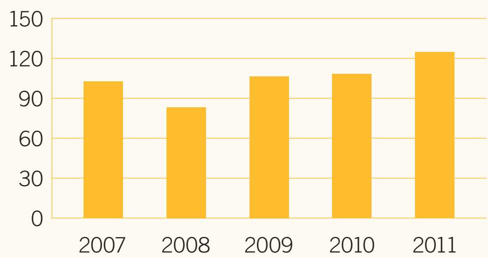
(i) Excluding customers in Envestra (NSW) Pty Ltd acquired through business acquisition on 29 October 2010.

Profit / (Loss) after Tax ($M)

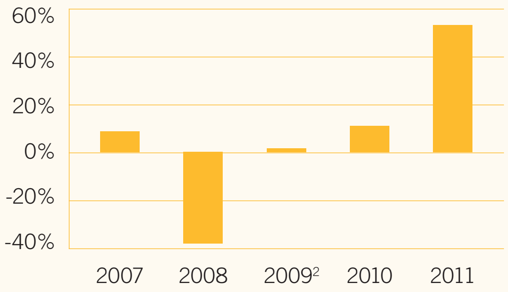


1) Includes $153.2m of Put Option tax benefit.

Cashflow available for distributions /dividends ($M)

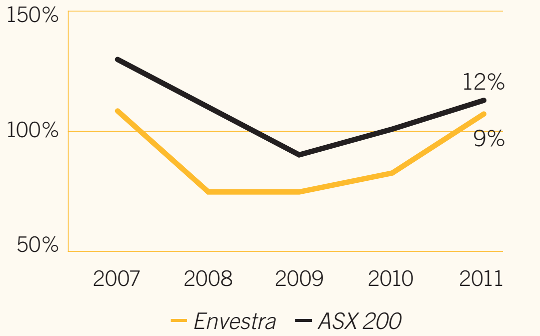


Annual Return (TSR) to Shareholders[1]



1) Returns to shareholders including dividend and capital gain / (loss).
2) 2009 includes the effect of the Rights Issue.

Five-year Total Shareholder Return (TSR) - cumulative



Details of remuneration: cash bonuses

For each short-term cash bonus included in the tables on pages 38 and 39, the percentage of the available bonus paid, in the financial year, is set out below.

Name	Maximum bonus (excluding deferred)	Bonus paid	Percentage of maximum bonus	Deferred bonus	Total 2011	Total 2010
	%	$	%	$	$	$
I Little	30	124,100	81	27,000	151,100	116,000
A Staniford	25	71,600	89	17,500	89,100	66,900
D Petherick	20	45,300	89	-	45,300	29,300
G Meredith	20	37,000	82	-	37,000	23,200
P May	20	37,000	82	-	37,000	26,000

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

Directors' shareholdings

Particulars of the ordinary shares held by each Director of the Company and Director related entities, as at 30 June 2011 were:

Directors	Holding 30 June 2011	Directors	Holding 30 June 2011
J G Allpass	273,336	I K H Chan(i)	-
I B Little	123,240	O B O'Duill	200,000
E F Ainsworth	66,000	M J McCormack(ii)	28,000
D L S Chan(i)	-	R M Gersbach(ii)	-

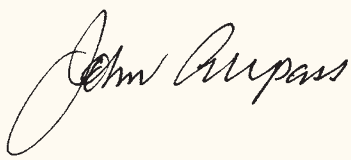
(i) Mr D L S Chan and Mr I K H Chan are representatives of Cheong Kong Infrastructure Holdings (Malaysian) Ltd which owns 286,459,774 (19.51%) ordinary shares in Envestra.
(ii) Mr M J McCormack and Mr R M Gersbach are representatives of the APA Group which owns 484,792,419 (33.01%) ordinary shares in Envestra.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 42.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report and financial statements. Amounts in the Directors' report and financial statements have been rounded off in accordance with that Class Order to the nearest million dollars, unless specifically stated otherwise.



John G Allpass
Chairman

Adelaide
25 August 2011

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Envestra Limited for the year ended 30 June 2011, 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.

DR Clark
Partner
PricewaterhouseCoopers

Adelaide
25 August 2011

PricewaterhouseCoopers, ABN 52 780 433 757
91 King William Street, ADELAIDE SA 5000, GPO Box 418, ADELAIDE SA 5001
DX 77 Adelaide, Australia
T +61 2 8218 7000, F +61 2 8218 7999, www.pwc.com.au

CONSOLIDATED INCOME STATEMENT

	Notes	2011	2010
		$M	*$M*
Revenue from continuing operations			
Network services		423.8	382.2
Interest		0.8	0.6
Total revenue from continuing operations		**424.6**	**382.8**
Net gain on disposal of property, plant and equipment		0.4	0.5
Total revenue / income		**425.0**	**383.3**
Network operating costs		(103.2)	(99.8)
Gas purchase		(14.4)	(11.8)
Corporate development, property and administration costs		(13.7)	(10.2)
Total operating costs		(131.3)	(121.8)
Earnings before interest, tax, depreciation and amortisation		**293.7**	**261.5**
Depreciation / impairment	5	(53.4)	(53.0)
Profit before borrowing costs and tax		**240.3**	**208.5**
Amortisation of borrowing costs		(6.4)	(4.8)
Interest and indexation		(169.0)	(152.1)
Total borrowing costs	5	(175.4)	(156.9)
PROFIT BEFORE INCOME TAX EXPENSE		**64.9**	**51.6**
Income tax expense	6	(19.9)	(14.4)
NET PROFIT AFTER TAX		**45.0**	**37.2**
Basic and diluted earnings per share attributable to ordinary equity holders of Envestra Ltd (cents)	34	3.2	2.8

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2011	2010
		$M	$M
Net profit after tax for the financial year		**45.0**	**37.2**
Other comprehensive income			
Changes in the fair value of cash flow hedges	23	15.3	48.9
Income tax expense relating to changes in the fair value of cash flow hedges	23	(4.6)	(14.5)
Other comprehensive income for the financial year		**10.7**	**34.4**
Total comprehensive income for the financial year		**55.7**	**71.6**
Profit for the financial year is attributable to:			
Owners of Envestra Ltd		45.0	37.2
Total comprehensive income for the financial year is attributable to:			
Owners of Envestra Ltd		55.7	71.6

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

CONSOLIDATED BALANCE SHEET

	Notes	2011	2010
		$M	$M
Current assets			
Cash and cash equivalents	7	7.3	6.4
Receivables	8	68.5	65.5
Other current assets	10	3.5	4.2
Total current assets		79.3	76.1
Non-current assets			
Property, plant and equipment	11	2,211.0	2,043.8
Intangible assets	12	606.0	585.6
Deferred tax assets	13	-	-
Other non-current assets	14	0.1	0.5
Total non-current assets		2,817.1	2,629.9
Total assets		**2,896.4**	**2,706.0**
Current liabilities			
Payables	15	39.9	33.7
Borrowings	16	272.2	227.5
Provisions	17	5.5	6.2
Derivative financial instruments	9	-	8.6
Other current liabilities	18	47.0	44.9
Total current liabilities		364.6	320.9
Non-current liabilities			
Borrowings	19	1,686.8	1,713.8
Provisions	20	13.7	12.1
Derivative financial instruments	9	174.5	54.7
Deferred tax liabilities	21	113.7	83.9
Total non-current liabilities		1,988.7	1,864.5
Total liabilities		**2,353.3**	**2,185.4**
Net assets		**543.1**	**520.6**
Equity			
Contributed equity	22	582.3	538.0
Reserves	23(A)	(10.4)	(21.1)
Retained earnings / (accumulated losses)	23(B)	(28.8)	3.7
Total equity		**543.1**	**520.6**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Reserves	Retained earnings	Total equity
		$M	*$M*	*$M*	*$M*
Balance at 1 July 2009		495.0	(55.5)	39.5	479.0
Total comprehensive income for the financial year		-	34.4	37.2	71.6
Transactions with owners in their capacity of owners					
Contributions of equity, net of transaction costs and tax	22	43.0	-	-	43.0
Dividends paid	24	-	-	(73.0)	(73.0)
Balance at 30 June 2010		**538.0**	**(21.1)**	**3.7**	**520.6**
Total comprehensive income for the financial year		-	10.7	45.0	55.7
Transactions with owners in their capacity of owners					
Contributions of equity, net of transaction costs and tax	22	44.3	-	-	44.3
Dividends paid	24	-	-	(77.5)	(77.5)
Balance at 30 June 2011		**582.3**	**(10.4)**	**(28.8)**	**543.1**

