LONG LIFE NETWORK ASSETS PROVIDING STABLE AND SUSTAINABLE:

- SERVICE TO OUR CUSTOMERS
- RETURNS TO OUR SHAREHOLDERS

Envestra

AUSTRALIA'S LEADING DISTRIBUTOR OF NATURAL GAS

SERVICING OVER 1.1 MILLION HOMES AND BUSINESSES

GAS NETWORK ENHANCEMENTS OF $1.3 BILLION OVER NEXT 5 YEARS

DELIVERING ENVIRONMENT-FRIENDLY FUEL

ANNUAL REPORT

2013


ENVIRONMENTAL RESPONSIBILITY
SUSTAINABLE FINANCIAL PERFORMANCE
GAS MARKETING PROGRAM
"MAKE THE CONNECTION"
OVER 6,000 APPLIANCE REBATES PROVIDED
ESSENTIAL SERVICE
NATURAL GAS
TIGHT CAPITAL & OPERATING COST MANAGEMENT
12/13
* OPEX INCREASES LIMITED TO 2% (EXCL CARBON TAX)
* 14% REDUCTION IN BORROWING COSTS
28,000 NEW CONSUMERS ADDED
RECORD LEVELS OF MAINS REPLACEMENT

PRUDENT FINANCIAL AND CAPITAL MANAGEMENT

CREDIT RATING UPGRADE: BBB

• ADDITIONAL EQUITY RAISED IN 2012-13 ($219m)

DELIVERING A HIGH QUALITY SERVICE TO CUSTOMERS REQUIRES CONSTANT PLANNING, PRUDENT FINANCIAL MANAGEMENT, BUSINESS LEADERSHIP AND ONGOING INVESTMENT IN NETWORK ASSESSMENT AND IMPROVEMENT.

CAPEX PROGRAM TO EXPAND AND REFURBISH GAS NETWORKS THROUGHOUT AUSTRALIA

ESSENTIAL SERVICE PROVIDED TO:
- 1.1 MILLION DOMESTIC USERS
- 40,000 INDUSTRIAL AND COMMERCIAL CUSTOMERS

CONTENTS

2 Chairman's and Managing Director's Review
6 Financial Review
10 Board of Directors
12 Management Team
14 Sustainability Report
18 Corporate Governance
27 Financial and Statutory Information
28 Directors' Report
33 Remuneration Report
42 Financial Statements
86 Shareholder Information
88 Network Statistics

FINANCIAL CALENDAR[1] 2013-2014

30.10.2013 Annual General Meeting - 2013
31.10.2013 Final Dividend Paid
20.02.2014 Half-Year Financial Results Announced
30.04.2014 Interim Dividend Paid
21.08.2014 Full-Year Financial Results Announced
29.10.2014 Annual General Meeting - 2014

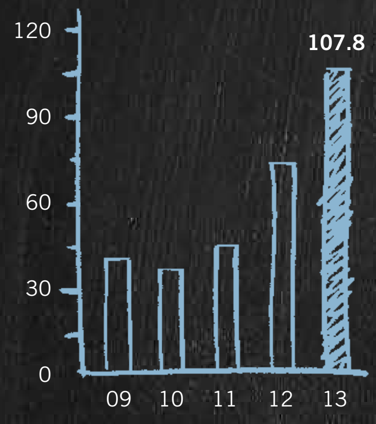
(1) DATES SUBJECT TO CONFIRMATION

THE 2013 ANNUAL GENERAL MEETING OF ENVESTRA LIMITED (ACN 078 551 685) WILL BE HELD AT 10:00AM ON WEDNESDAY, 30 OCTOBER 2013 AT THE ADELAIDE CONVENTION CENTRE, NORTH TERRACE, ADELAIDE.

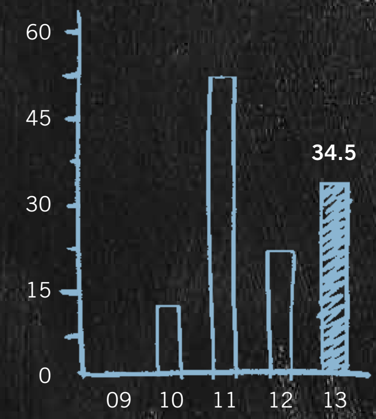
CHAIRMAN'S AND MANAGING DIRECTOR'S REVIEW

ENVESTRA AGAIN IMPROVED FINANCIAL PERFORMANCE IN 2012-13, RECORDING ITS HIGHEST PRE-TAX PROFIT ($153.8 MILLION) SINCE LISTING IN 1997, A 46% RISE ON THE PREVIOUS YEAR'S $105.4 MILLION.

PROFIT AFTER TAX
$ million



ANNUAL RETURNS TO SHAREHOLDERS*
% as at 30 June



*Annual returns to shareholders includes dividends and capital growth / (losses)

A Profit after Tax of $107.8 million is the Company's second highest 'bottom line result': only exceeded in 2008 when a one-off non-cash tax benefit arose. Cashflow from Operating Activities of $233.8 million was the highest ever achieved, $62 million ahead of what had been a record in the previous year.

For the third year in a row, Envestra's market value increased substantially. This year it was up 45% to around $1.8 billion, with the share price moving from 78 cents on 1 July, 2012 to 99 cents at 30 June, 2013. The increase of 26% in share price substantially exceeded the rise in the ASX 200 (up 16% during 2012-13). New equity was contributed by shareholders participating in the two Dividend Re-investment Plans in October 2012 and April 2013, with a further $130 million being raised largely from institutional shareholders, and our major shareholder, the APA Group, in a Share Placement that occurred in April, 2013. The Placement was undertaken in conjunction with a Share Purchase Plan where $32.2 million was contributed predominantly by smaller shareholders. A total of $219 million of new equity was raised during 2012-13. !

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

We experienced a small (1%) decrease in gas deliveries with 113 petajoules of gas flowing through our networks. The decline was largely attributable to plant closures by some of our larger industrial customers, as deliveries to households and smaller commercial customers, where we derive the vast majority of our revenue, were up 2%, largely reflecting the growth arising from our natural gas marketing campaign that we have been implementing in the southern States in recent years. Overall, revenue increased 8% to $507 million, reflecting the significant increases in tariffs incorporated in the five-year Access Arrangements for the South Australian and Queensland networks approved by the Australian Energy Regulator (AER) in mid-2011. These tariff adjustments came into effect at the beginning of the 2012-13 financial year.

Strong core business growth was founded on the continuation of a substantial capital expenditure program over recent years, with expenditure in the current year at a record $217 million, and follows expenditure of $176 million in 2011-12. Some 23,000 new customers were added to the networks, in line with performance over the past five years, but due to weakness in the housing market generally, down on that for the previous year. A large proportion of our capex program focuses on mains replacement where we are planning to replace the balance of our cast iron and unprotected steel pipelines with polyethylene pipes by 2018. A record 417 km of mains were replaced during the year, up from the 331 km replaced in 2011-12.

A record 417km of mains replacement in 2012-2013.*

The encouraging financial performance over recent years has led to a steady improvement in the Company's credit metrics, with a gearing level (based on net debt and market value of equity) of 54%, down from 64% at the beginning of the year. The improvements to key credit indicators, together with the improving financial prospects arising from the recent regulatory decisions, motivated Standard & Poor's to upgrade our credit rating to BBB Stable in May 2013 matching the Baa2 rating that Moody's has had in place for many years.

This outcome has been a long-held objective for the Company following the downgrade to BBB minus that occurred in mid-2006.

The strong financial performance in 2012-13 also led to increased interest in the Company's shares, reflected in the steady capital appreciation that occurred throughout the year. Our major shareholder, APA Ltd, recognised this latent value and shortly after year-end on 15 July, made a formal "unsolicited, indicative, conditional, non-binding" merger proposal involving an exchange of Envestra for APA shares, with the merger to be effected through a Scheme of Arrangement. An Independent Committee of Envestra directors was established to consider the proposal and on 5 August, advised shareholders that the proposed merger terms were unacceptable, the proposed offer price undervaluing Envestra's shares.

Equity Raisings

We undertook a major share issue in April 2013 by way of Share Placement and a Security Purchase Plan, raising $162 million. The decision to raise equity followed the release of the AER's Final Decision on our Victorian business (more below) which provided substantial certainty in respect to our commitment to an anticipated $1.3 billion capex program over the next five years. Whilst this program could have been financed through debt, together with the substantial internal cash generation expected to occur over this period, our Board took the view that the early funding, at least in part, of the anticipated spending program was a prudent approach and in the long-term interests of the Company and its shareholders. It continues to place the Company in a position of prudent risk exposure to future capital markets developments. The placement was also intended to increase the number of institutional shareholders on our Register, with the aim of improving liquidity in the Company's shares. As noted above, the Placement was accompanied by a Share Purchase Plan to ensure smaller shareholders would not suffer any material value loss that might otherwise occur with the dilution accompanying a Share Placement.

The Dividend Re-investment Plan was well supported by shareholders, with around 3,000 (around 17% of all shareholders) participating in the October 2012 and April 2013 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. Their respective holdings in the Company are currently 33% and 17.5%.

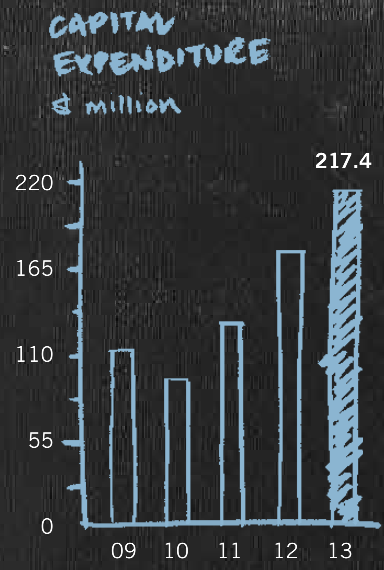
Regulatory Re-set for Victoria

Envestra's monopoly position as a gas distributor is subject to price regulation by the Australian Energy Regulator (AER). The AER reviews the Company's Access Arrangements at five-yearly intervals under the National Gas Law and Rules. This process determines future revenues and, as a consequence, tariffs, as well as contractual terms for retailers and some large-volume customers over the regulatory period.

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.

The Victorian and Albury Access Arrangements (comprising around 40% of our business) were to expire on 31 December 2012, but due to delays in the regulatory review process, the AER extended the expiration date until 30 June 2013. The AER issued its "Final Decisions" in respect to those networks on 15 March 2013. Total revenues over the next four and a half years are expected to be some $950 million, $115 million higher than in the 2008-12 period. Tariffs are expected to increase, on average, around 5% annually.

Capital expenditure anticipated under the Victorian regulatory decision will amount to $560 million, serving to extend our reach to new customers in developing suburbs, and to enhance the security and reliability of the gas network system. This will provide a substantial increase in the value of our regulatory asset base, which in turn ensures a sound basis for financial performance in the medium term.



Capital expenditure in current year at a record $217 million.

Commitment to anticipated $1.3 billion capex program over next 5 years.

Envestra's credit rating upgraded to BBB stable in May 2013.

GAS LEAKAGE RATES TARGETED TO DECLINE IN SOUTH AUSTRALIA AND VICTORIA AS THE ACCELERATED MAINS REPLACEMENT PROGRAM PROGRESSES.

Operator Performance

APA Asset Management, as operator of our networks, again performed well during 2012-13. Overall operating costs increased 9%, most of which was associated with the imposition of the carbon tax that cost $9.6 million and which was "passed through" to consumers in accordance with the regulatory arrangements administered by the AER. Costs associated with gas leakage from the networks were up 7% on the previous year, with increasing leakage rates in South Australia and Victoria. We anticipate the leakage rates to decline in these states as the accelerated mains replacement program progresses.

A major incident occurred in February 2013 when flooding occurred in North Queensland in the aftermath of Cyclone Oswald, resulting in damage to our Wide Bay transmission pipeline. This curtailed supplies of gas to the Bundaberg, Maryborough and Hervey Bay communities. APA mobilised considerable resources to effect repairs to the pipeline crossing beneath the Burnett River, with crews working long hours over an extended period in an effort to restore supplies to these communities as quickly as possible. The emergency response was undertaken in a manner that ensured safe operations were conducted in extremely difficult conditions. Our thanks go to those staff and contractors involved in those endeavours.

Safety performance for APA's 1,100 employees and contractors improved with seven Lost Time Injuries (LTIs) recorded compared with 12 in the previous year, with an overall Significant Injury Frequency Rate (SIFR)[i] of 6.5 per million hours worked (6.8 in 2011-12). The reduction in LTIs is testament to the continuing focus that APA management and staff have had on safety over recent years. Further improvement in 2013-14 is a key priority for the Company.

[i] SIFR measures Lost Time Injuries and Moderate Medical Treatment Injuries.

Sustainability and the Environment

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

Envestra has been actively involved with the respective State environmental protection agencies in assessing the nature and extent of the contaminant materials and whether there is a risk of harm to the local communities.

The expected cost of these remediation programs is quite large, with some $16 million having been charged to our Income Statement since first recorded in Envestra's Balance Sheet in June 2005.

Significant progress occurred on two of the sites during 2012-13, with the remediation of the Benalla site completed in January, and the Albury site completed in February 2013, both within our cost expectations.

The remaining major site is at Sale, where although an Envestra subsidiary owns the land in question, the original "polluters" (who owned and operated the gas plant from 1881 through to 1965) were other entities that we expect, despite the fact that we have recorded the remediation liability, will ultimately be responsible under relevant Victorian legislation, for reimbursing our costs.

The Victorian Environmental Protection Authority (EPA) has power to direct either the land owner, or the "original polluters", to clean up such sites, and even where the land owner is so directed, they have a right of compensation under the EPA legislation from the original polluters. We have had detailed discussions with the Victorian EPA on this matter. Should the Notice of Clean-up be directed to the original polluters, we will be relieved of ongoing financial exposure and will reverse the associated liability provision ($6 million) recorded in Envestra's financial statements at 30 June 2013.

Dividend Policy

Our Board has been conscious that annual dividends have been constrained since 2009-10. We have previously said that consequent to the global financial crisis and the attendant lowering of the Group's credit rating to BBB minus by Standard & Poor's, there was a need to retain cash in the business to reduce gearing levels and assist with the funding of the capital expenditure program.

The conclusion of the recent Victorian regulatory determination in March 2013, together with the fact that our South Australian and Queensland Access Arrangements extend through to June 2016, has given rise to reasonable certainty regarding our revenue and capital expenditure expectations over at least the next three years. The Board, mindful that there was a reasonable prospect that Standard & Poor's would upgrade the rating given it had already placed the Company on "Positive Outlook" in November, 2012, took the decision in February 2013 to increase the interim dividend from 2.9 to 3.0 cents per share (5.9 cents for the full-year).

The Board has again reviewed the dividend policy and decided to adjust the annual rate from the 5.9 cents per share applying in 2012-13, to 6.4 cents per share in 2013-14. The change follows the aforementioned credit rating upgrade, the profit "outperformance" against expectations in 2012-13, together with the improving financial performance that is foreseen following the regulatory determinations put in place in recent years.