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

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2011	2010
		$M	$M
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		465.6	418.6
Payments to suppliers and employees (inclusive of goods and services tax)		(168.4)	(158.1)
		297.2	**260.5**
Interest received		0.8	0.4
Borrowing costs		(161.8)	(143.8)
Net cash inflow from operating activities	32	**136.2**	**117.1**
Cash flows from investing activities			
Payments for property, plant and equipment		(129.2)	(97.8)
Proceeds from sale of property, plant and equipment		7.8	1.0
Acquisition of subsidiary		(108.7)	-
Net cash outflow from investing activities		**(230.1)**	**(96.8)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares		44.3	42.3
Proceeds from borrowings		706.4	553.9
Repayment of borrowings		(575.9)	(532.9)
Dividends paid	24	(77.5)	(73.0)
Debt and capital raising costs		(2.5)	(10.4)
Net cash inflow / (outflow) from financing activities		**94.8**	**(20.1)**
Net increase in cash and cash equivalents		**0.9**	**0.2**
Cash and cash equivalents at the beginning of the financial year		6.4	6.2
Cash and cash equivalents at the end of the financial year	7	**7.3**	**6.4**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A) BASIS OF PREPARATION

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

The financial statements were approved by the Board of Directors on 25 August 2011.

Compliance with IFRS

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

Accounting convention

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

Working capital deficiency

The Group had current liabilities in excess of current assets at 30 June 2011 amounting to $285.3 million. This deficiency largely relates to bank loans due for repayment before June 2012. Existing undrawn facilities or bond financing commitments are sufficient to cover the anticipated debt repayments.

A $65 million bank facility included as a current liability due for repayment prior to June 2012 was repaid in July 2011. In addition, $160 million of bank facilities included in current liabilities at 30 June 2011 were extended for a further three years. These agreements, with two separate lenders, were executed on 29 July 2011.

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 ("Envestra") 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 Co Ltd ACN 000 001 249
- Envestra Transmission Holdings 1 Pty Ltd ACN 108 315 957
- Envestra Transmission Holdings 2 Pty Ltd ACN 108 316 249
- Envestra Transmission Pty Ltd ACN 108 316 007
- Envestra (NSW) Pty Ltd ACN 083 199 839

Envestra Victoria Pty Ltd ("Envestra Victoria"), a wholly owned subsidiary of Envestra, has entered into a Business Management Agreement ("BMA") with Vic Gas Distribution Pty Ltd ("Vic Gas"). Under the BMA, Envestra Victoria is 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 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's net revenue over interest expense for each quarter, and has provided a guarantee that Vic Gas will have sufficient funds to meet its interest payment obligations. The Agreement also provides for debt repayment support if Vic Gas becomes obliged to make a repayment of principal in respect of its borrowings and has insufficient funds to meet those borrowings.

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

C) FOREIGN CURRENCY TRANSLATION

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

D) REVENUE RECOGNITION

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

E) GOVERNMENT GRANTS

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

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

F) INCOME TAX

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

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

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

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

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

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

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 Australian dollars using the spot rate at balance date. The account is held to make dividend payments to New Zealand shareholders.

I) RECEIVABLES

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

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

The Access Arrangement covering the Queensland network requires the retailer to pay for gas delivered within 30 days.

The Access Arrangements covering the Victorian and NSW networks require distributors to charge retailers when the end user is billed. Currently only one retailer in Victoria is required to prepay haulage. The prepayment amount is based on actual amount of the prior month invoiced charges.

A provision for doubtful debts is recorded based on historical evidence of credit recovery in relation to invoices raised for miscellaneous items, such as costs to repair damage to the network caused by a third party. No provision has been raised for doubtful debts in relation to any of the Access Arrangements because no debts are considered doubtful.

J) DERIVATIVES

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

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 9. Movements in the hedging reserve in shareholders' equity are shown in note 23. 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 directly attributable to the acquisition of the items.

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

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

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

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

M) TRADE AND OTHER PAYABLES

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

N) BORROWINGS

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

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

O) BORROWING COSTS

Borrowing costs include:

- Interest and indexation on borrowings.
- Amortisation of debt establishment costs.
- Ancillary costs, including fees.
- Ineffective derivatives.

P) EMPLOYEE BENEFITS

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

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

(ii) Long service leave

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

(iii) Other

The Envestra Group had 14 employees as at 30 June 2011 (14 as at 30 June 2010). The operational activities of the Group are undertaken by APA and associated subcontractors.

Q) CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

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

R) DIVIDENDS

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

S) EARNINGS PER SHARE

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

T) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. The standard only permits the accounting for financial assets to be at either amortised cost or fair value, and for the recognition of fair value gains and losses to be in the income statement, or in other comprehensive income if they relate to equity investments that are not held for trading. The new requirements for financial liabilities only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The standard is not expected to have any effect on Envestra's current accounting or disclosures and the Group will apply the standard from 1 July 2013.

(ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. Amongst other changes, the standard clarifies and simplifies the definition of a related party. The amended standard is not expected to have any effect on Envestra's current disclosures and the Group will apply the standard from 1 July 2011.

(iii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under the framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Envestra Ltd is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the Group's disclosures.

(iv) AASB 2010-6 Amendments to Australian Accounting Standards – Disclosure of Transfers of Financial Assets (effective from 1 July 2011)

Amendments made to AASB 7 Financial Instruments: Disclosures introduce additional disclosures in respect of risk exposures arising from transferred financial assets. They are not expected to have any impact on the Group.

(v) AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach measuring deferred tax liabilities and deferred tax assets relating to investment property. This is not expected to have any impact on the Group.

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.

U) ENVIRONMENTAL REMEDIATION EXPENDITURE

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

V) LEASES

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 37). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

W) BUSINESS COMBINATIONS

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

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

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

X) PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, Envestra Ltd, disclosed in note 36 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investment in subsidiaries

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

Tax consolidation legislation

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

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

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from, or payable to, other entities in the group. Details about the tax funding agreement are disclosed in note 6.

NOTE 2

FINANCIAL RISK MANAGEMENT

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

Risk management is carried out in accordance with policies approved by the Board of Directors. The Group Manager, Treasury and Planning, identifies, evaluates and hedges financial risks in close co-operation with the Group Manager, Finance and Risk. The Board oversees overall risk management, including policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity. The Board formally reviews and approves the Treasury Policy and Risk Management Policy annually.

A) MARKET RISK

(i) Foreign exchange risk

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

The Group's Treasury Policy requires 100% of the foreign exchange rate risk associated with non-Australian dollar denominated debt to be hedged to minimise fluctuations in the cash flows of the business.

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

	2011	2010
	US $M	*US $M*
Borrowings	490.0	230.0

(ii) Price risk

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

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

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

	2011	2010
	$M	$M
Impact on after-tax profit and equity		
CPI +1%	(2.5)	(2.6)
CPI -1%	2.5	2.6

(iii) Cash flow and fair value interest rate risk

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

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. At the year-end, 18% (2010: 20%) of borrowings were at fixed rates. Group policy is to hedge between 80% and 100% of floating rate borrowings using floating to fixed interest rate swaps.

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

	Weighted average interest rate 30 June 2011	Balance 30 June 2011	Weighted average interest rate 30 June 2010	Balance 30 June 2010
	%	$M	%	$M
Interest bearing debt	6.5	1,764.8	6.1	1,610.1
Interest rate swaps	6.7	(1,501.1)	6.9	(1,456.1)
Net exposure to cash flow interest rate risk		**263.7**		**154.0**

An analysis by maturities is provided in note2(C).

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

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

	2011	2010
	$M	$M
Impact on after-tax profit		
Interest rates +1%	(2.4)	(1.1)
Interest rates -1%	2.4	1.1
Impact on equity		
Interest rates +1%	26.6	20.2
Interest rates -1%	(30.0)	(20.9)

B) CREDIT RISK

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

Refer to note 8 for further details of credit risk in relation to receivables. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution. Counterparty limits for investment and hedging transactions are measured by reference to transaction limits set by the Board in relation to the counter parties' external credit ratings.

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

C) LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and an adequate amount of available committed credit facilities. Associated with this is the planning for unforeseen events which may curtail cash flows and put pressure on liquidity. At the end of the reporting period the Group held cash and deposits at call of $7.3 million (2010: $6.4 million) that are expected to readily generate cash inflows for managing liquidity risk.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows. Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Refer to note 19(E) for further details on the Group's approach to liquidity risk management.