Cashflow coverage of distributions paid in 2012-13 was 2.2 times. This is expected to fall to around 1.8 times in 2013-14, largely due to a one-off reduction in cashflow arising from changed customer payment credit terms associated with the introduction of the Government's National Energy Customer Framework legislation which applied in South Australia from 1 July, 2013. The Group's expected profit in 2013-14 is anticipated to cover the forecast dividend by 1.2 times. The Board will continue to review dividend policy with modest increases anticipated whilst maintaining a prudent financial position.

Organisation and Staffing

Envestra's network operations are largely outsourced to APA Asset Management. Envestra's management team closely oversees management of those activities undertaken by some 1,100 employees and contractors working for APA. Once again, we record our appreciation of the effort and commitment given by all these people in ensuring the safe and reliable operation of the networks and the provision of the essential support services that are fundamental to the success of our business.

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

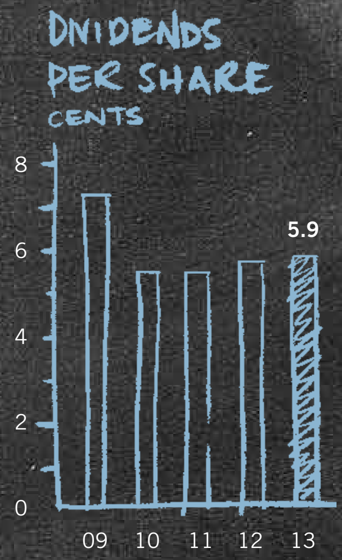
On behalf of the Board, we take the opportunity to thank our employees, and those of APA involved in our network business for their contribution to ensuring Envestra continued its sound record of providing a reliable gas supply to our 1.2 million customers whilst achieving a significant improvement in profitability and returns to our shareholders during the course of 2012-13.

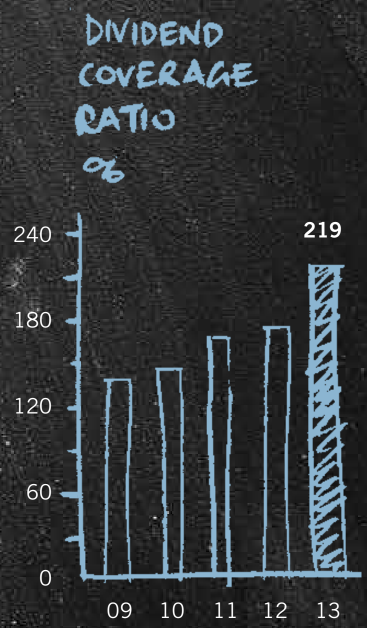
J G Allpass
Chairman

I B Little
Managing Director

22 August 2013

The Board took the decision to increase the interim dividend from 2.9 to 3.0 cents per share (5.9 cents for the full year).
...up again (8%) to 6.4 cents in 2013-2014!

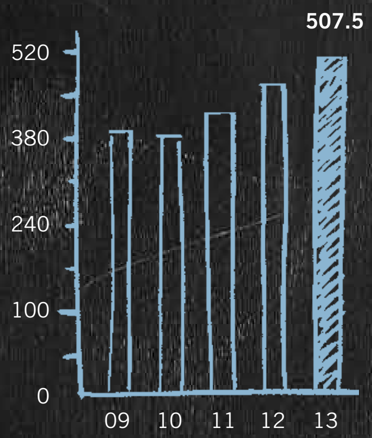




FINANCIAL REVIEW

THE COMPANY CONTINUED TO PRODUCE IMPROVEMENTS IN ITS CASH FLOWS AND PROFITABILITY DURING 2012-13. THE INCREASES ARE CLOSELY ALIGNED WITH THE INCREASED COMMITMENT TO EXTEND AND REFURBISH THE COMPANY'S GAS NETWORKS.

TOTAL REVENUE
$ million



A record level of capital expenditure of $217.4 million was spent during the year, and further increases are expected in 2013-14. The capital expenditure is added to the "Regulatory Asset Base" from which returns are generated. The funding of capital expenditure typically comes from a combination of cashflow, new equity and debt. The Company needs to prudently manage this funding "mix" to sustain and optimise financial performance. In 2012-13, we were able to raise additional equity and reduce debt levels and associated borrowing costs. Our shareholders need to be provided with appropriate returns to attract their investment when required. During the year we were able to provide a further increase in dividends, following an increase in the 2011-12 year.

Operating revenue

Envestra's haulage revenue, which is generated from the delivery of natural gas for retailers to their customers, was $485.0 million, an increase of $40.9 million over the previous year. This increase was due mainly to the increase in distribution tariffs under the Company's Access Arrangements and the connection of 23,000 new consumers to the Company's networks.

Operating expenses

*Impact of Carbon Tax on Operating expenses

Operating expenses of $147.2 million were $11.7 million higher than the previous year reflecting the first year of carbon tax costs of $9.6 million and an increase in leak maintenance costs. The carbon tax costs were fully recovered through the gas distribution tariffs.

Finance costs

Net finance costs were $147.9 million, significantly lower than the $171.2 million in the previous period. The decrease relates mainly to lower interest rates on floating rate debt and lower rates on fixed interest rate swaps transacted on the expiration of the regulatory period in Victoria on 31 December 2012.

Profit after tax

The Group recorded a Profit after Tax of $107.8 million, which was up $33.9 million on the previous year's profit of $73.9 million. The increased revenue result outlined above, and reduction in borrowing costs were the main contributors to the profit increase.

Cash flows

The Company generated cash flows from operating activities, and after replacement capital expenditure, of $205.0 million, which was $49.9 million higher than the previous year due mainly to higher haulage receipts offset slightly by higher payments for operating expenses. Distributions to shareholders amounted to $93.7 million, with the balance used to partly fund extension of the Company's distribution networks and other growth activities.

Payments for capital expenditure were $217.4 million, up $41.3 million on the previous year as a result of the Group's expanded capex program.

The Company's cash reserves at year-end were $1.0 million, the same as at the end of the previous period.

Borrowings

During the year debt reduced by $124.1 million to $2,053.9 million. Envestra's gearing level reduced to 64 % at 30 June 2013, despite the $217.4 million capital expenditure program undertaken during the year.

Credit rating

During the year Standard & Poor's upgraded Envestra's credit rating to BBB with a Stable outlook. The rating upgrade recognised the Company's improving cashflow and credit metric profile. The Moody's rating was maintained at Baa2.

Income statement ($M)

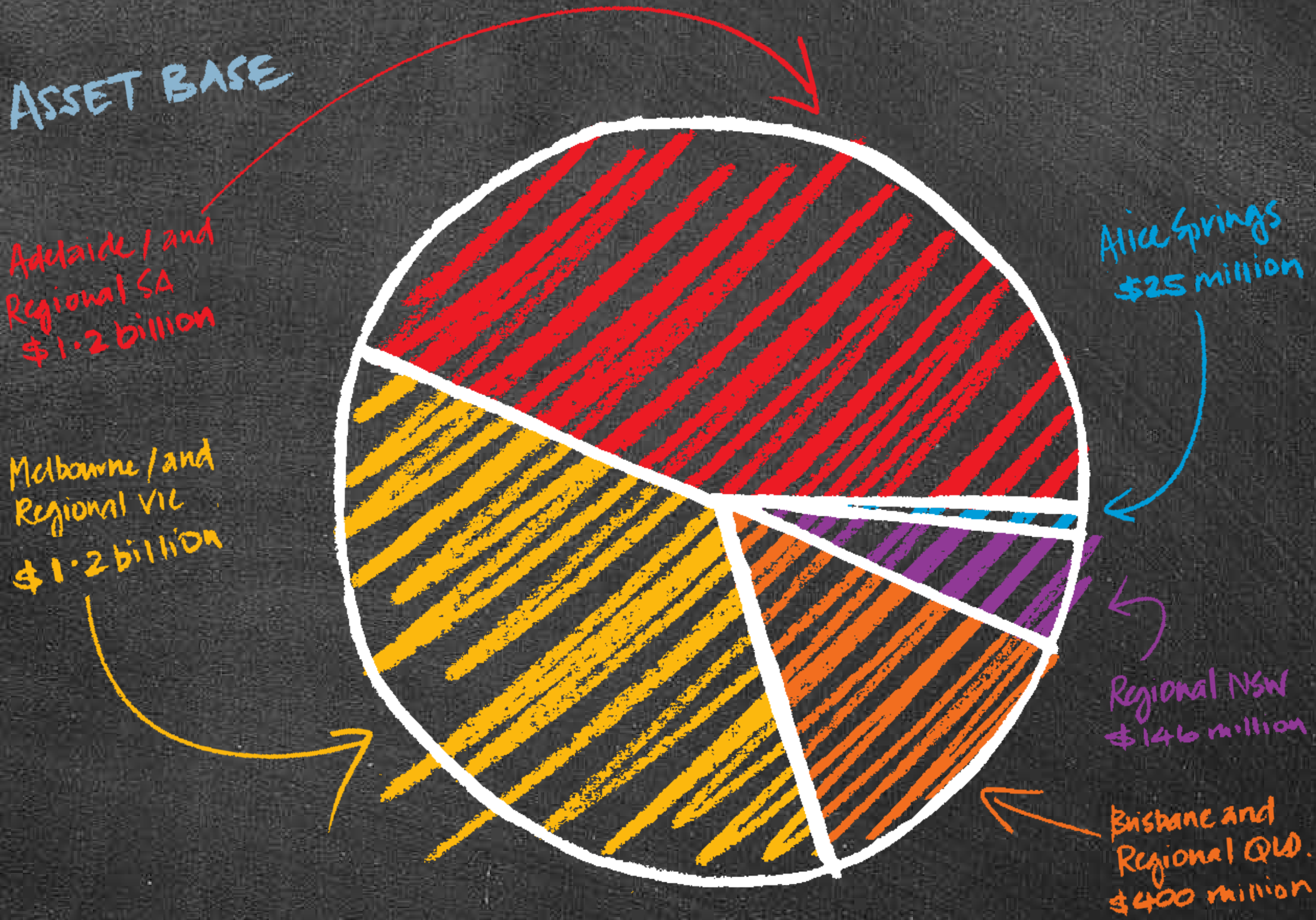
	2013	2012	2011	2010	2009
Revenue / income (excluding interest income)	**507.5**	**468.6**	**424.2**	**382.7**	**388.1**
Operating costs	(147.2)	(135.5)	(131.3)	(121.8)	(113.1)
EBITDA	**360.3**	**333.1**	**292.9**	**260.9**	**275.0**
Depreciation / amortisation / impairment	(58.6)	(56.5)	(53.4)	(53.0)	(63.0)
Profit before net finance costs and income tax	**301.7**	**276.6**	**239.5**	**207.9**	**212.0**
Net finance costs	(147.9)	(171.2)	(174.6)	(156.3)	(157.3)
Profit before interest on loan notes	**153.8**	**105.4**	**64.9**	**51.6**	**54.7**
Interest on loan notes	-	-	-	-	(2.3)
Profit before income tax	**153.8**	**105.4**	**64.9**	**51.6**	**52.4**
Income tax	(46.0)	(31.5)	(19.9)	(14.4)	(12.1)
Profit after income tax	**107.8**	**73.9**	**45.0**	**37.2**	**40.3**

Summary of cash flows ($M)

	2013	2012	2011	2010	2009
Net operating cash flow before finance costs	**377.6**	**314.6**	**298.0**	**260.5**	**257.4**
Net finance cash outflow	(143.8)	(142.8)	(161.0)	(143.4)	(135.1)
Cash flow from operating activities	**233.8**	**171.8**	**137.0**	**117.1**	**122.3**
Proceeds from sale of land / assets	0.9	0.1	7.8	1.0	1.0
Payments for remediation of land	(8.9)	(0.6)	(0.8)	-	-
Replacement capital expenditure	(20.8)	(16.2)	(14.9)	(10.7)	(18.4)
Available for distribution	**205.0**	**155.1**	**129.1**	**107.4**	**104.9**
Distribution/dividends	(93.7)	(87.5)	(77.5)	(73.0)	(75.8)
Contribution to growth capital expenditure	**111.3**	**67.6**	**51.6**	**34.4**	**29.1**
Growth capital expenditure	(196.6)	(159.9)	(114.3)	(87.1)	(94.1)
Cash flow available pre debt/equity re-financing	**(85.3)**	**(92.3)**	**(62.7)**	**(52.7)**	**(65.0)**
Debt (drawdowns net of repayments)	(129.3)	19.4	130.5	21.0	(70.2)
Acquisition of subsidiary	-	-	(108.7)	-	-
Equity raising	219.0	69.6	44.3	42.3	133.9
Capital raising costs	(4.4)	(3.0)	(2.5)	(10.4)	(3.3)
Change in cash	**-**	**(6.3)**	**0.9**	**0.2**	**(4.6)**
Opening cash	**1.0**	**7.3**	**6.4**	**6.2**	**10.8**
Closing cash	**1.0**	**1.0**	**7.3**	**6.4**	**6.2**

ASSET PERFORMANCE

ASSET BASE



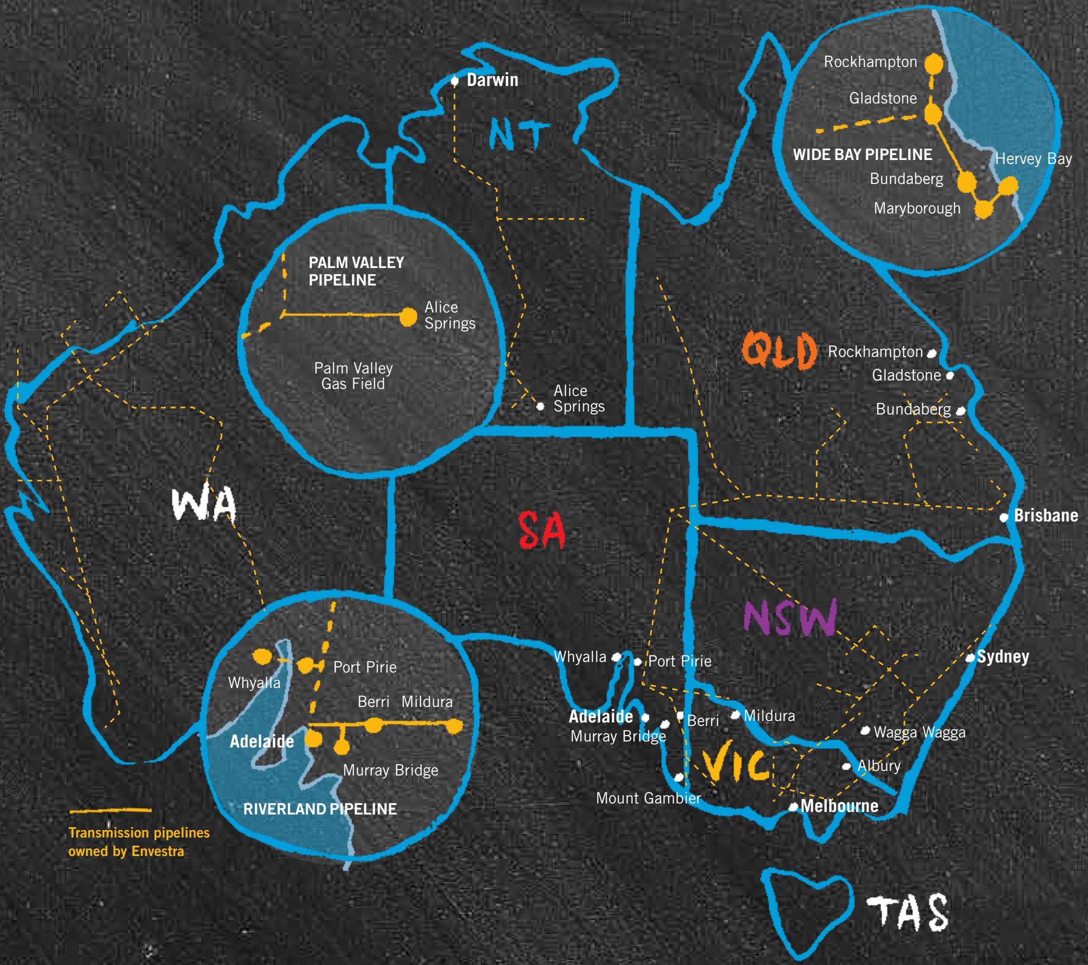
EBITDA $m

Contribution to 2012-13 EBITDA

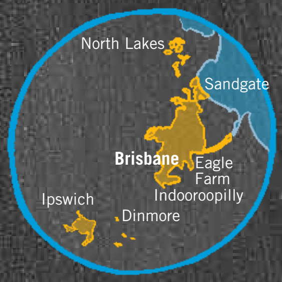
	SA	VIC	QLD	NSW	NT
$360.3	$153.8	$126.0	$56.5	$20.2	$3.8
100%	43%	35%	16%	5%	1%