(i) Net current liability position

At 30 June 2011 current liabilities for the Group exceed current assets by $285.3 million. Existing undrawn facilities or bond financing commitments are sufficient to cover the anticipated debt repayments.

A $65 million bank facility included as a current liability due for repayment prior to June 2012 was repaid in July 2011. In addition, $160 million of bank facilities included in current liabilities at 30 June 2011 were extended for a further three years. These agreements, with two separate lenders, were executed on 29 July 2011.

(ii) Maturities of financial liabilities

The Group's strategy is to maintain the long-term duration of its debt portfolio, to arrange refinancing at least six months prior to maturity and limit annual repayments to 15% of the debt portfolio, subject to conditions in financial markets enabling these targets to be met.

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

	Less than 1 year	Between 1 and 5 years	Between 5 and 15 years	Over 15 years
	$M	*$M*	*$M*	*$M*
At 30 June 2011				
Trade payables	39.9	-	-	-
Medium Term Notes	35.6	185.3	595.0	300.0
Capital Indexed Bonds	12.7	117.9	490.2	-
Commercial Paper	48.2	-	-	-
Bank loans	104.1	560.1	-	-
US Private Placement Notes	37.7	216.0	468.5	298.4
Interest rate swaps	26.3	28.7	-	-
	304.5	**1,108.0**	**1,553.7**	**598.4**
At 30 June 2010				
Trade payables	33.7	-	-	-
Medium Term Notes	189.6	131.8	632.2	315.1
Capital Indexed Bonds	37.3	121.8	103.5	396.5
Commercial Paper	29.1	-	-	-
Bank loans	66.2	550.2	51.9	-
US Private Placement Notes	15.7	62.7	260.9	115.1
Interest rate swaps	36.8	38.9	-	-
	408.4	**905.4**	**1,048.5**	**826.7**

D) FAIR VALUE ESTIMATION

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

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

(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

(b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2).

(c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2011 and 30 June 2010:

	Level 1	Level 2	Level 3	Total
	$M	*$M*	*$M*	*$M*
At 30 June 2011				
Liabilities				
Borrowings	-	471.9	-	471.9
Derivatives used for hedging	-	174.5	-	174.5
Total liabilities	**-**	**646.4**	**-**	**646.4**
At 30 June 2010				
Liabilities				
Borrowings	-	294.7	-	294.7
Derivatives used for hedging	-	63.3	-	63.3
Total liabilities	**-**	**358.0**	**-**	**358.0**

The fair value of financial liabilities that are not traded in an active market is determined using valuation techniques. The fair value of interest rate and cross currency swaps is calculated as the present value of the estimated future cash flows. These instruments are categorised at level 2.

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

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

CRITICAL ACCOUNTING ESTIMATES

NOTE 3

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 12 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.

SEGMENT INFORMATION

NOTE 4

A) DESCRIPTION OF SEGMENTS

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

B) SEGMENT INFORMATION PROVIDED TO ENVESTRA MANAGEMENT

The segment information provided to Management for the reportable segments for the financial year ended 30 June 2011 is disclosed in the tables below. The measurement of these amounts is consistent with the financial statements.

Segment information	Victoria	New South Wales	South Australia and other	Queensland	Unallocated	Total
	$M	*$M*	*$M*	*$M*	*$M*	*$M*
2011						
Total revenue from continuing operations	180.4	15.8	166.9	60.7	-	423.8
Interest income	-	-	-	-	0.8	0.8
Gain/(loss) on disposal of property, plant and equipment	0.7	-	0.1	(0.4)	-	0.4
Total segment revenue / income	181.1	15.8	167.0	60.3	0.8	425.0
Profit before net interest	99.9	5.1	91.2	36.9	-	233.1
Net interest (excluding amortisation of borrowing costs)						(168.2)
Profit before income tax						64.9
Income tax expense						(19.9)
Net profit after tax						**45.0**
Segment assets	1,468.8	163.0	928.2	329.1	7.3	2,896.4
Segment liabilities	34.5	8.2	48.9	5.2	2,256.5	2,353.3
Acquisitions of property, plant and equipment	66.0	3.6	44.2	17.5	-	131.3
Depreciation expense	22.2	2.7	20.2	8.2	-	53.3
Other non-cash expenses	5.0	1.6	1.5	-	-	8.1
2010						
Total revenue from continuing operations	162.6	7.5	152.7	59.4	-	382.2
Interest income	-	-	-	-	0.6	0.6
Gain on disposal of property, plant and equipment	0.5	-	-	-	-	0.5
Total segment revenue / income	163.1	7.5	152.7	59.4	0.6	383.3
Profit before net interest	89.0	4.3	75.7	34.1	-	203.1
Net interest (excluding amortisation of borrowing costs)						(151.5)
Profit before income tax						51.6
Income tax expense						(14.4)
Net profit after tax						**37.2**
Segment assets	1,429.7	46.1	899.0	322.4	8.8	2,706.0
Segment liabilities	27.6	6.1	45.4	4.3	2,102.0	2,185.4
Acquisitions of property, plant and equipment	44.8	1.7	36.6	18.4	-	101.5
Depreciation expense	21.4	1.1	22.1	8.1	-	52.7
Other non-cash expenses	3.7	0.3	1.6	-	-	5.6

EXPENSES

NOTE 5

	2011	2010
	$M	$M
Profit before income tax includes the following expenses:		
Depreciation and impairment		
Depreciation on buildings	0.1	0.1
Depreciation on plant and equipment	53.2	52.6
Impairment	0.1	0.3
Total depreciation and impairment	**53.4**	**53.0**
Other charges against assets		
Asset retirements	0.2	0.5
Bad and doubtful debts – trade debtors	-	-
Borrowing costs		
Interest and indexation	165.2	148.0
Fees on financing facilities	3.8	4.1
Amortisation of debt establishment and credit insurance costs	6.4	4.8
Borrowing costs expensed	**175.4**	**156.9**
Employee benefits expense	4.1	3.8
Land management provision expense	1.6	0.5

INCOME TAX EXPENSE

NOTE 6

	2011	2010
	$M	$M
A) INCOME TAX EXPENSE		
Deferred tax	19.9	14.4
Attributable to:		
Profit from continuing operations	19.9	14.4
Deferred income tax expense included in income tax expense comprises:		
Increase in deferred tax assets (note 13)	(16.6)	(20.1)
Increase in deferred tax liabilities (note 21)	36.5	34.5
	19.9	**14.4**
B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE		
Profit from continuing operations before income tax expense	64.9	51.6
Tax at the Australian tax rate of 30% (2010 – 30%)	19.5	15.5
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Investment allowance	-	(1.1)
Business acquisition costs	0.4	-
Total income tax expense	**19.9**	**14.4**
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 directly to equity	4.6	13.9
D) UNRECOGNISED TEMPORARY DIFFERENCES		
Deferred tax assets not recognised	2.4	2.2

E) TAX CONSOLIDATION LEGISLATION

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

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

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

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

NOTE 7

CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	2011	2010
	$M	*$M*
Cash at bank	2.4	3.4
Deposits at call	4.9	3.0
	7.3	**6.4**

A) CASH AT BANK

This is interest bearing.

B) DEPOSIT AT CALL

The deposit is bearing a floating interest rate of 4.75% (2010 – 4.65%).

NOTE 8

CURRENT ASSETS – RECEIVABLES

	2011	2010
	$M	*$M*
Trade receivables	68.5	60.0
Other receivables	0.1	5.6
Provision for doubtful receivables	(0.1)	(0.1)
	68.5	**65.5**

A) PAST DUE AND IMPAIRED TRADE RECEIVABLES

A loss of $19,710 (2010: $11,833) has been recognised in the income statement in respect of bad and doubtful trade receivables during the year ended 30 June 2011.

As of 30 June 2011, trade receivables of $0.4 million (2010: $1.8 million) were past due but not impaired. The ageing of these trade receivables is as follows:

	2011	2010
	$M	*$M*
31 to 60 days	0.2	0.3
61 to 90 days	0.1	0.2
Over 90 days	0.1	1.3
	0.4	**1.8**

There were no movements in the provision for doubtful receivables during the year.