	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	12 short-length pipelines	Wide Bay	Wagga Wagga region	Palm Valley

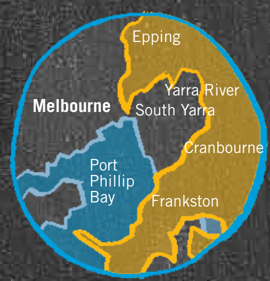
WHERE WE OPERATE



BRISBANE METROPOLITAN NETWORK



MELBOURNE METROPOLITAN NETWORK



ADELAIDE METROPOLITAN NETWORK

Distribution networks owned by Envestra

	SA	VIC	QLD	NSW	NT	TOTAL
Distribution networks	~ 8,000 km	~ 10,300 km	~ 2,700 km	~ 1,800 km	~ 40 km	~ 23,000 km
Transmission pipelines	224 km	373 km	284 km	84 km	159 km	1,124 km
Consumers	~ 417,000	~ 601,000	~ 91,000	~ 53,000	~ 1,100	~ 1,163,000

BOARD OF DIRECTORS

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

JOHN ALLPASS

FCA, FCPA, FAICD

*Director since June 1997 **
Chairman of the Board since 2002
Chairman of the Remuneration Committee

Chartered accountant with over 30 years' experience in the accounting profession.

Other Directorships: BUPA Australia Pty Ltd (since October 1999); BUPA Australia Holdings Pty Ltd (since May 2008); and Schiphol Australia Pty Ltd (since November 2010). He is an alternate Director of Brisbane Airport Corporation Pty Ltd (since September 2009). He is a former Managing Partner, KPMG (Queensland) and member, KPMG National Board and former Director, Macquarie Bank Ltd (1994-2007); Queensland Investment Corporation (1991-2008); and BrisConnections Company Ltd (2008-2013).

IAN LITTLE

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 (Director since December 2006); Chairman, University of South Australia Business School Advisory Board (since May 2012) and member (since May 2010). He is a Director of the Energy Supply Association of Australia (since November 2012); He is a former Director and Chairman, South Australian Botanic Gardens & State Herbarium (2005-11); and former Director Pheonix Society (2009-2012).

MICHAEL McCORMACK 1

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).

DOMINIC CHAN 2

FCPA, FCCA

Director since July 2005

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

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

FRASER AINSWORTH AM 3

B.Com, FAICD

*Director since February 2004 **
Member of the Audit and Risk Committee
Member of the Remuneration Committee

More than 40 years' experience in the Australian resources and energy sectors.

Other Directorships: Chairman, Horizon Oil Ltd (since December 2001); Chairman, Tarac Australia Ltd (since January 2006 – Deputy Chairman from 1996-2005). He is a former Managing Director, SAGASCO Holdings Group (1988-1994) and Delhi Petroleum Pty Ltd (1983-1987); and former Chairman, SA Generation Corporation (1996-2000) and Bionomics Ltd (1997-2004), and former Director Oil Search Ltd (2002-2010).

* Independent non-executive Director

IVAN CHAN 4

BSC, LLB, MBA

Director since August 2007

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

OLAF O'DUILL 5

B. Comm. (Hons), FAICD, SFFin

*Director since July 2000 **
Chairman of the Audit and Risk Committee
Member of the Remuneration Committee

Extensive experience in a wide range of commercial endeavours.

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

ROSS GERSBACH 6

B.BUS, CPA, MAICD

Director since July 2007
Member of the Audit and Risk Committee

Extensive experience in the infrastructure sector of the energy industry. He is Chief Executive, Strategy and Development, APA Group.

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

MANAGEMENT TEAM

IAN LITTLE

FCA, BCA, MBA, MAICD

Managing Director

(See details on page 10 - Board of Directors)

PAUL MAY

B.Acc, CA

Group Manager, Finance

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

* INDUSTRY EXPERIENCE
* SUCCESSFUL MANAGEMENT STRATEGIES
* FUTURE THINKING
* EXTENSIVE UNDERSTANDING OF REGULATORY ARRANGEMENTS
* SOUND FINANCIAL PLANNING

ENVESTRA'S BUSINESS STRATEGY IS FOUNDED ON STRIKING AN APPROPRIATE BALANCE BETWEEN INTERNAL MANAGEMENT AND OUTSOURCED OPERATIONS.

Our business is run by senior managers with extensive energy industry experience and, unlike many other infrastructure entities, no fees are paid to financial institutions to manage the financing, regulatory, legal or strategic functions.

Operation of the gas distribution networks and transmission pipelines, including maintenance, engineering, network development, consumer service and various administrative activities, is outsourced to APA Asset Management (APA). Incentives are available to APA to improve productivity, increase revenue and enhance services.

M.Ec

Group Manager, Commercial

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

PNA

Company Secretary

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

B.Ec (Hons), MBA

Group Manager, Treasury, Risk and Strategic 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.

Sustainability Report

Sustainability Framework
- Shareholders
- Employees
- Customers
- Community
- Environment

Sustainability for Envestra means the prudent long-term management of our business to ensure we deliver value for our shareholders, employees, customers and the community – today and tomorrow.

Our Commitment

Demonstrated through our protection of the environment in which we work, delivering high quality services to consumers, providing a safe working environment for our employees, and supporting local communities and organisations with which we interact.

Performance

In 2012-13, we have demonstrated further commitment to our sustainability intent. We see an intrinsic link between our sustainability performance and our key Company objectives. Our performance in delivering on our sustainability target is also translating into the successful achievement of core Company objectives.

Shareholders

Objectives

- Achieve an acceptable return to shareholders
- Continue business growth through network expansion / refurbishment
- Maintain robust corporate governance

Outcomes in 2012-13

- Strong profitability growth: $107.8 million, up 46% on prior year
- Continued solid shareholder returns:
  – 34% Total Shareholder Return
  – 27% annual average over past five years
- $217 million capital expenditure:
  – 23% increase on 2011-12 – mains replacement focus
- 23,000 new customers added to gas networks
- $219 million new equity raised
- Dividend increased 2%
  – to further increase by 8% in 2013-14
- Continued focus on compliance with ASX Corporate Governance Council recommendations (refer pages 18-25).

Customers

In 2012-13 a further 23,246 customers were connected to our gas networks. We were again able to benefit from the significant investment in advertising and promotional activities, with around $9 million spent during the year on marketing initiatives.

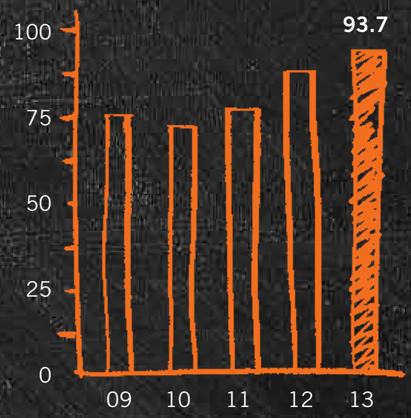
2012-13 Performance

- Around 120 complaints were received from the Energy Ombudsman across all networks. This represented a decrease from the prior year when around 150 complaints were received. This is only a very small proportion of the 1.2 million consumers who are connected to our networks.
- Fewer than 40 network outages occurred across the networks in 2012-13. This further highlights the highly resilient nature of our assets in terms of damage and disturbance caused by both natural and human events.
- Around 6,700 appliance rebates were provided to customers purchasing gas appliances during the year, expected to generate an additional 130 terajoules of gas volumes in future years.

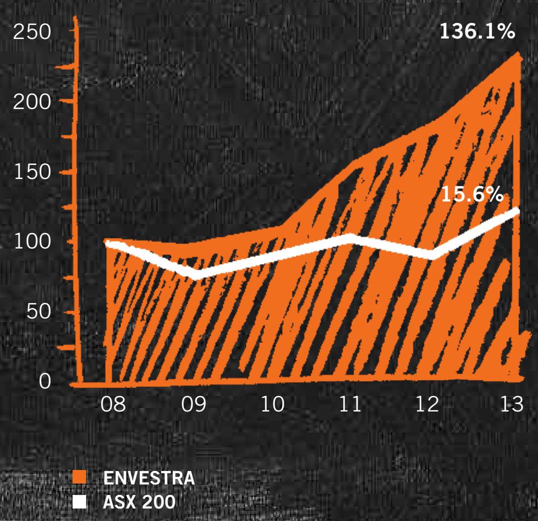
Objectives

- Provide optimal service levels to retail and commercial consumers
- Promote the benefits of natural gas as a domestic commercial energy source to encourage new connections

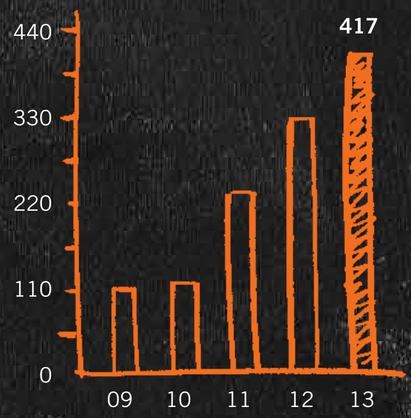
Total Dividends
$ million

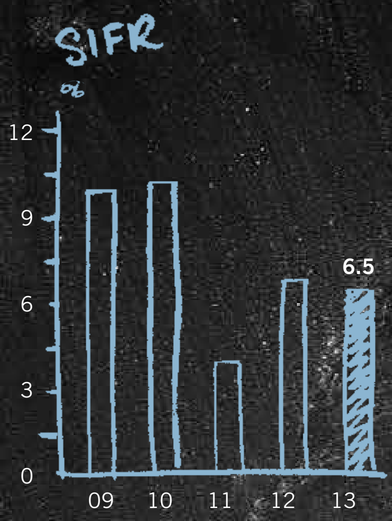


Five Year Total Shareholder Return
% cumulative

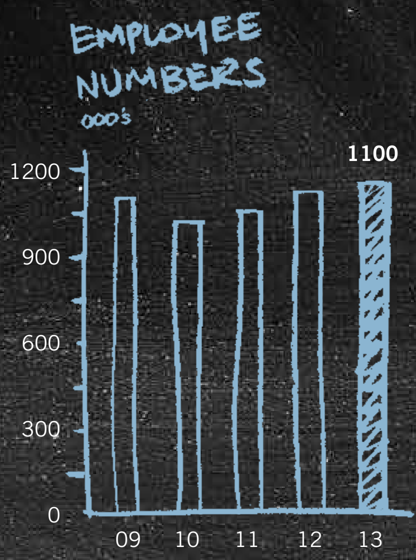


Mains Replacement
kms

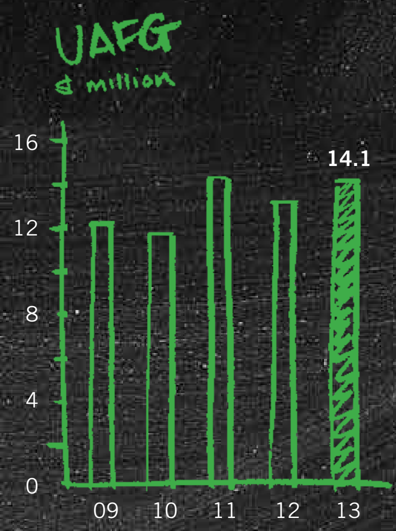




SIFR: Significant Injury Frequency Rate



Employee numbers include Envestra, APA and contractor staff



UAFG: Unaccounted for gas

EMPLOYEES

The safety of our people and contractors working for Envestra is always a key priority. We were not satisfied with safety outcomes in the prior year, where an increase in the Significant Injury Frequency Rate was recorded. A small improvement in this injury indicator occurred in 2012-13. Safety performance generally remains of critical importance to the Company's success.

2012-13 Performance

- Three lost time injuries (LTI) were sustained by APA Asset Management employees.
- Four LTIs sustained by contractors.
- Compares with two and 10 respectively in the previous year.
- Serious injury frequency rate in 2012-13: 6.5 (for APA employees and contractors), compared with 6.8 in the previous year.
- Envestra and APA promote skills enhancement of employees and contractors through Company funded training programs. This includes tertiary courses, specialised training and attendance at industry conferences.

OBJECTIVES

- PROMOTE SAFETY IN THE WORKFORCE.
- ENCOURAGE MOTIVATION AND PROFESSIONALISM IN THE WORK ENVIRONMENT TO MAXIMISE THE PRODUCTIVITY OF OUR EMPLOYEES AND CONTRACTORS.

Work, Health and Safety (WHS) Legislation

New model Work, Health and Safety (WHS) laws commenced on 1 January 2012 in most states and territories. Employers must ensure that, so far is "reasonably practicable", their workers are not exposed to health and safety risks.

Directors and officers are required to ensure that appropriate resources and processes are in place to manage WHS and to verify the processes actually work in practice. This requires a system that provides both transparency and visibility.

Envestra and its major contractor are committed to operating in full compliance with the new legislation ensuring that the safety of both staff and contractors is given the highest priority.

ENVIRONMENT

The Company's mains replacement program increased by over 20% in 2012-13. This replacement of old cast iron pipes, which are susceptible to breakages and gas leakage, makes a direct contribution to reducing Envestra's greenhouse emissions.

2012-13 Performance

- No material breaches of the Company's environmental obligations occurred during the year and no significant environmental incidents were recorded.
- Two environmental audits and seven environmental response exercises were conducted on our networks. No material issues were identified.
- Envestra continued to promote the use of natural gas through its advertising and network development programs. A total of $8.8 million was spent in 2012-13 on these programs which included the connection of 23,246 new customers.
- A major component of the Company's marketing program is the provision of cash incentives for consumers to acquire gas appliances. We promote the environmental benefits of gas appliances, including gas hot water systems, gas heaters and gas cooktops, in comparison with their electrical equivalents.

OBJECTIVES

- TO DELIVER NATURAL GAS WITH MINIMAL ADVERSE EFFECT ON THE ENVIRONMENT.
- TO PROMOTE NATURAL GAS AS AN ENVIRONMENT-FRIENDLY FOSSIL FUEL.

- The carbon tax regime commenced in Australia from July 2012 and in accordance with the *Clean Energy Act*, Envestra surrendered its first instalment of "permits" in June 2013. The full cost of permits for the 2012-13 financial year amounted to $9.0 million.
- During the year, two of the Company's contaminated sites were "remediated" in accordance with the requirements of the NSW and Victorian Environmental Protection laws. A total of $8.9 million was spent in 2012-13 restoring sites at Benalla and Albury. The Company is committed to fulfilling its obligations in respect to its contaminated sites and has retained a provision of $9.9 million for the other sites at Sale and Warragul (Victoria).

COMMUNITY

OBJECTIVES

- DEVELOP STRATEGIC PARTNERSHIPS TO PROMOTE THE BENEFITS OF NATURAL GAS.
- CONTINUE TO BUILD AND MAINTAIN BUSINESS RELATIONSHIPS AND GENERATE NEW BUSINESS OPPORTUNITIES.

Throughout the year, Envestra supported a number of community organisations including the South Australian State Theatre Company, the Port Adelaide and Sturt football clubs, Foodbank, Ride Like Crazy (raising funds for cancer research), and other charitable groups.

2012-13 Performance

- Envestra worked with a range of market participants to promote natural gas, including:

  – Housing Industry Association
  – Master Builders Association
  – Plumbing Industry Association
  – Property Council of Australia.

- During the year, the Company provided around $0.5 million to various community groups, including those listed above, demonstrating our commitment to the communities to which we provide our natural gas services.

CORPORATE GOVERNANCE

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

Each year a review of the Company's corporate governance framework is carried out against the guidelines of the Australian Securities Exchange's Corporate Governance Council. The Company's framework largely complies with these recommendations (please refer to the table on pages 24 and 25).

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).

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

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

The APA Group and CKI Directors are not regarded as being independent under the ASX Corporate Governance Guidelines, as the organisations hold 33.0% and 17.5% 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 a 33% holding in the Company mitigates the non-independent status of CKI.

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

(b) Membership of the Board comprises:

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

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

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

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

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

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

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

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

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

(c) Performance appraisal

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

(d) Board responsibilities

The most significant responsibilities of the Board include:

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

(e) Delegated Authority

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

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

(f) Independence of Board members

Envestra's Constitution provides that Directors or their firms may act in a professional capacity for the Company, other than acting as an auditor for the Company. Disclosure of related party transactions is set out on pages 76 and 77.

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

(g) Resources available to the Board

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

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

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

(h) Remuneration of non-executive Directors

The maximum aggregate remuneration for non-executive Directors is set out in the Company's Constitution and can be varied only at a general meeting. Shareholders approved the current maximum aggregate remuneration of $900,000 per annum in October 2010. The amount paid in 2012-13 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 pages 36 and 37.

The Retirement Benefit Scheme for Directors, which was introduced when the Company was formed in 1997, was suspended in 30 June 2003.

Under the Scheme, after one year of service Directors were entitled to receive retirement benefits on a sliding scale based on the number of years served on the Board. The maximum retirement benefit was payable after 10 years' service and was calculated as three times the average annual emoluments of the Director over the three years before the date of retirement.

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

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

At 30 June 2013, the benefit payable on retirement of each non-executive Director was:

- Mr J G Allpass $207,404;
- Mr O B O'Duill $54,737.

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

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

(i) Board committees

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

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

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

(j) Audit and Risk Committee

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

Members of the committee are:

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

Each of the external and internal auditors, together with the Managing Director, Company Secretary and Group Manager – Finance, usually attend the meetings.

The key responsibilities of the committee are:

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

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

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

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

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

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

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

(k) Remuneration Committee

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

Members of the committee are:

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

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

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

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

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

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

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

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

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

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

The Company does not operate an Employee Share Option Plan.

(l) Risk assessment and management

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

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

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

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

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

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

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

(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 Company's website.

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

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

(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 15 direct employees, there are inherent constraints on Envestra's ability to comply with all aspects of the guidelines.

Progress as at 30 June 2013 is as follows:

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

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

Disclose the policy on the entity's website:

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

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

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

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

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

Of the 11 senior executives/managers in the Company, two (or 18%) are female. Of the total 15 employees, six (or 40%) are females.

Envestra contracts the operation and maintenance of its gas networks to APA Asset Management (APA). APA had 638 employees working for Envestra as at 30 June 2013.

Of the 52 senior executives/managers within APA as at 30 June 2013, 12 or 23% were female. Across the entire APA workforce there were 178 females (or 28%).

The following corporate policies of Envestra support diversity:

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

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

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

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

- Whenever a vacancy occurs the Board seeks to recruit a person with skills and experience to complement those of the existing Directors. In particular, skills in the areas of finance/accounting, economics, business management/development, regulatory management, engineering, corporate governance and legal would be highly regarded.
- As to experience, it would be expected that a new Director would have held a senior executive or professional position for at least 10 years, would ideally have utility or energy industry knowledge, have been involved with a listed public company, and demonstrated strong leadership and analytical skills combined with well regarded interpersonal skills.

Key Policies

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

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

Principle	pp 18-23 Reference	ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS
1		**LAY A SOLID FOUNDATION FOR MANAGEMENT AND OVERSIGHT**
1.1	(d) (e)	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.
1.2	Remuneration Report	Companies should disclose the process for evaluating the performance of senior executives.
1.3	Remuneration Report	Companies should provide the information indicated in the Guide to Reporting on Principle 1.
2		**STRUCTURE THE BOARD TO ADD VALUE**
2.1	(a) (f)	A majority of the Board should be independent Directors.
2.2	(b)	The chair should be an independent Director.
2.3	(b)	The roles of chair and chief executive officer should not be exercised by the same individual.
2.4	(i)	The Board should establish a Nomination Committee.
2.5	(c)	Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.
2.6	(as above)	Companies should provide the information indicated in the Guide to Reporting on Principle 2.
3		**PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**
3.1	(n)	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.
3.2	(q)	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.
3.3	(q)	Companies should disclose in each Annual Report the measurable objectives for achieving gender diversity set by the Board in accordance with the Diversity Policy and progress towards achieving them.
3.4	(q)	Companies should disclose in each Annual Report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.
3.5	(as above)	Companies should provide the information indicated in the Guide to Reporting on Principle 3.
4		**SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**
4.1	(j)	The Board should establish an Audit Committee.
4.2	(j)	The Audit Committee should be structured so that it: • 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.

Refer to note on page 18

Refer to note on page 20

Principle	pp 18-23 Reference	ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS	
4.3	(j)	The Audit Committee should have a formal charter.	✓
4.4	(as above)	Companies should provide the information indicated in the Guide to Reporting on Principle 4.	✓
5		**MAKE TIMELY AND BALANCED DISCLOSURE**	
5.1	(p)	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	✓
5.2	(as above)	Companies should provide the information indicated in the Guide to Reporting on Principle 5.	✓
6		**RESPECT THE RIGHTS OF SHAREHOLDERS**	
6.1	(p)	Companies should design a Communications Policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	✓
6.2	(as above)	Companies should provide the information indicated in the Guide to Reporting on Principle 6.	✓
7		**RECOGNISE AND MANAGE RISK**	
7.1	(l)	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	✓
7.2	(l)	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.	✓
7.3	(l)	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.	✓
7.4	(as above)	Companies should provide the information indicated in the Guide to Reporting on Principle 7.	✓
8		**REMUNERATE FAIRLY AND RESPONSIBLY**	
8.1	(k)	The Board should establish a Remuneration Committee.	✓
8.2	(k)	The Remuneration Committee should be structured so that it: • Consists of a majority of Independent Directors. • Is chaired by an independent chair. • Has at least three members.	✓
8.3	Remuneration Report	Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of Executive Directors and senior executives.	✓
8.4	(as above)	Companies should provide the information indicated in the Guide to Reporting on Principle 8.	✓

FINANCIAL AND STATUTORY INFORMATION

Financial and Statutory Information for the year ending 30 June 2013

CONTENTS

28 Directors' Report
33 Remuneration Report
Financial Report
42 Consolidated Income Statement
43 Consolidated Statement of Comprehensive Income
44 Consolidated Balance Sheet
45 Consolidated Statement of Changes in Equity
46 Consolidated Cash Flow Statement
47 Notes to the Financial Statements
83 Directors' Declaration
84 Independent Audit Report to the members

DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR REPORT ON THE CONSOLIDATED ENTITY (REFERRED TO HEREAFTER AS THE GROUP) CONSISTING OF ENVESTRA LTD AND THE ENTITIES IT CONTROLLED AT THE END OF, OR DURING, THE YEAR ENDED 30 JUNE 2013 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 10 to 13 of the Annual Report. Directors' shareholdings are disclosed on page 40 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 and industrial customers through the transmission pipelines and distribution networks it owns and manages.
(b) Development of the business through expansion of the existing networks.

Operating and financial review

REVIEW OF OPERATIONS

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

Envestra's revenue and income, which is generated mainly from retailers for delivering natural gas to their customers, was $507.5 million in 2012-13, up $38.9 million (or 8%) on 2011-12.

The improvement in revenue was mainly due to significant increases in distribution tariffs which came into effect on 1 July 2012 and which were incorporated in the South Australian and Queensland five-year Access Arrangements approved by the Australian Energy Regulator (AER) in 2011. Whilst there was an overall 1% decrease in gas distribution volumes to 113.0 PJ compared with 114.6 PJ in 2011-12, this was due to a decrease in volumes delivered to industrial and large commercial (>10 TJ) customers as a result of several plant closures. The revenue decrease for these (>10 TJ) customers was more than offset by increased revenue from domestic and smaller customers with higher volumes arising (51.0 PJ vs 49.8 PJ in the prior year), as a result of customer growth, and the aforementioned increased prices being paid by many of these customers. Envestra earns the majority of its revenues from domestic (<10 TJ) customers.

Operating expenses of $147.2 million were $11.7 million higher than the previous year. The increase was largely due to Carbon Tax costs of $9.6 million incurred as a result of the *Clean Energy Act 2011* (which are fully recoverable through haulage tariffs), $1.2 million of costs of damage caused by floods in Queensland (in excess of insurance recovery), and increased leak maintenance costs.

Net finance costs were $147.9 million, $23.3 million lower than the previous year. The main contributing factors to the decrease were lower floating interest rates on unhedged debt, and lower rates on new fixed interest rate swaps transacted on the expiration of the regulatory period in Victoria on 31 December 2012.

For the year ended 30 June 2013, Profit after Tax was $107.8 million, which compares with a Profit after Tax of $73.9 million in 2011-12 (up 46%).

Cash flow from operating activities was $233.8 million, up $62.0 million (or 36%) on 2011-12, due mainly to the increased revenues and lower financing costs outlined above. This covered the $93.7 million of dividends and contributed $132.1 million to the funding of the $217.4 million capital expenditure program. Operating cashflow in 2013-14 will be negatively impacted by around $49 million, as a 'one-off' adjustment occurs whereby forward billing arrangements in South Australia will not continue from July 2013.

Capital expenditure paid in 2012-13 was $41.3 million higher than the previous year. A large proportion of the expanded capex program focused on the replacement of aging cast iron and steel gas mains. The Group is aiming to replace most of these old pipelines with polyethylene pipes by 2018. During the year 417 kilometres of mains were replaced, a 26% increase on the 331km of the previous year.

Around 23,200 new customers were added to the networks, down 10% on the 2012 financial year, due to a softening in the housing market generally. Capital expenditure of $60.0 million associated with the new connections was made in 2012-13 ($64.9 million in 2011-12).

On 15 March 2013, the AER issued its Final Regulatory Decision in respect of the Victorian and Albury networks which has determined gas tariffs to apply in these networks through to December 2017. With the South Australian and Queensland Access Arrangements being in place from 1 July 2011, the Group now has regulatory arrangements in place for key networks to June 2016 (South Australia and Queensland) and December 2017 (Victoria and Albury).

During the year $219 million of new equity was raised. Envestra continued its Dividend Reinvestment Plan (DRP) which contributed $56.8 million through issues in October 2012 and April 2013. In addition, in April 2013 the Company undertook a Share Placement which raised $130 million, which was accompanied by a Share Purchase Plan offer which raised $32.2 million. The decision to raise equity in April followed the release of the AER's Final Decision on the Victorian business which anticipates substantial increases in capital expenditure, which together with capital expenditure programs expected in the other networks will result in around $1.3 billion of "capex" over the next five years. The equity proceeds will be used to partly fund this expenditure. The Share Placement was also intended to widen the number of institutional shareholders and improve liquidity in the Company's shares.

During the year Standard & Poor's upgraded Envestra's credit rating to BBB with a Stable outlook. This results from the Company's strategy of the past few years of reducing gearing and retaining funds to assist with the financing of its substantial capital expenditure program.

Envestra had a provision in its June 2012 financial statements for the remediation of contaminated sites. During the year the remediation projects in Albury and Benalla were completed at a total cost of $8.9 million which was within cost expectations. At 30 June 2013, $10.1 million remains in the provision to cover the estimated clean-up costs at the remaining sites.

The Group's net assets increased by 44%, to $841.8 million during the year. This increase is largely attributable to the various equity issues and an increase in retained earnings arising from the excess of the year's earnings over dividends distributed to shareholders.

The Group had current liabilities in excess of current assets at 30 June 2013 amounting to $40.5 million. This shortfall largely relates to $50.7 million of haulage revenue received in advance from retailers as a result of prepayments made in accordance with agreements with retailers in South Australia. The shortfall is more than covered by unused credit facilities on hand at 30 June 2013 ($400 million).

LIKELY DEVELOPMENTS, EXPECTED RESULTS AND RISK FACTORS

The Company expects further growth in profitability in 2013-14, largely as a result of increases in regulated tariffs across its gas networks: South Australian, Queensland and Victorian network tariffs rose by 19%, 12% and 2% respectively on 1 July 2013. A Profit after Tax of around $140 million is forecast, subject to the impact of any abnormal items that may occur.

Beyond the risk to the Company's revenues from fluctuations in weather (as referred to above), the main risks to achieving the above profit result in 2013-14 are unforeseen variations in operating and borrowing costs. Whilst these costs are not expected to materially fluctuate from expectations implicit in the above profit forecast, some variation in these costs is possible particularly in the area of Unaccounted For Gas and leak maintenance costs, and also interest costs from unhedged debt (the Company's policy is to hedge between 80% and 100% of variable rate debt).