B) SIGNIFICANT TERMS AND CONDITIONS

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

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

C) EFFECTIVE INTEREST RATES AND CREDIT RISK

Envestra's customers using the South Australia and Northern Territory networks pay for haulage services in advance. Retailers using the Queensland network are required to pay for gas delivered within 30 days. Credit risk is centred on the large retailers, but contracts and the associated Queensland Access Regime limit this risk. Retailers using the Victorian and NSW networks pay in arrears for haulage services (with the exception of one Victorian retailer that is required to prepay haulage services), and credit risk is centred on the large retailers, though contracts and the associated Victorian Access Regime limit this risk. Envestra Ltd has exercised its right under the various haulage revenue contracts with Victorian retailers to demand bank guarantees from certain retailers who do not possess investment grade credit ratings. Interest is receivable from major banks and no significant credit risk is perceived in relation to this amount. Refer to note 2 for more information on the risk management policy of the Group.

D) FAIR VALUE

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

DERIVATIVE FINANCIAL INSTRUMENTS

NOTE 9

	2011	2010
	$M	*$M*
Current liabilities		
Interest rate swaps – cash flow hedges	-	8.6
	-	**8.6**
Non-current liabilities		
Interest rate swaps – cash flow hedges	39.7	54.2
Cross currency swap contracts – fair value and cash flow hedges	134.8	0.5
	174.5	**54.7**

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 on page 62 include all swaps in place at the end of the financial year.

At 30 June 2011, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

Maturity	2011	2010
	$M	*$M*
Less than 1 year	-	605.0
1–2 years	901.1	-
2–3 years	-	851.1
4–5 years	600.0	-
	1,501.1	**1,456.1**

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified to the Income Statement when the hedged interest expense is recognised. The ineffective portion is recognised in income immediately. In the year ended 30 June 2011, the ineffective portion resulted in a $0.1 million profit (2010: $0.9 million expense).

At balance date these contracts were liabilities with fair value of $39.7 million (2010: liabilities of $62.8 million). In the year ended 30 June 2011 there was a decrease in fair value of $23.1 million (2010: increase of $25.7 million). This decrease in fair value, together with prior years' movements, will reverse as these instruments reach maturity.

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

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

At 30 June 2011, the notional principal amounts and periods of expiry of the cross currency swap contracts are as follows:

Maturity	2011	2010
	$M	*$M*
1–2 years	61.9	-
2–3 years	-	61.9
4–5 years	68.4	-
Greater than 5 years	477.5	266.1
	607.8	**328.0**

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

At balance date these contracts (plus forward starting cross currency swaps) were liabilities with fair value of $134.8 million (2010: $0.5 million). In the year ended 30 June 2011 there was a decrease in fair value of $134.3 million (2010: increase of $30.6 million). The movements were due to the significant increase in the Australian dollar exchange rate with the US dollar during the year, and movements in US interest rates. Fair value hedge movements offset against the hedged item were $126.7 million (2010: $4.2 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, $39.7 million was potentially payable (2010: $62.8 million was potentially payable) (Australian dollar equivalents) by the Group for interest rate swap contracts and therefore no credit exposure existed.

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

C) INTEREST RATE RISK EXPOSURES

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

CURRENT ASSETS – OTHER CURRENT ASSETS

NOTE 10

	2011	2010
	$M	$M
GST receivable	0.3	0.5
Deferred licence fee	0.1	0.8
Prepayments	3.1	2.9
	3.5	**4.2**

NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

NOTE 11

	Freehold land	Freehold buildings	Plant and equipment	Total
	$M	$M	$M	$M
At 1 July 2009				
Cost	3.2	4.8	2,482.1	2,490.1
Accumulated depreciation	-	(1.7)	(492.8)	(494.5)
Net book amount	**3.2**	**3.1**	**1,989.3**	**1,995.6**
Year ended 30 June 2010				
Opening net book amount	3.2	3.1	1,989.3	1,995.6
Additions	-	-	101.5	101.5
Depreciation charge	-	(0.1)	(52.6)	(52.7)
Disposals	-	-	(0.1)	(0.1)
Retirements	-	-	(0.5)	(0.5)
Closing net book amount	**3.2**	**3.0**	**2,037.6**	**2,043.8**
At 30 June 2010				
Cost	3.2	4.8	2,582.7	2,590.7
Accumulated depreciation	-	(1.8)	(545.1)	(546.9)
Net book amount	**3.2**	**3.0**	**2,037.6**	**2,043.8**
Year ended 30 June 2011				
Opening net book amount	3.2	3.0	2,037.6	2,043.8
Acquisition of subsidiary	0.6	-	91.2	91.8
Additions	-	-	131.3	131.3
Depreciation charge	-	(0.1)	(53.2)	(53.3)
Disposals	-	-	(2.4)	(2.4)
Retirements	-	-	(0.2)	(0.2)
Closing net book amount	**3.8**	**2.9**	**2,204.3**	**2,211.0**
At 30 June 2011				
Cost	3.8	4.8	2,801.5	2,810.1
Accumulated depreciation	-	(1.9)	(597.2)	(599.1)
Net book amount	**3.8**	**2.9**	**2,204.3**	**2,211.0**

A) VALUATION OF LAND AND BUILDINGS

An independent valuation of land and buildings was undertaken during the 2006-07 year by registered valuers. The market valuations of these properties were in excess of the carrying values at that time by approximately $7.3 million. The valuation of the properties did not take into account any potential remediation costs. A land management cost provision of $11.8 million (2010: $11.7 million) has been included in the financial statements at 30 June 2011 in relation to freehold land.

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

B) NON-CURRENT ASSETS PLEDGED AS SECURITY

Refer to note 19(B) for information on non-current assets pledged as security by the parent entity and its controlled entities.

NOTE 12

NON-CURRENT ASSETS – INTANGIBLE ASSETS

	2011	2010
	$M	*$M*
Cost at 1 July	585.6	585.6
Acquisition of Country Energy intangibles	20.4	-
Closing net book amount at 30 June	**606.0**	**585.6**

Key assumptions used for value-in-use calculations

Victorian and NSW intangibles

The recoverable amount of the Victorian and NSW cash-generating units is based on value-in-use calculations. Those calculations use cash flow projections based on current and expected regulatory outcomes for gas distributors. Cash flow projections are estimated for a period of 20 years, with a terminal value, recognising the long-term nature of the assets. The pre-tax discount rate used was 9.0% (2010: 9.1%).

NOTE 13

NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	2011	2010
	$M	*$M*
The balance comprises temporary differences attributable to:		
Accrued expenses	0.5	1.1
Employee benefits	0.3	0.3
Equity and debt raising	0.3	0.5
Deferred revenue	0.6	0.2
Derivatives	4.8	9.4
Tax losses	139.6	122.6
	146.1	134.1
Set-off of deferred tax liabilities pursuant to set-off provisions (note 21)	(146.1)	(134.1)
Net deferred tax assets	**-**	**-**
Movements		
Balance at the beginning of the financial year	134.1	127.9
Credited to the income statement (note 6)	16.6	20.1
Charged to equity	(4.6)	(13.9)
Balance at the end of the financial year	146.1	134.1

NON-CURRENT ASSETS – OTHER NON-CURRENT ASSETS

NOTE 14

	2011	2010
	$M	$M
Deferred licence fee	0.1	0.5

CURRENT LIABILITIES – PAYABLES

NOTE 15

	2011	2010
	$M	$M
Trade payables	39.9	33.7

CURRENT LIABILITIES – BORROWINGS

NOTE 16

	2011	2010
	$M	$M
Secured Borrowings		
Commercial Paper	47.5	28.9
Capital Indexed Bonds	-	23.0
Bank loans	224.7	26.0
Medium Term Notes	-	149.6
	272.2	**227.5**

A) RISK EXPOSURES

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

B) FAIR VALUE DISCLOSURES

Details of the fair value of borrowings for the Group are set out in note 19.

CURRENT LIABILITIES – PROVISIONS

NOTE 17

	2011	2010
	$M	$M
Employee benefits	0.6	0.5
Land management costs	4.9	5.7
	5.5	**6.2**

Movements in land management cost provision during the financial year are set out in note 20.

CURRENT LIABILITIES – OTHER CURRENT LIABILITIES

NOTE 18

	2011	2010
	$M	$M
Prepayments from energy retailers	36.4	31.6
Accrued costs	2.9	4.4
Interest accrued	5.5	7.6
Other deferred income	2.2	1.3
	47.0	**44.9**

NOTE 19

NON-CURRENT LIABILITIES – BORROWINGS

The Envestra Group owns gas distribution networks and transmission pipelines. Whilst the assets generally have very long lives, the financing of those assets is undertaken using a range of instruments with varying terms, including capital markets debt and bank loans, with maturities spread over the next 22 years to promote liquidity and minimise refinancing risk.