Further increases in capital expenditure are expected to occur in 2013-14 with around $270 million to be spent on capacity enhancements, mains replacement and several major projects to be undertaken during the year which will connect new areas to the network as well as increasing supply to high demand areas. In total, around 465km of mains are expected to be replaced.

The augmented capital expenditure program of around $1.3 billion over the next five years will generate increases in revenues over coming years due to the consequent increase in the Regulated Asset Base. Included in this capital expenditure is mains replacement of around $600 million which will reduce gas leakage and associated maintenance costs. The investments will place the network business in a position of enhanced system reliability and revenue generation capacity over the long-term.

Dividends paid to shareholders increased from 5.8 cents in the prior year to 5.9 cents in 2012-13. It remains the Company's objective to at least maintain distributions to shareholders in "real" terms whilst maintaining a prudent financial position. The dividend rate for payments to shareholders in 2013-14 is expected to be 6.4 cents per share, an 8% increase on the 2012-13 financial year.

On 22 August 2013 the Board decided to discontinue the Dividend Re-investment Plan which has been in place for the last eight years. The future application of the DRP will be re-assessed by the Board at the time of each dividend.

On 15 July 2013, the Envestra Group received a proposal from APA Group to acquire all issued capital which it does not currently own of the ultimate parent company, Envestra Ltd. The proposal was unsolicited, indicative, conditional and non-binding. On 5 August 2013, Envestra announced that its Independent Board Committee had decided not to proceed with the proposal. As at the date of signing the financial statements, there has been no further proposal.

Significant changes in the state of affairs

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

Environmental regulation

A Voluntary Risk Assessment has been prepared and submitted to the Victorian Environmental Protection Authority (EPA) in respect of the sites owned by the Company at Sale and Warragul that were formerly used for the manufacture of town gas. Remedial work for the site owned at Benalla commenced in July 2012 and concluded in November 2012. The cost was in line with the provision included in the 2011-12 financial statements.

In respect to the site at Sale, under Victorian law, the ultimate liability for remediation costs potentially lies with the original polluter. The contamination is believed to have occurred when the site was owned and operated as a coal gas plant by two third parties. Whilst it is possible that these remediation costs will either be assumed by the third parties, or alternatively recovered from them, the matter is yet to be determined. Accordingly, the estimated liability continues to be recorded in the financial statements at 30 June 2013.

Remediation of the former gas works site in Albury was completed in 2012-13 in accordance with the Voluntary Management Plan approved by the NSW Environment Protection Authority. The property has been owned by the Albury City Council for around 28 years, and is used as a community car park. The remediation was completed around $0.7 million below the provision recorded in the 2011-12 financial statements for the work.

Provision for the Group's estimated cost of possible remaining remediation at all sites is included in the financial statements.

Dividends – Envestra Ltd

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

	Cents per ordinary share	Total dividend
	Cents	$M
Dividend on 31 October 2012	2.9	45.6
Dividend on 30 April 2013	3.0	48.1
Total dividends for 2012-13	**5.9**	**93.7**

Indemnity and insurance of officers

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

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

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

Non-audit services

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 23.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out in note 23, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Audit 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

The proposal from APA Group on 15 July 2013 has been reported under 'Likely developments, expected results and risk factors' on pages 29 and 30 of the Directors' Report.

The Directors are not aware at the date of this report of any other matter or circumstance which has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

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

Meetings of Directors

The number of Directors' meetings and meetings of committees of Directors held during the period for which each Director held office between 1 July 2012 to 30 June 2013, and the number of meetings attended by each Director were:

	Meetings of Directors (i)		Meetings of committees							
	FULL MEETINGS		EQUITY RAISING		SHARE ALLOCATION		AUDIT(ii)		REMUNERATION	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
J G Allpass(iii)	8	8	3	3	-	-	-	-	2	2
I B Little(iii)	8	8	3	3	3	3	-	-	-	-
E F Ainsworth	8	8	3	3	3	3	6	6	2	2
D L S Chan	8	7	-	-	-	-	-	-	-	-
I K H Chan	8	8	-	-	-	-	-	-	-	-
R M Gersbach	8	8	-	-	-	-	6	6	-	-
M J McCormack	8	8	-	-	-	-	-	-	-	-
O B O'Duill	8	8	3	3	3	1	6	6	2	2

(i) Includes the June 2013 Board meeting which was delayed and held on 3 July 2013.

(ii) Includes the June 2013 Audit Committee meeting which was delayed and held on 2 July 2013.

(iii) Mr J G Allpass attended five Audit Committee meetings and Mr I B Little attended six Audit Committee meetings and two Remuneration Committee meetings.

REMUNERATION REPORT

THE INFORMATION PROVIDED UNDER HEADINGS A – D INCLUDES REMUNERATION DISCLOSURES THAT ARE REQUIRED UNDER THE *CORPORATIONS ACT 2001* AND THE *CORPORATIONS REGULATIONS 2001.*

THE INFORMATION PROVIDED IN THIS REMUNERATION REPORT HAS BEEN AUDITED AS REQUIRED BY SECTION 308(3C) OF THE *CORPORATIONS ACT 2001.*

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

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

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

The framework caters for shareholders' interests in that it:

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

The framework caters for employees' interests in that it:

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

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

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

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

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

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

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

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

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

The Company does not operate an Employee Share Option Plan.

NON-EXECUTIVE DIRECTORS

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

DIRECTORS' FEES

The current base remuneration was last increased with effect from 1 July 2010. The non-executive Director who chairs the Audit 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. They are Mr John Allpass and Mr Olaf O'Duill.

EXECUTIVE PAY

The executive pay and reward framework has three components:

- Base pay and benefits.
- Superannuation.
- Performance 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 received information from Geoff Nunn and Associates (GNA) through the annual survey conducted in April 2013 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. All superannuation contributions are treated as part of the executive's salary package.

SHORT-TERM PERFORMANCE BONUS

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

For the year ended 30 June 2013, the KPI targets reflect performance against profit after tax, cash flow, corporate credit rating outcomes, regulatory outcomes, the management of environmental activities and shareholder returns, as well as other key strategic measures related to drivers of performance in future reporting periods.

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

- *FINANCIAL MEASURES*

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

  Outcomes: A 46% increase in Profit after Tax to $107.8 million was recorded and cash flow per share available for dividends was 12.6 cents (10.2 cents in 2011-12).

- *COMMERCIAL MEASURES*

  Objectives: Obtain an "outlook positive" rating review with Standard & Poor's to BBB; successful outcome of the regulatory review related to the Victorian Access Arrangement; and complete at least 445 kilometres of mains replacement.

  Outcomes: Standard & Poor's increased the Company's credit rating to BBB "outlook stable" in May 2013; a satisfactory outcome was achieved with respect to the revised Access Arrangement for Victoria; and 417 kilometres of "old" gas mains were replaced.

- *ENVIRONMENTAL MEASURES*

  Objectives: Complete the remediation of the former gas works site in Albury (New South Wales) and Benalla (Victoria); and dispose of the former gas works site in Sale (Victoria).

  Outcomes: The Albury and Benalla projects were completed for amounts less than the provisions. Negotiations are continuing with the Environmental Protection Authority and two other third parties, as the "original polluters", on the future of the Sale property and the ultimate responsibility for the remediation of the site.

- *TOTAL SHAREHOLDER RETURNS (TSR)*

  Objective: Achieve a TSR in excess of 9% for the year (includes movement in market prices of the securities).

  Outcome: The market price of the Company's shares rose 27% over the 12 months to 30 June 2013, and shareholders holding shares at 1 July 2012 received a dividend yield of 7.5%. Total shareholder return was 34.5%.

Sound results were achieved across a range of corporate measures in addition to those outlined above. Each of the executives performed to a high standard against their personal KPIs.

DEFERRED BONUSES

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

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

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

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

KEY MANAGEMENT PERSONNEL OF ENVESTRA LTD AND THE GROUP

	Short-term employee benefits				Post-employment benefits		
Name	Cash salary and fees	Cash bonus (ii) STI	Cash bonus (ii) DSTI	Non-monetary benefits	Super-annuation (ii)	Retirement benefits	Total
2013	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Non-executive Directors							
J G Allpass *Chairman*	163,800	-	-	-	16,200	10,735	190,735
E F Ainsworth	92,820	-	-	-	9,180	-	102,000
D L S Chan (i)	90,000	-	-	-	-	-	90,000
I K H Chan (i)	90,000	-	-	-	-	-	90,000
R M Gersbach (i)	102,000	-	-	-	-	-	102,000
M J McCormack (i)	90,000	-	-	-	-	-	90,000
O B O'Duill	98,280	-	-	-	9,720	2,711	110,711
Sub-total non-executive Directors	**726,900**	**-**	**-**	**-**	**35,100**	**13,446**	**775,446**
Executive Director							
I B Little *Managing Director*	557,936	137,400	36,750	19,216	15,928	-	767,230
Other key management personnel							
A Staniford	309,912	72,000	21,950	38,724	17,000	-	459,586
D Petherick	254,242	60,200	14,650	16,793	19,425	-	365,310
G Meredith	210,810	53,400	11,600	25,190	23,305	-	324,305
P May	213,697	53,400	13,000	28,480	16,470	-	325,047
Total key management personnel compensation	**2,273,497**	**376,400**	**97,950**	**128,403**	**127,228**	**13,446**	**3,016,924**

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

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

	Short-term employee benefits				Post-employment benefits		
Name	Cash salary and fees	Cash bonus (ii) STI	Cash bonus (ii) DSTI	Non-monetary benefits	Super-annuation (ii)	Retirement benefits	Total
2012	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Non-executive Directors							
J G Allpass *Chairman*	164,224	-	-	-	15,776	11,656	191,656
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	3,097	111,097
Sub-total non-executive Directors	**727,324**	**-**	**-**	**-**	**34,676**	**14,753**	**776,753**
Executive Director							
I B Little *Managing Director*	510,657	130,000	46,000	18,626	40,776	-	746,059
Other key management personnel							
A Staniford	274,341	72,000	25,700	41,409	42,000	-	455,450
D Petherick	220,583	45,000	-	16,985	44,300	-	326,868
G Meredith	209,237	41,000	-	24,657	16,136	-	291,030
P May	211,265	41,000	-	22,401	15,776	-	290,442
Total key management personnel compensation	**2,153,407**	**329,000**	**71,700**	**124,078**	**193,664**	**14,753**	**2,886,602**

(i) The Directors' fees for Mr D Chan and Mr I Chan were paid to Cheung Kong Infrastructure Holdings (Malaysian) Ltd. The fees for Mr M McCormack and Mr R Gersbach were paid to Australian Pipeline Ltd.
(ii) Short term incentive (STI) and Deferred short term incentive (DSTI). Bonus payments to key management personnel may be taken either as cash or superannuation.

C) Service agreements

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

I Little, *Managing Director*

- Term of agreement – non-specific, commencing 28 March 2003.
- Base salary, inclusive of superannuation, for the year ended 31 August 2013 of $576,800.
- Subject to performance, an annual bonus of up to 30% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, after six months' notice (subject to certain conditions), equal to 12 months' base salary plus an amount equal to the last short-term bonus paid prior to the termination.

A Staniford, *Group Manager – Commercial*

- Term of agreement – non-specific, commencing 1 August 2000.
- Base salary, inclusive of superannuation, for the year ended 31 August 2013 of $348,700.
- Subject to performance, an annual bonus of up to 25% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, equal to 18 months' base salary (including six months' period of notice).

D Petherick, *Company Secretary*

- Term of agreement – non-specific, commencing 1 September 1997.
- Base salary, inclusive of superannuation, for the year ended 31 August 2013 of $275,000.
- Subject to performance, an annual bonus of up to 25% of base salary is payable.
- An additional deferred bonus is payable, equal to 50% of the short-term bonus paid three years earlier.
- Payment of termination benefit on termination by the Company, other than for gross misconduct, equal to 12 months' base salary (including six months' period of notice).

G Meredith, *Group Manager – Treasury, Risk and Strategic Planning*

- Term of agreement – non-specific, commencing 1 August 2000.
- Base salary, inclusive of superannuation, for the year ended 31 August 2013 of $253,400.
- 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 Company, other than for gross misconduct, equal to 12 months' base salary (including three months' period of notice).

P May, *Group Manager – Finance*

- Term of agreement – non-specific, commencing 4 April 2005.
- Base salary, inclusive of superannuation, for the year ended 31 August 2013 of $253,400.
- 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 Company, other than for gross misconduct, equal to 12 months' base salary (including three months' period of notice).

D) Additional information

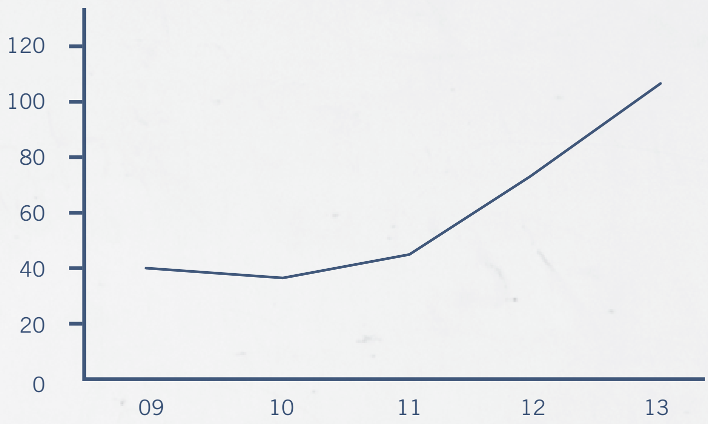
PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION: RELATIONSHIP BETWEEN REMUNERATION AND COMPANY PERFORMANCE

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

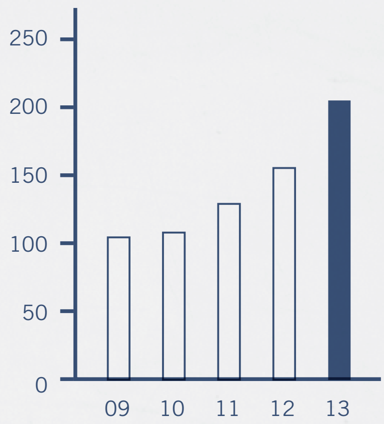
	2009	2010	2011	2012	2013
Gas volumes <10TJ consumers	49,169	47,228	52,878	49,847	51,020
New consumers (i)	23,470	24,101	26,712	25,760	23,246
Total revenue and income ($m) (ii)	388.1	382.7	424.2	468.6	507.5
Net profit after tax ($m)	40.3	37.2	45.0	73.9	107.8
Cash flow available for dividends ($m)	104.9	107.4	129.1	155.1	205.0
Capital expenditure ($m)	112.5	97.8	129.2	176.1	217.4
Return to shareholders (%)	0.4	12.3	52.0	22.2	34.5
Earnings per share (cents)	3.8	2.8	3.2	4.9	6.6