Debt instruments comprising the loan portfolio are expected to be refinanced at regular intervals in the normal course of the Group's operations.

	2011	2010
	$M	$M
Secured Borrowings		
Bank loans	331.4	534.9
Capital Indexed Bonds	329.5	319.9
Medium Term Notes	630.9	629.8
US Private Placement Notes	395.0	229.2
	1,686.8	**1,713.8**

A) TOTAL SECURED LIABILITIES

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

	2011	2010
	$M	$M
Bank loans	556.1	560.9
Commercial Paper	47.5	28.9
Capital Indexed Bonds	329.5	342.9
Medium Term Notes	630.9	779.4
US Private Placement Notes	395.0	229.2
	1,959.0	**1,941.3**

The principal values of total secured liabilities are outlined in note 19(D).

B) ASSETS PLEDGED AS SECURITY

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

	Notes	2011	2010
		$M	$M
Current			
Floating charge			
Cash and cash equivalents	7	7.3	6.4
Receivables	8	68.5	65.5
Other current assets	10	3.5	4.2
		79.3	76.1
Non-current			
Floating charge			
Property, plant and equipment	11	2,211.0	2,043.8
Intangibles	12	606.0	585.6
Other non-current assets	14	0.1	0.5
		2,817.1	2,629.9
Total assets pledged as security		**2,896.4**	**2,706.0**

C) SIGNIFICANT TERMS AND CONDITIONS

The bank loans, Capital Indexed Bonds, Commercial Paper, Medium Term Notes and US Private Placement Notes are secured by charges over the respective networks owned by the Envestra Group. Various interest service and balance sheet covenants must be maintained by the Envestra Consolidated Group, otherwise certain restrictions apply with respect to the payment of dividends and funding of capital expenditure. At 30 June 2011, all covenants had been complied with.

D) GROUP FUNDING AND LIABILITY STRUCTURE

The Envestra Group's total interest bearing debt as at 30 June 2011 was $2,149.2 million (refer note 22(F)) comprising a range of financial instruments with varying maturities issued under the Group's treasury management program with a view to diversifying funding sources, increasing future refinancing options and lowering overall borrowing costs.

The existing debt instruments include:

Bank loans

Bank loans are committed facilities from major banks generally for three year terms.

Commercial Paper

The Envestra Group had Commercial Paper on issue at 30 June 2011 of $48.0 million (2010: $29.0 million). Commercial Paper is expected to be issued from time to time by the Group in the future largely as interim funding for the ongoing capital expenditure program.

The Commercial Paper and Medium Term Note Program is supported by undrawn committed bank facilities of $140 million at 30 June 2011. At 31 July 2011, undrawn committed bank facilities had risen to $267 million as a result of the issuance of a further A$242 million of USPP Notes, the proceeds of which were used to repay short-term bank loans.

Capital Indexed Bonds

These bonds were issued for varying terms, and as at 30 June 2011 had terms to maturity of up to 14 years. The principal component is indexed by the quarterly movement in the CPI.

Medium Term Notes

Medium Term Notes totalling $645.0 million (2010: $795.0 million) are instruments issued under the Medium Term Note Program for varying terms and as at 30 June 2011 had terms to maturity of up to 15 years. The Medium Term Notes on issue have varying maturity dates and are classified as non-current in accordance with these dates.

US Private Placement Notes

Notes with a principal value of A$545.9 million (2010: A$266.1 million) are issued in the United States of America for terms ending in 2015, 2018, 2021, 2027 and 2033. There are cross currency swaps in place to swap both the principal and interest payments from the US$ fixed coupon to A$ floating rate for the term of the respective note.

E) FINANCING ARRANGEMENTS

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

	2011	2010
	$M	*$M*
Bank loan facilities		
Total facilities	711.0	787.0
Used at balance date	571.0	565.0
Unused at balance date	**140.0**	**222.0**

F) FAIR VALUES

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

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

	Carrying amount 2011	Fair value 2011	Carrying amount 2010	Fair value 2010
	$M	$M	$M	$M
Non-traded financial liabilities				
Bank loans	556.1	560.4	560.9	564.9
US Private Placement Notes	395.0	397.9	229.2	230.6
Traded financial liabilities				
Capital Indexed Bonds	329.5	261.2	342.9	274.5
Medium Term Notes	630.9	645.0	779.4	795.0
Commercial Paper	47.5	47.5	28.9	28.9
	1,959.0	**1,912.0**	**1,941.3**	**1,893.9**

G) RISK EXPOSURES

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

NOTE 20

NON-CURRENT LIABILITIES – PROVISIONS

	2011	2010
	$M	$M
Long service leave	0.1	0.2
Other employee and Director entitlements	0.2	0.2
Land management costs	13.4	11.7
	13.7	**12.1**

Land management costs

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

Movements in provisions

Movements in land management cost provision during the financial year are set out below:

	2011	2010
	$M	$M
Land management costs		
Balance at the beginning of the financial year		
Current (note 17)	5.7	-
Non-current	11.7	16.8
	17.4	16.8
Additional provision recognised	1.7	0.8
Payments made from provision	(0.8)	(0.2)
Balance at the end of the financial year	18.3	17.4
Current provision (note 17)	4.9	5.7
Non-current provision	13.4	11.7
	18.3	17.4

NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

NOTE 21

	2011	2010
	$M	*$M*
The balance comprises temporary differences attributable to:		
Equity and debt raising	7.5	7.3
Other	1.0	0.5
Provisions	(5.5)	(5.2)
Depreciation	256.8	215.4
	259.8	218.0
Set-off of deferred tax assets pursuant to set-off provisions (note 13)	(146.1)	(134.1)
Net deferred tax liabilities	**113.7**	**83.9**
Movements		
Balance at the beginning of the financial year	218.0	183.5
Charged to the income statement (note 6)	36.5	34.5
Acquisition of subsidiary	5.3	-
Balance at the end of the financial year	259.8	218.0

CONTRIBUTED EQUITY

NOTE 22

	2011	2010	2011	2010
	Securities	*Securities*	*$M*	*$M*
A) SHARE CAPITAL				
Ordinary shares				
Issued and paid up capital	1,468,560,201	1,386,827,962	581.4	537.1
B) OTHER EQUITY COMPONENTS				
Deferred tax liability component			0.9	0.9
Total contributed equity			**582.3**	**538.0**

C) MOVEMENTS IN ORDINARY SHARE CAPITAL	Date	Number of securities	Issue price	Total
			$	*$M*
Opening balance	1-7-2009	1,307,029,746		494.8
Dividend reinvestment plan	30-10-2009	39,872,296	0.53	21.1
Dividend reinvestment plan	30-4-2010	39,925,920	0.53	21.2
Closing balance	**30-6-2010**	**1,386,827,962**		**537.1**
Dividend reinvestment plan	29-10-2010	43,570,647	0.50	21.8
Dividend reinvestment plan	29-4-2011	38,161,592	0.59	22.5
Closing balance	**30-6-2011**	**1,468,560,201**		**581.4**

D) ORDINARY SHARES

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

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

E) DIVIDEND REINVESTMENT PLAN ("DRP")

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

F) CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and to maintain an optimal capital structure.

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total non-cash assets. Net debt is calculated as total borrowings less cash and cash equivalents. A market value of equity gearing ratio is also used and is calculated as net debt divided by net debt plus market value of equity.