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

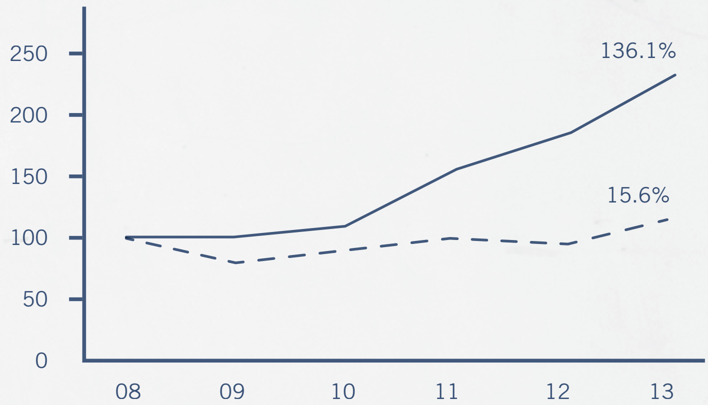
PROFIT AFTER TAX $M



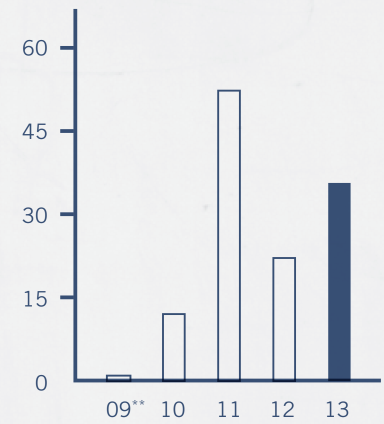
CASHFLOW AVAILABLE FOR DIVIDENDS $M



FIVE YEAR TOTAL SHAREHOLDER RETURN (TSR) - CUMULATIVE %



ANNUAL RETURN TO SHAREHOLDERS % *



* Returns to shareholders including dividends and capital growth / (loss)

** This year includes the effects of the Rights Issue

DETAILS OF REMUNERATION: CASH BONUSES

For each short-term cash bonus included in the tables on pages 36 and 37, 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 2013	Total 2012
	%	$	%	$	$	$
I Little	30	137,400	79	36,750	174,150	176,000
A Staniford	25	72,000	83	21,950	93,950	97,700
D Petherick	25*	60,200	88	14,650	74,850	45,000
G Meredith	25*	53,400	84	11,600	65,000	41,000
P May	25*	53,400	84	13,000	66,400	41,000

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

** 2012 – 20%*

Directors' shareholdings

Particulars of the ordinary shares held by each Director of the Company and Director related entities, as at 30 June 2013 were:

Name	Holding 30 June 2012	Movement during the year	Holding 30 June 2013
J G Allpass	363,029	36,603	399,632
I B Little	138,865	12,497	151,362
E F Ainsworth	66,000	-	66,000
D L S Chan (i)	-	-	-
I K H Chan (i)	-	-	-
O B O'Duill	223,438	8,485	231,923
M J McCormack (ii)	54,693	11,988	66,681
R M Gersbach (ii)	-	-	-

(i) Mr D L S Chan and Mr I K H Chan are representatives of Cheung Kong Infrastructure Holdings (Malaysian) Ltd which owns 313,645,693 (17.46%) ordinary shares in Envestra.
(ii) Mr M J McCormack and Mr R M Gersbach are representatives of the APA Group which owns 593,755,789 (33.05%) 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 41.

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 Allpass

John G Allpass
Chairman
Adelaide 22 August 2013

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Auditor's Independence Declaration

As lead auditor for the audit of Envestra Limited for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Andrew Forman
Partner
PricewaterhouseCoopers

Adelaide
22 August 2013

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T +61 8 8218 7000, F +61 8 8218 7999, www.pwc.com.au

CONSOLIDATED INCOME STATEMENT

	Notes	2013	2012
		$M	**$M**
Revenue from continuing operations			
Network services		507.0	468.6
Total revenue from continuing operations		**507.0**	**468.6**
Net gain on disposal of property, plant and equipment		0.5	-
Total revenue and income excluding finance income		**507.5**	**468.6**
Network operating costs		(123.0)	(108.9)
Gas purchases		(14.1)	(13.3)
Corporate development, property and administration costs		(10.1)	(13.3)
Total operating costs		(147.2)	(135.5)
Depreciation and impairment	5	(58.6)	(56.5)
Profit before finance costs and tax		**301.7**	**276.6**
Finance income		0.9	4.2
Finance costs		(148.8)	(175.4)
Net finance costs	5	(147.9)	(171.2)
Profit before income tax expense		**153.8**	**105.4**
Income tax expense	6	(46.0)	(31.5)
Net profit after tax		**107.8**	**73.9**
Basic and diluted earnings per share attributable to ordinary equity holders of Envestra Ltd (cents)	31	6.6	4.9

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2013	2012
		$M	**$M**
Net profit after tax for the financial year		**107.8**	**73.9**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit and loss			
Changes in the fair value of cash flow hedges	20	33.4	(18.1)
Income tax benefit/(expense) relating to changes in the fair value of cash flow hedges	20	(10.0)	5.5
Other comprehensive income for the financial year		**23.4**	**(12.6)**
Total comprehensive income for the financial year		**131.2**	**61.3**
Profit for the financial year is attributable to:			
Owners of Envestra Ltd		107.8	73.9
Total comprehensive income for the financial year is attributable to:			
Owners of Envestra Ltd		131.2	61.3

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

CONSOLIDATED BALANCE SHEET

	Notes	2013	2012
		$M	**$M**
ASSETS			
Current assets			
Cash and cash equivalents	7	1.0	1.0
Receivables	8	82.7	72.9
Derivative financial instruments	9	-	0.7
Other assets	10	2.5	4.3
Total current assets		86.2	78.9
Non-current assets			
Receivables	8	4.8	10.3
Property, plant and equipment	11	2,497.0	2,341.7
Intangible assets	12	606.0	606.0
Deferred tax assets	13	-	-
Derivative financial instruments	9	42.9	21.6
Other assets	10	-	0.1
Total non-current assets		3,150.7	2,979.7
Total assets		**3,236.9**	**3,058.6**
LIABILITIES			
Current liabilities			
Payables	14	47.2	49.4
Borrowings	15	3.0	108.0
Provisions	16	3.3	10.5
Derivative financial instruments	9	2.3	24.9
Other liabilities	17	70.9	59.6
Total current liabilities		126.7	252.4
Non-current liabilities			
Borrowings	15	2,019.5	2,016.9
Provisions	16	10.4	10.4
Derivative financial instruments	9	43.3	52.8
Deferred tax liabilities	18	195.2	139.7
Total non-current liabilities		2,268.4	2,219.8
Total liabilities		**2,395.1**	**2,472.2**
Net assets		**841.8**	**586.4**
EQUITY			
Contributed equity	19	869.7	651.8
Reserves	20	0.4	(23.0)
Accumulated losses	20	(28.3)	(42.4)
Total equity		**841.8**	**586.4**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Contributed Equity	Reserves	Accumulated Losses	Total Equity
		$M	$M	$M	$M
Balance at 1 July 2011		582.3	(10.4)	(28.8)	543.1
Profit for the financial year		-	-	73.9	73.9
Other comprehensive expense for the financial year		-	(12.6)	-	(12.6)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	19	69.5	-	-	69.5
Dividends paid	21	-	-	(87.5)	(87.5)
Balance at 30 June 2012		651.8	(23.0)	(42.4)	586.4
Profit for the financial year		-	-	107.8	107.8
Other comprehensive income for the financial year		-	23.4	-	23.4
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	19	217.9	-	-	217.9
Dividends paid	21	-	-	(93.7)	(93.7)
Balance at 30 June 2013		**869.7**	**0.4**	**(28.3)**	**841.8**

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

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2013	2012
		$M	**$M**
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		575.1	497.3
Payments to suppliers and employees (inclusive of goods and services tax)		(197.5)	(182.7)
		377.6	**314.6**
Finance income received		0.9	4.3
Finance costs paid		(144.7)	(147.1)
Net cash inflow from operating activities	29	**233.8**	**171.8**
Cash flows from investing activities			
Payments for property, plant and equipment		(217.4)	(176.1)
Proceeds from sale of property, plant and equipment		0.9	0.1
Payments for remediation of land		(8.9)	(0.6)
Net cash outflow from investing activities		**(225.4)**	**(176.6)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares	19	219.0	69.6
Proceeds from borrowings		342.5	542.5
Repayment of borrowings		(471.8)	(523.1)
Dividends paid	21	(93.7)	(87.5)
Debt and capital raising costs		(4.4)	(3.0)
Net cash outflow from financing activities		**(8.4)**	**(1.5)**
Net increase/(decrease) in cash and cash equivalents		-	(6.3)
Cash and cash equivalents at the beginning of the financial year		1.0	7.3
Cash and cash equivalents at the end of the financial year	7	**1.0**	**1.0**

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

NOTES TO THE FINANCIAL STATEMENTS

THE PRINCIPAL ACCOUNTING POLICIES ADOPTED IN THE PREPARATION OF THESE CONSOLIDATED FINANCIAL STATEMENTS ARE SET OUT BELOW. THESE POLICIES HAVE BEEN CONSISTENTLY APPLIED TO THE TWO YEARS PRESENTED, UNLESS OTHERWISE STATED. THE FINANCIAL STATEMENTS ARE FOR THE CONSOLIDATED ENTITY CONSISTING OF ENVESTRA LTD AND ITS SUBSIDIARIES. THE FINANCIAL STATEMENTS ARE PRESENTED IN THE AUSTRALIAN CURRENCY.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTE 01

A) Basis of preparation

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

The financial statements were approved by the Board of Directors on 22 August 2013.

COMPLIANCE WITH IFRS

The consolidated financial statements of Envestra Ltd also comply with International Financial Reporting Standards (IFRS).

ACCOUNTING CONVENTION

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

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 *Presentation of Financial Statements* effective 1 July 2012 now require the Statement of Comprehensive Income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit and loss in a future period and those that may have to be reclassified if certain conditions are met.

WORKING CAPITAL DEFICIENCY

The Group had current liabilities in excess of current assets at 30 June 2013 amounting to $40.5 million. This shortfall largely relates to $50.7 million of haulage revenue received in advance from retailers as a result of prepayments made in accordance with agreements with retailers in South Australia. The shortfall is more than covered by unused credit facilities on hand at 30 June 2013 ($400 million).

CRITICAL ACCOUNTING ESTIMATES

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

B) Principles of consolidation

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

Envestra (SA) Holdings 1 Ltd ACN 008 181 066
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 (NSW) Holdings 1 Pty Ltd ACN 108 315 957
Envestra (NSW) Holdings 2 Pty Ltd ACN 108 316 249
Envestra (NSW) Holdings 3 Pty Ltd ACN 108 316 007
Envestra (NSW) Pty Ltd ACN 083 199 839.

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

C) Foreign currency translation

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

D) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Service revenue represents revenue earned from the provision of gas distribution haulage services and is recognised when the service is provided. Customer contributions are made in relation to various capital projects and are recognised when work has been substantially completed.

Interest revenue includes interest income on money invested and is recognised when the interest is earned. Dividends are recognised as revenue when the right to receive payment is established.

E) Government grants

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

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

F) Income tax

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

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

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

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

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

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

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 Arrangement covering the South Australian network requires 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 and large industrial customers 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.

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

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

J) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(1) hedges of the fair value of recognised liabilities (fair value hedge); or
(2) hedges of highly probable forecast transactions (cash flow hedges).

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 9. Movements in the hedging reserve in shareholders' equity are shown in note 20. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the derivative is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the derivative is less than 12 months.

(I) FAIR VALUE HEDGE

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

(II) CASH FLOW HEDGE

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

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

(III) DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

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

K) Property, plant and equipment

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

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

Category	Useful life (years)
Buildings	40
Furniture, fittings and computer equipment	3-10
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 $585.6 million and $17.7 million respectively, and the other intangible asset held by Envestra (NSW) Pty Ltd which is valued at $2.7 million, in the opinion of the Directors have an indefinite life. Therefore no amortisation charge has been included in the financial statements. An assessment of the recoverable amount of the intangibles is made at the time of preparing the half yearly and annual financial reports to ensure they are not below the carrying amounts of the intangibles (refer note 12).

M) Trade and other payables

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

N) Borrowings

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

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

O) Borrowing costs

Borrowing costs include:

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

P) Employee benefits

(I) WAGES AND SALARIES, ANNUAL LEAVE AND SICK LEAVE

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

(II) LONG SERVICE LEAVE

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

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

(III) OTHER

The Envestra Group had 15 employees as at 30 June 2013 (14 as at 30 June 2012). The operational activities of the Group are undertaken by APA Asset Management and associated subcontractors.

Q) Contributed equity

Ordinary shares are classified as equity.

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

R) Dividends

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

S) Earnings per share

(I) BASIC EARNINGS PER SHARE

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

(II) DILUTED EARNINGS PER SHARE

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

T) New accounting standards and interpretations

Certain new Accounting Standards and Interpretations have been published that are not mandatory for 30 June 2013 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*, AASB 2010-7 *AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS ARISING FROM AASB 9 (DECEMBER 2010)* AND AASB 2012-6 *AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – MANDATORY EFFECTIVE DATE OF AASB 9 AND TRANSITION DISCLOSURES (EFFECTIVE FROM 1 JANUARY 2015)*

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The Standard is not applicable until 1 January 2015, but is available for early adoption. The Standard only permits the accounting for financial assets to be at either amortised cost or fair value, and for the recognition of fair value gains and losses to be in the income statement, or in other comprehensive income if they relate to equity investments that are not held for trading. The new requirements for financial liabilities only affect the accounting for financial liabilities that are designated at fair value through the income statement 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 2015.

(II) AASB 10 *CONSOLIDATED FINANCIAL STATEMENTS*, AASB 11 *JOINT ARRANGEMENTS*, AASB 12 *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*, REVISED AASB 127 *SEPARATE FINANCIAL STATEMENTS* AND AASB 128 *INVESTMENTS IN ASSOCIATES AND JOINT VENTURES*, AASB 2011-7 *AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS ARISING FROM THE CONSOLIDATION AND JOINT ARRANGEMENTS STANDARDS* AND AASB 2012-10 *AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – TRANSITION GUIDANCE AND OTHER AMENDMENTS (EFFECTIVE 1 JANUARY 2013).*

In August 2011, the AASB issued a suite of five new and amended Standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. Of these five standards only AASB 10, AASB 12 and AASB 127 are applicable to the Group.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities.* The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the Standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. The new Standard will not have any impact on the Group.

AASB 12 sets out the required disclosures for entities reporting under the two new Standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this Standard by the Group with respect to accounting for its subsidiaries will not affect any of the amounts recognised in the financial statements, nor will it impact the disclosures. The new or amended Standards are not expected to have any effect on Envestra's current disclosures and the Group will apply the Standards from 1 July 2013.

(III) AASB 13 *FAIR VALUE MEASUREMENT* AND AASB 2011-8 *AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS ARISING FROM AASB 13 (EFFECTIVE 1 JANUARY 2013)*

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group is currently assessing the impact of AASB 13 on the amounts recognised in the financial statements and in particular the potential impact on the valuation of derivatives, and related hedge accounting. The application of the new Standard may also impact the type of information disclosed in the notes to the financial statements. The Group will apply the Standard from 1 July 2013.

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.

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

V) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 33). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

W) Business combinations

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

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

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

X) Parent entity financial information

The financial information for the parent entity, Envestra Ltd, disclosed in note 32 has been prepared on the same basis as the consolidated financial statements, except as set out below.

INVESTMENT IN SUBSIDIARIES

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

TAX CONSOLIDATION LEGISLATION

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

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

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

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

NOTE 02

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 cross-currency and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, that is, not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include cash flow forecasting analysis in the case of interest rate liquidity and other price risks and ageing analysis for credit risk.

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

Market risk

FOREIGN EXCHANGE RISK

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

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

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

	2013	2012
	US $M	**US $M**
Borrowings	770.0	620.0

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

PRICE RISK

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

The Group's exposure to movements in the CPI through its $252 million 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.

	2013	2012
	$M	**$M**
Impact on after-tax profit and equity:		
CPI + 1%	(1.8)	(2.4)
CPI - 1%	1.8	2.4

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, 22% (2012: 22%) 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):

	30 June 2013		30 June 2012	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	**$M**	**%**	**$M**
Interest bearing debt (at variable rates)	4.6	1,592.1	5.4	1,689.4
Interest rate swaps	4.0	(1,450.0)	6.7	(1,501.1)
Net exposure to cash flow interest rate risk		**142.1**		188.3

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.

	2013	2012
	$M	**$M**
Impact on after-tax profit:		
Interest rates + 1%	(1.0)	(1.3)
Interest rates - 1%	1.0	1.3
Impact on equity:		
Interest rates + 1%	42.3	27.7
Interest rates - 1%	(44.4)	(28.7)

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.

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 $1.0 million (2012: $1.0 million) and had unused credit facilities on hand of $400 million that are readily available for managing liquidity risk.

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

NET CURRENT LIABILITY POSITION

At 30 June 2013 current liabilities for the Group exceed current assets by $40.5 million. This shortfall largely relates to $50.7 million of haulage revenue received in advance from retailers as a result of prepayments made in accordance with agreements with retailers in South Australia. The shortfall is more than covered by unused credit facilities on hand at 30 June 2013 ($400 million).

MATURITIES OF FINANCIAL LIABILITIES

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

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

	Less than 1 year	Between 1 and 5 years	Between 5 and 15 years	Over 15 years	Total
	$M	**$M**	**$M**	**$M**	**$M**
At 30 June 2013					
Trade payables	47.2	-	-	-	47.2
Medium Term Notes	22.9	129.0	740.8	-	892.7
Capital Indexed Bonds	7.8	33.5	431.1	-	472.4
Commercial Paper	3.0	-	-	-	3.0
Bank loans	8.0	183.7	-	-	191.7
US Private Placement Notes	53.1	273.0	1,094.5	198.0	1,618.6
Interest rate swaps	17.9	59.2	-	-	77.1
	159.9	**678.4**	**2,266.4**	**198.0**	**3,302.7**
At 30 June 2012					
Trade payables	49.4	-	-	-	49.4
Medium Term Notes	26.9	147.8	792.8	-	967.5
Capital Indexed Bonds	91.0	32.8	443.3	-	567.1
Commercial Paper	26.1	-	-	-	26.1
Bank loans	20.8	432.0	-	-	452.8
US Private Placement Notes	46.0	246.6	715.2	381.0	1,388.8
Interest rate swaps	27.6	39.5	-	-	67.1
	287.8	**898.7**	**1,951.3**	**381.0**	**3,518.8**

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 2013 and 30 June 2012:

	Level 1	Level 2	Level 3	Total
	$M	**$M**	**$M**	**$M**
At 30 June 2013				
Assets				
Derivatives used for hedging	-	42.9	-	42.9
Total assets	**-**	**42.9**	**-**	**42.9**
Liabilities				
Borrowings	-	1,027.3	-	1,027.3
Derivatives used for hedging	-	45.6	-	45.6
Total liabilities	**-**	**1,072.9**	**-**	**1,072.9**
At 30 June 2012				
Assets				
Derivatives used for hedging	-	22.3	-	22.3
Total assets	**-**	**22.3**	**-**	**22.3**
Liabilities				
Borrowings	-	823.6	-	823.6
Derivatives used for hedging	-	77.7	-	77.7
Total liabilities	**-**	**901.3**	**-**	**901.3**

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.

NOTE 03 CRITICAL ACCOUNTING ESTIMATES

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

The key estimates and assumptions are discussed below.

Estimated impairment of intangibles

The Group tests whether intangible assets have suffered any impairment in accordance with the accounting policy stated in note 1(L). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 12 for details of these assumptions.

Useful lives of property, plant and equipment

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

NOTE 04 SEGMENT INFORMATION

Description of segments

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

Segment information provided to Envestra Management

The segment information provided to Management for the reportable segments for the financial year ended 30 June 2013 is disclosed in the tables below. The measurement of these amounts is consistent with the financial statements.

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

	Victoria	NSW	South Australia and other	Queensland	Unallocated	Consolidated
2012	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**
Total segment revenue/income	177.7	24.0	196.2	70.7	-	468.6
Total segment operating costs	(55.3)	(6.7)	(55.7)	(17.8)	-	(135.5)
Earnings before interest, tax, depreciation, impairment and amortisation	122.4	17.3	140.5	52.9	-	333.1
Depreciation and impairment	(23.3)	(3.9)	(21.1)	(8.2)	-	(56.5)
Profit before finance costs	99.1	13.4	119.4	44.7	-	276.6
Net finance costs						(171.2)
Profit before income tax						105.4
Income tax expense						(31.5)
Net profit after tax						**73.9**
Segment assets	1,540.9	163.1	985.6	345.7	23.3	3,058.6
Segment liabilities	40.4	9.4	54.5	5.6	2,362.3	2,472.2
Acquisitions of property, plant and equipment	93.7	3.9	66.9	22.6	-	187.1
Depreciation expense	23.5	3.9	21.0	8.2	-	56.6
Other non-cash expenses	2.8	1.7	3.1	-	-	7.6

EXPENSES

NOTE 05

	2013	2012
	$M	**$M**
Profit before income tax includes the following expenses:		
Depreciation and impairment		
Depreciation on buildings	0.1	0.1
Depreciation on plant and equipment	58.6	56.5
Impairment cost adjustments	(0.1)	(0.2)
Impairment of trade debtors and bad debts	-	0.1
	58.6	**56.5**
Other charges against assets		
Asset retirements	-	-
Net finance costs		
Finance income		
Interest income	0.9	0.7
Gain on redemption of Capital Indexed Bonds	-	3.5
	0.9	4.2
Finance costs		
Interest and indexation	141.1	165.6
Fees on financing facilities	3.7	3.8
Amortisation of debt establishment and credit insurance costs	4.0	6.0
	148.8	175.4
	147.9	**171.2**
Employee benefits expense	4.8	4.2
Land management provision expense/(reversal of unused amounts)	(0.7)	1.7

NOTE 06 INCOME TAX EXPENSE

	2013	2012
	$M	**$M**
Income tax expense		
Deferred tax	46.0	31.5
	46.0	**31.5**
Attributable to:		
Profit from continuing operations	46.0	31.5
Deferred income tax expense included in income tax expense comprises:		
Increase in deferred tax assets (note 13)	(7.7)	(6.0)
Increase in deferred tax liabilities (note 18)	53.7	37.5
	46.0	31.5
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	153.8	105.4
Tax at the Australian tax rate of 30% (2012 – 30%)	46.1	31.6
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Deferred tax recognised on asset sale	(0.2)	-
Sundry items	0.1	(0.1)
Total income tax expense	46.0	31.5
Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity		
Net deferred tax – debited/(credited) directly to equity	9.3	(5.5)
Unrecognised temporary differences		
Deferred tax assets not recognised	2.0	2.2

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 liabilities of the wholly-owned entities in the case of a default by the head entity, Envestra Ltd.

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

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

CASH AND CASH EQUIVALENTS

NOTE 07

	2013	2012
	$M	**$M**
Cash at bank – interest bearing	1.0	1.0
	1.0	**1.0**

RECEIVABLES

NOTE 08

	2013	2012
	$M	**$M**
Current		
Trade receivables	82.2	73.0
Other receivables	0.6	-
Provision for impairment of receivables	(0.1)	(0.1)
	82.7	**72.9**
Non-current		
Trade receivables	4.8	10.3
	4.8	**10.3**

Impaired trade receivables

A loss of $17,984 (2012: $12,278) has been recognised in the income statement in respect of bad debts written off during the year ended 30 June 2013.

A loss $88,489 was recognised in the income statement in the prior year in respect of trade debtors that were impaired. These were two individually impaired amounts which related to receivables due from third parties in respect to repairs carried out by Envestra. Part settlement was agreed with one debtor.

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

	2013	2012
	$	**$**
Balance at the beginning of the financial year	138,489	50,000
Provision for impairment recognised during the year	-	88,489
Receivables written off during the year as uncollectable	(58,489)	-
Reversed due to collection of debt	(30,000)	-
Balance at the end of the financial year	50,000	138,489

Note: These amounts have not been rounded.

Past due but not impaired

As of 30 June 2013, trade receivables of $0.5 million (2012: $0.6 million) were past due but not impaired. The ageing of these trade receivables is as follows:

	2013	2012
	$M	**$M**
31 to 60 days	0.1	0.5
61 to 90 days	-	-
Over 90 days	0.4	0.1
	0.5	**0.6**

Of the $0.5 million of debtors over 30 days at 30 June 2013, $0.1 million has been collected.

Significant terms and conditions

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

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

Credit risk

Envestra's customers using the South Australian 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.

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 09

	2013	2012
	$M	**$M**
Current assets		
Interest rate swaps – cash flow hedges	-	0.7
Non-current assets		
Cross currency swap contracts – fair value and cash flow hedges	42.9	21.6
	42.9	**22.3**
Current liabilities		
Interest rate swaps – cash flow hedges	2.3	17.7
Cross currency swap contracts – fair value and cash flow hedges	-	7.2
	2.3	24.9
Non-current liabilities		
Interest rate swaps – cash flow hedges	43.3	52.8
	43.3	52.8
	45.6	**77.7**
Net derivative liabilities	**2.7**	**55.4**

Instruments used by the Group

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

INTEREST RATE SWAP CONTRACTS – CASH FLOW HEDGES

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

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

At 30 June 2013, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2013	2012
	$M	**$M**
Less than 1 year	900.0	901.1
1–2 years	-	-
2–3 years	600.0	-
3–4 years	-	600.0
	1,500.0	**1,501.1**

The Group also has $900 million of forward-starting interest rate swaps in place from 1 July 2014 to 31 December 2017.

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 2013, the ineffective portion resulted in a $0.5 million profit (2012: $0.7 million profit).

At balance date these hedging contracts were recorded as liabilities with a fair value of $45.6 million (2012: liabilities of $70.5 million and assets of $0.7 million). In the year ended 30 June 2013 there was an increase in fair value of $24.2 million (2012: decrease of $30.8 million).

CROSS CURRENCY SWAPS – FAIR VALUE AND CASH FLOW HEDGES

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

At 30 June 2013, the notional principal amounts and periods of expiry of the cross currency swap contracts were as follows:

	2013	2012
	$M	**$M**
Less than 1 year	-	61.9
1–2 years	-	-
2–3 years	101.7	-
3–4 years	19.2	68.4
4–5 years	-	-
Greater than 5 years	751.1	604.6
	872.0	**734.9**

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 were assets with fair value of $42.9 million (2012: assets of $21.6 million and liabilities of $7.2 million). In the year ended 30 June 2013 there was an increase in fair value of $28.5 million (2012: increase of $149.2 million). The 2012-13 movement was due to the significant decrease in the Australian dollar exchange rate with the US dollar during the year, and movements in US and Australian interest rates. Fair value hedge movements offset against the hedged item were $9.3 million (2012: $136.5 million).

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.

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

Interest rate risk exposures

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

OTHER ASSETS

NOTE 10

	2013	2012
	$M	**$M**
Current		
GST receivable	1.7	2.5
Deferred licence fee	0.1	0.1
Prepayments	0.7	1.7
	2.5	**4.3**
Non-current		
Deferred licence fee	-	0.1
	-	**0.1**

PROPERTY, PLANT AND EQUIPMENT

NOTE 11

	Freehold land	Freehold buildings	Plant and equipment	Total
	$M	**$M**	**$M**	**$M**
At 1 July 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**
Year ended 30 June 2012				
Opening net book amount	3.8	2.9	2,204.3	2,211.0
Additions	0.5	0.2	186.9	187.6
Depreciation charge	-	(0.1)	(56.5)	(56.6)
Disposals	-	(0.3)	-	(0.3)
Closing net book amount	**4.3**	**2.7**	**2,334.7**	**2,341.7**
At 30 June 2012				
Cost	4.3	4.6	2,988.4	2,997.3
Accumulated depreciation	-	(1.9)	(653.7)	(655.6)
Net book amount	**4.3**	**2.7**	**2,334.7**	**2,341.7**
Year ended 30 June 2013				
Opening net book amount	4.3	2.7	2,334.7	2,341.7
Additions	-	0.2	214.2	214.4
Depreciation charge	-	(0.1)	(58.6)	(58.7)
Disposals	(0.3)	(0.1)	-	(0.4)
Closing net book amount	**4.0**	**2.7**	**2,490.3**	**2,497.0**
At 30 June 2013				
Cost	4.0	4.6	3,199.5	3,208.1
Accumulated depreciation	-	(1.9)	(709.2)	(711.1)
Net book amount	**4.0**	**2.7**	**2,490.3**	**2,497.0**

Valuation of land and buildings

An independent valuation of land and buildings was undertaken during the 2011-12 year by registered valuers. The market valuations of these properties were in excess of the carrying values at that time by approximately $4.2 million. The valuation of the properties did not take into account any potential remediation costs. A land management cost provision of $9.9 million (2012: $12.0 million) has been included in the financial statements at 30 June 2013 in relation to freehold land.

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

Non-current assets pledged as security

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

NOTE 12 INTANGIBLE ASSETS

	2013	2012
	$M	**$M**
Cost	606.0	606.0
Accumulated amortisation	-	-
Net book amount	**606.0**	**606.0**

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 and anticipating long-term average growth rates of 1% to 3%. The pre-tax discount rate used was 7.8% (2012: 7.6 %).

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

NOTE 13 DEFERRED TAX ASSETS

	2013	2012
	$M	**$M**
The balance comprises temporary differences attributable to:		
Accrued expenses	0.4	1.2
Provision for employee benefits	0.3	0.3
Deferred equity and debt raising costs	0.6	0.2
Deferred revenue	1.2	0.6
Provision for Carbon Tax permits costs	0.7	-
Derivatives	-	10.0
Tax losses	152.6	145.3
	155.8	157.6
Set-off of deferred tax liabilities pursuant to set-off provisions (note 18)	(155.8)	(157.6)
Net deferred tax assets	**-**	**-**
Movements:		
Balance at the beginning of the financial year	157.6	146.1
Credited to the income statement (note 6)	7.7	6.0
Credited/(debited) to equity	(9.5)	5.5
Balance at the end of the financial year	155.8	157.6

PAYABLES

NOTE 14

	2013	2012
	$M	**$M**
Trade payables	47.2	49.4
	47.2	**49.4**

BORROWINGS

NOTE 15

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 28 years to promote liquidity and minimise refinancing risk.