The gearing ratios at 30 June 2011 and 30 June 2010 were as follows:

	2011	2010
	$M	*$M*
Total borrowings (note 19(A))	1,959.0	1,941.3
Add back unamortised fees	31.6	35.4
Add back hedges impact on borrowings	158.6	31.9
Total borrowings	2,149.2	2,008.6
Less cash and cash equivalents	(7.3)	(6.4)
Net debt	**2,141.9**	**2,002.2**
Total assets	2,896.4	2,706.0
Less cash and cash equivalents	(7.3)	(6.4)
Total non-cash assets	**2,889.1**	**2,699.6**
Ordinary shares (number)	1,468,560,201	1,386,827,962
Share price at 30 June ($)	0.69	0.49
Market value of equity ($M)	1,013.3	679.5
Book value gearing ratio	74.1%	74.2%
Economic value gearing ratio	67.9%	74.7%

NOTE 23 RESERVES AND RETAINED EARNINGS

A) RESERVES

	2011	2010
	$M	*$M*
Hedging reserve – cash flow hedges	(10.4)	(21.1)
Movements		
Balance at the beginning of the financial year	(21.1)	(55.5)
Fair value movements	15.3	48.9
Deferred tax	(4.6)	(14.5)
Balance at the end of the financial year	**(10.4)**	**(21.1)**

B) RETAINED EARNINGS / (ACCUMULATED LOSSES)

	2011	2010
Movements in retained earnings were as follows:		
Balance at the beginning of the financial year	3.7	39.5
Profit for the year	45.0	37.2
Dividend paid	(77.5)	(73.0)
Balance at the end of the financial year	**(28.8)**	**3.7**

C) NATURE AND PURPOSE OF RESERVES

Hedging reserve – cash flow hedges

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

DIVIDENDS

NOTE 24

	2011	2010
	$M	$M
A) ORDINARY SHARES		
Amounts paid in October (per share)		
Unfranked dividend: 2.75 cents (2011); 2.75 cents (2010)	38.1	36.0
	38.1	**36.0**
Amounts paid in April (per share)		
Unfranked dividend: 2.75 cents (2011)	39.4	-
Partially franked dividend at 55%: 2.75 cents (2010)	-	37.0
	39.4	**37.0**
Total annual dividend: 5.5 cents (2011); 5.5 cents (2010)		
Unfranked dividend: 5.5 cents (2011);2.75 cents (2010)	77.5	36.0
Partially franked dividend at 55%: 2.75 cents (2010)	-	37.0
	77.5	**73.0**

B) DIVIDENDS NOT RECOGNISED AT YEAR END

On 25 August 2011 the Directors declared the payment of a final unfranked dividend of 2.9 cents per fully paid ordinary share. The aggregate amount of this dividend expected to be paid on 28 October 2011 is $42.6 million. This dividend is not recognised as a liability at year end.

KEY MANAGEMENT PERSONNEL DISCLOSURES

NOTE 25

A) KEY MANAGEMENT PERSONNEL COMPENSATION

	2011	2010
	$	$
Short-term employee benefits	2,512,399	2,460,402
Post-employment benefits	213,422	250,401
	2,725,821	**2,710,803**

Detailed remuneration disclosures are provided in sections A – D of the Remuneration Report on pages 35 to 41.

B) EQUITY INSTRUMENT DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

Share holdings

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

Ordinary shares 2011

Name	Balance at the start of the year	Changes during the year	Balance at the end of the year
Directors of Envestra Ltd			
J G Allpass	247,547	25,789	273,336
I B Little	123,240	-	123,240
E F Ainsworth	66,000	-	66,000
O B O'Duill	200,000	-	200,000
M J McCormack	28,000	-	28,000
Other key management personnel of the Group			
D Petherick	207,685	-	207,685
G Meredith	14,000	-	14,000

Ordinary shares 2010

Name	Balance at the start of the year	Changes during the year	Balance at the end of the year
Directors of Envestra Ltd			
J G Allpass	223,727	23,820	247,547
I B Little	123,240	-	123,240
E F Ainsworth	66,000	-	66,000
O B O'Duill	200,000	-	200,000
M J McCormack	28,000	-	28,000
Other key management personnel of the Group			
D Petherick	207,685	-	207,685
G Meredith	14,000	-	14,000

NOTE 26

REMUNERATION OF AUDITORS

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

	2011	2010
	$	$
PwC Australia		
A) AUDIT AND OTHER ASSURANCE SERVICES		
Audit and review of financial statements	202,500	195,000
Other assurance services		
Audit of regulatory returns	30,000	30,000
Due diligence services	46,200	-
Accounting advice	23,363	-
Total remuneration for audit and other assurance services	**302,063**	**225,000**
B) TAXATION SERVICES		
Tax compliance services	45,866	44,610
Tax advice on acquisition	47,386	-
Total remuneration for taxation services	**93,252**	**44,610**
C) OTHER SERVICES		
Advisory services	141,773	98,000
Total remuneration for other services	**141,773**	**98,000**
Total remuneration of PwC Australia	**537,088**	**367,610**

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

NOTE 27

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 28.

C) KEY MANAGEMENT PERSONNEL COMPENSATION

Disclosures relating to key management personnel are set out in note 25.

D) TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

	2011	2010
	$	$
Expenses		
Payments for operation and management of the networks	99,290,000	92,495,000
Payments for capital expenditure relating to the networks	131,185,000	100,290,000

E) TERMS AND CONDITIONS

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

Outstanding balances are unsecured and are repayable in cash.

SUBSIDIARIES

NOTE 28

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 2011	Equity holding of Envestra Ltd 2010
			%	%
Envestra Natural Gas Networks Ltd (ix)	Australia	Ordinary	100	100
Envestra (SA) Ltd (ii)(ix)	Australia	Ordinary	-	-
Envestra (Qld) Ltd (ix)	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 Co Ltd (i)	Australia	Ordinary	-	-
Envestra Transmission Holdings 1 Pty Ltd	Australia	Ordinary	100	100
Envestra Transmission Holdings 2 Pty Ltd (vi)	Australia	Ordinary	-	-
Envestra Transmission Pty Ltd (vii)	Australia	Ordinary	-	-
Envestra (NSW) Pty Ltd (viii)	Australia	Ordinary	-	-

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

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

(vii) Envestra Transmission Pty Ltd is a subsidiary of Envestra Transmission Holdings 2 Pty Ltd.

(viii) Envestra (NSW) Pty Ltd is a subsidiary of Envestra Transmission Pty Ltd.

(ix) 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 29.

DEED OF CROSS GUARANTEE

NOTE 29

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

A) CONSOLIDATED INCOME STATEMENT AND A SUMMARY OF MOVEMENTS IN CONSOLIDATED RETAINED EARNINGS

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

Set out below is a consolidated income statement and a summary of movements in consolidated retained earnings for the year ended 30 June 2011 of the Closed Group consisting of Envestra Ltd, Envestra Natural Gas Networks Ltd, Envestra (SA) Ltd and Envestra (Qld) Ltd.

	2011	2010
Income Statement	*$M*	*$M*
Total revenue/income	270.0	248.6
Network operating costs	(56.6)	(54.4)
Gas purchase	(11.7)	(11.0)
Corporate development, property and administration costs	(10.5)	(11.5)
Depreciation/impairment	(167.4)	(30.2)
Borrowing costs	(72.4)	(64.2)
Profit / (loss) before income tax expense	(48.6)	77.3
Income tax expense	(27.2)	(22.6)
Net profit / (loss) after tax	**(75.8)**	**54.7**
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	106.0	124.3
Net profit/(loss) after tax for the financial year	(75.8)	54.7
Dividend paid	(77.5)	(73.0)
Retained earnings / (accumulated losses) at the end of the financial year	**(47.3)**	**106.0**

B) BALANCE SHEET

Set out below is a consolidated balance sheet as at 30 June 2011 of the Closed Group consisting of Envestra Ltd, Envestra Natural Gas Networks Ltd, Envestra (SA) Ltd and Envestra (Qld) Ltd.

	2011	2010
	$M	*$M*
Current assets		
Cash and cash equivalents	4.2	5.1
Receivables	27.5	24.3
Other current assets	13.6	11.1
Total current assets	**45.3**	**40.5**
Non-current assets		
Receivables	108.9	560.8
Investment in subsidiaries	508.9	-
Property, plant and equipment	1,227.8	1,196.9
Total non-current assets	**1,845.6**	**1,757.7**
Total assets	**1,890.9**	**1,798.2**
Current liabilities		
Payables	17.2	18.8
Borrowings	124.8	6.0
Provisions	0.6	0.5
Derivative financial instruments	-	8.6
Other current liabilities	39.9	35.0
Total current liabilities	**182.5**	**68.9**

	2011	2010
	$M	$M
Non-current liabilities		
Borrowings	1,128.6	1,049.2
Provisions	0.3	0.4
Derivative financial instruments	7.3	-
Deferred tax liabilities	42.3	41.7
Total non-current liabilities	**1,178.5**	**1,091.3**
Total liabilities	**1,361.0**	**1,160.2**
Net assets	**529.9**	**638.0**
Equity		
Contributed equity	582.3	538.0
Reserves	(5.1)	(6.0)
Retained earnings	(47.3)	106.0
Total equity	**529.9**	**638.0**

ECONOMIC DEPENDENCY

NOTE 30

The Envestra Group has two major customers. They are:

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

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

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

NOTE 31

On 13 July 2011 the proceeds from a new US Private Placement Note facility were received. This consisted of two A$ amounts: a $65 million 12-year Note maturing on 12 July 2023; and a $50 million 30-year Note maturing on 12 July 2041, and a US$130 million, 12-year Note maturing on 12 July 2023. The principal and interest on the US dollar portion of the Notes was fully hedged for the term of the debt so that there is no foreign exchange risk.

In addition to this, on 29 July 2011, documentation was executed to extend two bank facilities maturing in November 2011 and January 2012, for $100 million and $60 million respectively, for a further three years. These facilities have been recorded in the financial statements as current liabilities, but these facilities now mature in July and August 2014.

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

NOTE 32

	2011	2010
	$M	$M
Profit after income tax	45.0	37.2
Depreciation and amortisation	59.7	57.5
Indexation of Capital Indexed Bonds	9.9	6.4
Asset retirements	0.2	0.5
Refunds due to customers	-	(1.1)
Other deferred revenue	1.6	(1.7)
Gain on disposal of land and plant and equipment	(0.4)	(0.5)
Change in operating assets and liabilities		
Increase in trade debtors	(6.8)	(4.7)
Decrease in other operating assets	1.0	0.3
Increase in trade creditors and other liabilities	6.1	8.8
Increase in provision for deferred income tax	19.9	14.4
Net cash inflow from operating activities	**136.2**	**117.1**

NOTE 33

NON-CASH INVESTING AND FINANCING ACTIVITIES

Dividends satisfied by the issue of shares under the Dividend Reinvestment Plan are shown in note 24.

NOTE 34

EARNINGS PER SHARE

A) BASIC EARNINGS PER SHARE	2011	2010
	Cents	*Cents*
Profit from continuing operations attributable to the ordinary equity holders of the Company	3.2	2.8

B) DILUTED EARNINGS PER SHARE

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

C) WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR	2011	2010
	Number	*Number*
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,422,436,884	1,340,356,801

NOTE 35

BUSINESS COMBINATION

A) SUMMARY OF ACQUISITION

On 29 October 2010, Envestra Transmission Pty Ltd, a wholly-owned subsidiary of Envestra Ltd, acquired 100% of the issued shares in Country Energy Gas Pty Ltd, a subsidiary of Country Energy, a NSW state-owned corporation. Total consideration for the acquisition was $108.7 million. Purchase consideration under AASB 3 Business Combinations was $52.2 million, with the remaining consideration comprising the provision of a loan to the subsidiary company. Country Energy Gas Pty Ltd is a provider of gas distribution services in New South Wales. The acquisition represents a strong strategic fit with Envestra's business model and substantially increases its presence in New South Wales.

Details of the purchase consideration, and the net assets acquired are as follows:

	Fair value
	$M
Purchase consideration – cash (refer note 35(B))	52.2
The assets and liabilities recognised as a result of the acquisition are as follows:	
Receivables	1.6
Other debtors	0.2
Property, plant and equipment	91.8
Intangibles	20.4
Net deferred tax liabilities	(5.3)
Loan from parent company	(56.5)
Net assets acquired	52.2

There were no acquisitions in the previous corresponding period.

(i) Acquisition-related costs

Acquisition related costs of $1,423,047 are included in corporate development, property and administration costs in the Income Statement.

(ii) Acquired receivables

The contractual amount of acquired trade receivables is $1,593,529. None of these are considered to be uncollectable, and due to their short-term nature, their carrying amount is assumed to approximate their fair value.

(iii) Revenue and profit recognition

The acquired business contributed revenue of $8.1 million and net profit after tax of $0.3 million to the Group for the period 30 October 2010 to 30 June 2011.

B) PURCHASE CONSIDERATION – CASH OUTFLOW

	$M
Cash consideration	52.2
Provision of loan to subsidiary company	56.5
Outflow of cash – investing activities	108.7

PARENT ENTITY FINANCIAL INFORMATION

NOTE 36

A) SUMMARY FINANCIAL INFORMATION

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

	2011	2010
	$M	$M
Balance Sheet		
Current assets	45.3	40.5
Total assets	2,346.8	2,202.4
Current liabilities	182.5	68.9
Total liabilities	2,153.5	1,852.8
Shareholders equity		
Issued capital	582.3	538.0
Reserves – cash flow hedges	(5.1)	(6.0)
Accumulated losses	(383.9)	(182.4)
	193.3	349.6
Profit / (loss) for the year	(124.0)	79.1
Total comprehensive income	(123.1)	91.5

B) GUARANTEES ENTERED INTO BY THE PARENT ENTITY

There are cross guarantees given by Envestra Ltd, Envestra Natural Gas Networks Ltd, Envestra (SA) Ltd and Envestra (Qld) Ltd as described in note 29. No deficiencies exist in any of these entities.

C) CONTINGENT LIABILITIES OF THE PARENT ENTITY

The parent entity did not have any material contingent liabilities as at 30 June 2011 or 30 June 2010.

D) CONTRACTUAL COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The parent entity had no contractual commitments for the acquisition of property, plant or equipment as at 30 June 2011 or 30 June 2010.

E) INVESTMENT IN SUBSIDIARIES

An intercompany loan that was previously receivable from a subsidiary, Envic Holdings 2 Ltd, has been forgiven. In accordance with AASB 108 Accounting Policies the loan forgiveness has been offset to equity. Under AASB 108, a transaction which is in substance of a capital nature is reflected in equity.

The recoverable amount of the investment in subsidiary is based on a calculation of the equity value in the subsidiary. Those calculations use cash flow projections based on current and expected regulatory outcomes for gas distributors. Cash flow projections are estimated for a period of 20 years, with a terminal value, recognising the long-term nature of the assets. The discount rate used was 9.3%.

The parent entity recorded an impairment loss on the investment in subsidiary of $139.0 million.

COMMITMENTS

NOTE 37

Operating leases

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

	2011	2010
	$M	*$M*
Commitment for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	1.4	1.1
Later than one year but not later than five years	4.6	4.9
Later than five years	1.0	-
	7.0	**6.0**
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	6.0	4.0

ENVESTRA LTD DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 43 to 78 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulation 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance, for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out on pages 35 to 41 of the Directors' Report comply with Accounting Standard AASB 124 Related Party Disclosures and the *Corporations Regulations 2001*; and

(d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 29 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 29.

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

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

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

John G Allpass
Chairman

Adelaide
25 August 2011

pwc

Independent auditor's report to the members of Envestra Limited

Report on the financial report

We have audited the accompanying financial report of Envestra Limited (the company), which comprises the balance sheet as at 30 June 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Envestra Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

PricewaterhouseCoopers, ABN 52 780 433 757
91 King William Street, ADELAIDE SA 5000, GPO Box 418, ADELAIDE SA 5001
DX 77 Adelaide, Australia
T +61 2 8218 7000, F +61 2 8218 7999, www.pwc.com.au

pwc

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

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

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

Independence

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

Auditor's opinion

In our opinion:

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

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*, and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 35 to 41 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Envestra Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

DR Clark

DR Clark
Partner

Adelaide
25 August 2011

SHAREHOLDER INFORMATION

Number of shareholders

At 25 August 2011, there were 17,862 shareholders

Sharegrouping	Number of shareholders	Securities held	Percentage
1 - 1,000	545	274,305	0.02
1,001 - 5,000	2,360	8,152,047	0.56
5,001 - 10,000	3,264	26,516,764	1.81
10,001 - 100,000	11,013	335,564,077	22.85
100,001 and over	680	1,098,053,008	74.76
Total	**17,862**	**1,468,560,201**	**100.00**
Shareholders holding less than a marketable parcel of 736 shares	338	79,961	<0.01

Twenty largest shareholders

The percentage of the total holdings held by or on behalf of the 20 largest holders of shares at 25 August 2011 was as follows:

Organisation	Shares	Percentage of shares
Australian Pipeline Ltd	484,792,419	33.01
Cheung Kong Infrastructure Holdings (Malaysian) Ltd	286,459,774	19.51
J P Morgan Nominees Australia Ltd	47,656,395	3.25
HSBC Custody Nominees (Australia) Ltd	36,221,943	2.47
Citicorp Nominees Pty Ltd	27,451,186	1.87
National Nominees Ltd	24,954,526	1.70
Queensland Investment Corporation	8,105,693	0.55
Argo Investments Ltd	5,833,146	0.40
Sellers Holdings Pty Ltd	5,435,000	0.37
Corporate Positioning Pty Ltd	4,000,000	0.27

Organisation	Shares	Percentage of shares
JP Morgan Nominees Australia Ltd (cash income a/c)	3,417,088	0.23
Blueflag Holdings Pty Ltd	3,000,000	0.20
Ramsleigh Pty Ltd	3,000,000	0.20
National Exchange Pty Ltd	2,500,000	0.17
RBC Dexia Investor Services Australia Nominees Pty Ltd	2,389,861	0.16
UBS Wealth Management Australia Nominees Pty Ltd	2,217,231	0.15
AMP Life Ltd	2,170,645	0.15
Pavwood Pty Ltd	2,147,176	0.15
Australian Executor Trustees Ltd	1,919,873	0.13
Equitas Nominees Pty Ltd	1,604,396	0.11
Total for top 20	**955,276,352**	**65.05**

Substantial shareholders

Substantial shareholder notices have been received as follows:

Organisation	Shares	Percentage of shares
Australian Pipeline Ltd	484,792,419	33.01
Cheung Kong Infrastructure Holdings (Malaysian) Ltd	286,459,774	19.51

Summary of distributions

Date paid	Repayment of loan note(i)	Interest(i)	Dividends	Total payment(i)	Loan note balance
	Cents	Cents	Cents	Cents	Cents
28 November 1997	3.77	0.88	-	4.65	66.23
29 May 1988	1.45	1.65	-	3.10	64.78
Total	**5.22**	**2.53**	**-**	**7.75**	**-**
27 November 1998	3.06	1.83	-	4.89	61.72
28 May 1999	1.54	1.72	-	3.26	60.18
Total	**4.60**	**3.55**	**-**	**8.15**	**-**
26 November 1999	3.59	1.81	-	5.40	56.59
	3.59(ii)	0.09(ii)	-	3.68(ii)	56.59
26 May 2000	1.90	1.70	-	3.60	54.69
Total	**5.49**	**3.51**	**-**	**9.00**	**-**
	5.49(ii)	**1.79(ii)**	**-**	**7.28(ii)**	**-**
24 November 2000	3.77	1.78	-	5.55	50.92
25 May 2001	2.05	1.65	-	3.70	48.87
Total	**5.82**	**3.43**	**-**	**9.25**	**-**
26 November 2001	3.98	1.72	-	5.70	44.89
29 April 2002	2.23	1.57	-	3.80	42.66
	2.23(iii)	0.20	-	2.43(iii)	42.66
Total	**6.21**	**3.29**	**-**	**9.50**	**-**
	2.23(iii)	**0.20**	**-**	**2.43(iii)**	**-**
25 November 2002	3.99	1.71	-	5.70	38.67
29 April 2003	2.26	1.54	-	3.80	36.41
Total	**6.25**	**3.25**	**-**	**9.50**	**-**
28 November 2003	3.87	1.83	-	5.70	32.54
30 April 2004	2.18	1.62	-	3.80	30.36
Total	**6.05**	**3.45**	**-**	**9.50**	**-**
30 November 2004	3.87	1.83	-	5.70	26.49
29 April 2005	2.21	1.59	-	3.80	24.28
Total	**6.08**	**3.42**	**-**	**9.50**	**-**
30 November 2005	3.87	1.83	-	5.70	20.41
26 May 2006	2.27	1.53	-	3.80	18.14
Total	**6.14**	**3.36**	**-**	**9.50**	**-**
30 November 2006	3.87	1.36	0.47	5.70	14.27
31 May 2007	2.27	1.07	0.46	3.80	12.00
Total	**6.14**	**2.43**	**0.93**	**9.50**	**-**
30 November 2007	3.87	0.90	0.93	5.70	8.13
30 May 2008	3.19	0.61	-	3.80	4.94
Total	**7.06**	**1.51**	**0.93**	**9.50**	**-**
28 November 2008	4.13	0.37	-	4.50	0.81
29 May 2009	0.81	0.05	1.89	2.75	nil
Total	**4.94**	**0.42**	**1.89**	**7.25**	**-**
30 October 2009	-	-	2.75	2.75	nil
30 April 2010	-	-	2.75	2.75	nil
Total	**-**	**-**	**5.50**	**5.50**	**-**
29 October 2010	-	-	2.75	2.75	nil
29 April 2011	-	-	2.75	2.75	nil
Total	**-**	**-**	**5.50**	**5.50**	**-**

(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

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

Payment of dividends

Dividends are paid directly to bank, building society or credit union accounts in Australia. The payments are electronically credited on the divided payment date and confirmed by 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 dividends. It is therefore in the interest of shareholders to ensure that this information is provided. Forms are available from the share registry to notify your tax file number, Australian business number or tax exemption details.

Annual Report mailing list

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

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

Change of address

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

Share trading

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

2011 Annual General Meeting

The Annual General Meeting of Envestra will be held at 10:00am on Thursday, 20 October 2011 at the Adelaide Convention Centre, North Terrace, Adelaide. Details of the business of the meeting are contained in the Notice of Meeting sent to shareholders.

Dividend Reinvestment Plan

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

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

Information on Envestra

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

GLOSSARY

Access Arrangement

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

APA

Australian Pipeline Ltd and APA Asset Management.

Gigajoule (GJ)

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

GFC

Global Financial Crisis.

Joule (J)

Joules are a measure of energy.

Lost Time Injury

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

National Access Code

National Third Party Access Code for Natural Gas Pipeline Systems.

Petajoule (PJ)

A petajoule is equal to one joule multiplied by 10^{15}.

Regulator

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

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

System Use Gas (SUG)

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

Tariffs (Access Charges)

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

Terajoule (TJ)

A terajoule is equal to one joule multiplied by 10^{12}.

NETWORK STATISTICS

Consumers

	Victoria		South Australia		Queensland	
	2011	2010	2011	2010	2011	2010
Domestic	542,242	527,116	399,469	391,025	83,725	81,389
Industrial & commercial <10TJ	22,778	22,712	10,276	10,132	3,274	3,250
Industrial & commercial >10TJ	236	240	178	180	75	76
Total consumers(i)	**565,256**	**550,068**	**409,923**	**401,337**	**87,074**	**84,715**

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

	New South Wales		Northern Territory		Total	
	2011	2010	2011	2010	2011	2010
Domestic	49,993	22,729	986	983	1,076,415	1,023,242
Industrial & commercial <10TJ	1,095	1,091	97	96	37,520	37,281
Industrial & commercial >10TJ	31	11	1	1	521	508
Total consumers(i)	**51,119**	**23,831**	**1,084**	**1,080**	**1,114,456**	**1,061,031**

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

Gas Delivered (TJ)

	Victoria		South Australia		Queensland	
	2011	2010	2011	2010	2011	2010
Domestic, industrial & commercial <10TJ	36,851	32,924	11,658	10,822	2,313	2,138
Industrial & commercial >10TJ	20,952	20,985	24,265	24,139	14,331	13,635
Total gas delivered	**57,803**	**53,909**	**35,923**	**34,961**	**16,644**	**15,773**

	New South Wales		Northern Territory		Total	
	2011	2010	2011	2010	2011	2010
Domestic, industrial & commercial <10TJ	1,991	1,284	65	60	52,878	47,228
Industrial & commercial >10TJ	3,306	2,075	3,232	3,318	66,086	64,152
Total gas delivered	**5,297**	**3,359**	**3,297**	**3,378**	**118,964**	**111,380**

Assets

	Victoria		South Australia		Queensland	
	2011	2010	2011	2010	2011	2010
New mains (km)	193	172	51	68	26	32
New inlets	14,910	14,270	9,544	8,373	2,350	2,463
Replacement mains (km)	101	4	109	87	26	28
Total mains (km)	9,804	9,641	7,964	7,887	2,609	2,560
Transmission pipelines (km)	225	219	372	372	284	284

	New South Wales		Northern Territory		Total	
	2011	2010	2011	2010	2011	2010
New mains (km)	5	4	0	0	275	276
New inlets	510	495	0	0	27,314	25,601
Replacement mains (km)	0	0	0	0	236	119
Total mains (km)	1,790	615	38	38	22,205	20,741
Transmission pipelines (km)	84	20	153	153	1,118	1,048

BURTON NESBITT GRAPHIC DESIGN

ENQUIRIES

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

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

Any other enquiries relating to the Company's operations may be directed to:

Des Petherick
Company Secretary and
Manager, Corporate Services

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

Envestra