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

	2013	2012
	$M	**$M**
Current		
Commercial Paper	3.0	25.9
Capital Indexed Bonds	-	82.1
	3.0	**108.0**
Non-current		
Bank loans	174.4	378.7
Capital Indexed Bonds	243.2	237.2
Medium Term Notes	633.1	632.0
US Private Placement Notes	968.8	769.0
	2,019.5	**2,016.9**
Total	**2,022.5**	**2,124.9**

Total secured liabilities

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

	Principal outstanding 2013	Book value 2013	Principal outstanding 2012	Book value 2012
	$M	**$M**	**$M**	**$M**
Bank loans	169.5	174.4	390.4	378.7
Commercial Paper	3.0	3.0	26.0	25.9
Capital Indexed Bonds	251.9	243.2	328.6	319.3
Medium Term Notes	645.0	633.1	645.0	632.0
US Private Placement Notes	984.5	968.8	788.0	769.0
	2,053.9	**2,022.5**	**2,178.0**	**2,124.9**

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

Assets pledged as security

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

	2013	2012
	$M	**$M**
Current – floating charge		
Cash and cash equivalents	0.9	0.9
Receivables	79.2	68.8
Derivative financial instruments	-	0.7
Other assets	2.5	4.3
	82.6	74.7
Non-current – floating charge		
Receivables	4.8	10.3
Property, plant and equipment	2,404.5	2,249.7
Intangibles	585.6	585.6
Derivative financial instruments	42.9	21.6
Other assets	-	0.1
	3,037.8	2,867.3
Group assets not pledged as security	116.5	116.6
Total Group assets per balance sheet	**3,236.9**	**3,058.6**

Significant terms and conditions

The bank loans, Capital Indexed Bonds, Commercial Paper, Medium Term Notes and US Private Placement Notes are secured by charges over the respective networks owned by the Envestra Group.

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

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

At 30 June 2013, we are in compliance with all covenants and undertakings.

Group funding and liability structure

The Envestra Group's total interest bearing debt principal outstanding as at 30 June 2013 was $2,053.9 million comprising a range of financial instruments with varying maturities issued under the Group's treasury management program with a view to diversifying funding sources, increasing future refinancing options and lowering overall borrowing costs.

The existing debt instruments include:

BANK LOANS

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

COMMERCIAL PAPER

The Envestra Group had Commercial Paper on issue at 30 June 2013 of $3.0 million (2012: $26.0 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 was supported by undrawn committed bank facilities of $400 million at 30 June 2013.

CAPITAL INDEXED BONDS

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

MEDIUM TERM NOTES

Medium Term Notes totalling $645.0 million (2012: $645.0 million) are instruments issued under the Medium Term Note Program for varying terms and as at 30 June 2013 had terms to maturity of up to 13 years. They are classified as non-current in accordance with these dates.

US PRIVATE PLACEMENT NOTES

Notes with a principal value of A$984.5 million (2012: A$788.0 million) are issued in the United States of America for terms ending in 2015, 2018, 2021, 2022, 2023, 2027, 2033 and 2041. Included in these, are $165 million in Australian dollars, while the remainder are in US dollars, and there are cross currency swaps in place to swap both the principal and interest payments from the US dollar fixed coupon to Australian dollar floating rate for the term of the respective note.

Financing arrangements

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

	2013	2012
	$M	**$M**
Bank loan facilities		
Total facilities	569.5	641.9
Used at balance date	169.5	390.4
Unused at balance date	**400.0**	**251.5**

Fair values

The fair value of current borrowings approximates their carrying amount. The fair value of non-current borrowings where it does not approximate carrying amount is based upon market prices where a market exists, or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

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

	Carrying amount 2013	Fair value 2013	Carrying amount 2012	Fair value 2012
	$M	**$M**	**$M**	**$M**
Non-traded financial liabilities				
Bank loans	174.4	177.2	378.7	383.5
US Private Placement Notes	968.8	973.4	769.0	773.1
Traded financial liabilities				
Capital Indexed Bonds	243.2	210.7	319.3	284.1
Medium Term Notes	633.1	645.0	632.0	645.0
Commercial Paper	3.0	3.0	25.9	25.9
	2,022.5	**2,009.3**	**2,124.9**	**2,111.6**

Risk exposures

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

NOTE 16 PROVISIONS

	2013	2012
	$M	**$M**
Current		
Employee benefits	0.7	0.6
Carbon Tax permit costs	2.4	-
Land management costs	0.2	9.9
	3.3	**10.5**
Non-current		
Long service leave	0.2	0.2
Other employee and Director entitlements	0.3	0.2
Land management costs	9.9	10.0
	10.4	**10.4**
Total	**13.7**	**20.9**

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.

Movement in provisions

Movement in provisions other than employee and Director benefits during the financial year are set out below:

	2013	2012
	$M	**$M**
Balance at the beginning of the financial year:		
Current	9.9	4.9
Non-current	10.0	13.4
	19.9	**18.3**
Additional provision recognised – Carbon Tax permit costs	9.0	2.2
Payments made from provision:		
Land management costs	(8.9)	(0.6)
Carbon Tax permit costs	(6.7)	-
Unused amounts reversed	(0.8)	-
Balance at the end of the financial year	**12.5**	**19.9**
Current	2.6	9.9
Non-current	9.9	10.0
Total	**12.5**	**19.9**

OTHER LIABILITIES

NOTE 17

	2013	2012
	$M	**$M**
Prepayments from energy retailers	50.7	34.6
Accrued costs	2.4	4.3
Interest accrued	13.8	18.8
Other deferred income	4.0	1.9
	70.9	**59.6**

DEFERRED TAX LIABILITIES

NOTE 18

	2013	2012
	$M	**$M**
The balance comprises temporary differences attributable to:		
Provision for equity and debt raising	6.8	7.2
Other	0.3	0.5
Provision for land management costs	(3.1)	(6.0)
Derivatives	0.2	-
Excess of book value over tax value of property, plant and equipment	346.8	295.6
	351.0	297.3
Set-off of deferred tax assets pursuant to set-off provisions (note 13)	(155.8)	(157.6)
Net deferred tax liabilities	**195.2**	**139.7**
Movements:		
Balance at the beginning of the financial year	297.3	259.8
Charged to the income statement (note 6)	53.7	37.5
Balance at the end of the financial year	351.0	297.3

NOTE

19 CONTRIBUTED EQUITY

Share capital and other equity components

	Securities 2013	Securities 2012	2013	2012
			$M	**$M**
Ordinary shares				
Issued and paid up capital	1,796,808,474	1,572,392,111	868.1	650.9
Deferred tax liability component			1.6	0.9
Total contributed equity			**869.7**	**651.8**

Movements in contributed equity

Date	Details	Number of securities	Issue price	
				$M
1 July 2011	Opening balance	1,468,560,201		582.3
28 October 2011	Dividend reinvestment plan	40,091,603	$0.64	25.6
10 November 2011	Share purchase plan	39,238,228	$0.64	25.1
27 April 2012	Dividend reinvestment plan	24,502,079	$0.77	18.9
				69.6
	Transaction costs			(0.1)
30 June 2012	**Closing balance**	**1,572,392,111**		**651.8**
31 October 2012	Dividend reinvestment plan	30,941,386	$0.87	26.9
16 April 2013	Share placement	131,313,131	$0.99	130.0
30 April 2013	Dividend reinvestment plan	29,636,943	$1.01	29.9
21 May 2013	Share purchase plan	32,524,903	$0.99	32.2
				219.0
	Transaction costs			(1.8)
	Less: Deferred tax			0.7
30 June 2013	**Closing balance**	**1,796,808,474**		**869.7**

Ordinary shares

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

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

Dividend reinvestment plan (DRP)

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

Share placement

The Company conducted a Share Placement in April 2013 under which new institutional investors and the APA Group acquired $130.0 million of new equity. Shares were issued at 99 cents per share.

Share purchase plan

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

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

Capital risk management

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

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

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

The gearing ratios at 30 June 2013 and 30 June 2012 were as follows:

	2013	2012
	$M	**$M**
Total borrowings (note 15)	2,022.5	2,124.9
Add back unamortised fees	28.0	31.1
Add back hedges impact on borrowings	3.4	22.0
Total borrowings	2,053.9	2,178.0
Less cash and cash equivalents	(1.0)	(1.0)
Net debt	**2,052.9**	**2,177.0**
Total assets	3,236.9	3,058.6
Less cash and cash equivalents	(1.0)	(1.0)
Total non-cash assets	**3,235.9**	**3,057.6**
Ordinary shares (number)	1,796,808,474	1,572,392,111
Share price at 30 June ($)	0.99	0.79
Market value of equity ($M)	1,787.8	1,234.3
Book Value Gearing Ratio	63.4%	71.2%
Market Value Gearing Ratio	53.5%	63.8%

The Group has a financial covenant for its borrowing facilities which limits debt to being no more than 100% of the Regulatory Asset Base (RAB). During the 2013 and 2012 reporting periods, the Group's ratio was well within this covenant, with the Debt:RAB ratio being 72% at 30 June 2013 (78% at 30 June 2012).

NOTE 20

RESERVES AND ACCUMULATED LOSSES

	2013	2012
	$M	**$M**
Reserves		
Hedging reserve – cash flow hedges	**0.4**	**(23.0)**
Movements:		
Balance at the beginning of the financial year	(23.0)	(10.4)
Fair value movements	33.4	(18.1)
Deferred tax	(10.0)	5.5
Balance at the end of the financial year	0.4	(23.0)
Accumulated losses		
Movements in accumulated losses were as follows:		
Balance at the beginning of the financial year	(42.4)	(28.8)
Profit for the year	107.8	73.9
Dividend paid	(93.7)	(87.5)
Balance at the end of the financial year	**(28.3)**	**(42.4)**

Nature and purpose of reserves

HEDGING RESERVE – CASH FLOW HEDGES

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

NOTE 21

DIVIDENDS

	2013	2012
	$M	**$M**
Ordinary Shares		
Unfranked dividend – October: 2.9 cents (2013); 2.9 cents (2012)	45.6	42.6
Unfranked dividend – April: 3.0 cents (2013); 2.9 cents (2012)	48.1	44.9
	93.7	**87.5**

Dividends not recognised at year end

On 22 August 2013 the Directors declared the payment of a final unfranked dividend of 3.2 cents per fully paid ordinary share. The aggregate amount of this dividend expected to be paid on 31 October 2013 is $57.5 million. This dividend is not recognised as a liability at year end.

KEY MANAGEMENT PERSONNEL DISCLOSURES

NOTE 22

	2013	2012
	$	**$**
Key management personnel compensation		
Short-term employee benefits	2,876,250	2,678,185
Post-employment benefits	140,674	208,417
	3,016,924	**2,886,602**

Detailed remuneration disclosures are provided in sections A – D of the Remuneration Report on pages 33 to 39.

Equity instrument disclosures relating to key management personnel

SHARE HOLDINGS

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

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

Ordinary Shares	Balance at the start of the year	Changes during the year	Balance at the end of the year
2012			
Directors of Envestra Ltd			
J G Allpass	299,936	63,093	363,029
I B Little	123,240	15,625	138,865
E F Ainsworth	66,000	-	66,000
O B O'Duill	200,000	23,438	223,438
M J McCormack	28,000	26,693	54,693
Other key management personnel of the Group			
D Petherick	207,685	23,438	231,123
G Meredith	14,000	-	14,000

NOTE 23 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:

	2013	2012
	$	$
PwC Australia		
Audit and other assurance services		
Audit and review of financial statements	227,047	218,950
Other assurance services		
Audit of regulatory financial statements	33,100	32,000
Audit of reported gas volumes	12,000	-
Accounting advice	-	52,140
	272,147	**303,090**
Taxation services		
Tax compliance services	36,100	35,740
	36,100	**35,740**
Other services		
Advisory services	28,069	15,563
Total remuneration of PwC Australia	**336,316**	**354,393**

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 24 RELATED PARTY TRANSACTIONS

Parent entity

The ultimate parent entity within the Group is Envestra Ltd.

Subsidiaries

Interests in subsidiaries are set out in note 25.

Key management personnel compensation

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

Transactions with related parties

The following transactions occurred with related parties:

	2013	2012
Expenses	$	$
Payments for operation and management of the networks	108,881,000	103,301,000
Payments for capital expenditure relating to the networks	215,272,000	187,078,000

Outstanding balances arising from transactions with related parties

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

	2013	2012
	$	$
Trade payables	38,260,000	42,068,000

Terms and conditions

All transactions were made in accordance with executed commercial arrangements and/or on normal commercial terms and conditions and at market rates.

Outstanding balances are unsecured and are repayable in cash.

SUBSIDIARIES

NOTE 25

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

Name of entity	Country of incorporation	Class of shares	Equity holding of Envestra Ltd	
			2013	**2012**
			%	**%**
Vic Gas Distribution Pty Ltd (1)	Australia	Ordinary	-	-
The Albury Gas Co Ltd (1)	Australia	Ordinary	-	-
Envestra (SA) Ltd (2) (9)	Australia	Ordinary	-	-
Envic Holdings 1 Pty Ltd (3)	Australia	Ordinary	100	100
Envic Holdings 2 Ltd (4)	Australia	Ordinary	-	-
Envestra Victoria Pty Ltd (5)	Australia	Ordinary	-	-
Envestra (NSW) Holdings 2 Pty Ltd (6)	Australia	Ordinary	-	-
Envestra (NSW) Holdings 3 Pty Ltd (7)	Australia	Ordinary	-	-
Envestra (NSW) Pty Ltd (8)	Australia	Ordinary	-	-
Envestra (QLD) Ltd (9)	Australia	Ordinary	100	100
Envestra (SA) Holdings 1 Ltd (9)	Australia	Ordinary	100	100
Envestra (NSW) Holdings 1 Pty Ltd	Australia	Ordinary	100	100

1) *Vic Gas Distribution Pty Ltd is a subsidiary of Envestra Victoria Pty Ltd. The Albury Gas Co Ltd is a subsidiary of Vic Gas Distribution Pty Ltd.*
2) *Envestra (SA) Ltd is a subsidiary of Envestra (SA) Holdings 1 Ltd.*
3) *The book value of the investment in Envic Holdings 1 Pty Ltd is $100.*
4) *Envic Holdings 2 Ltd is a subsidiary of Envic Holdings 1 Pty Ltd.*
5) *Envestra Victoria Pty Ltd is a subsidiary of Envic Holdings 2 Ltd.*
6) *Envestra (NSW) Holdings 2 Pty Ltd is a subsidiary of Envestra (NSW) Holdings 1 Pty Ltd.*
7) *Envestra (NSW) Holdings 3 Pty Ltd is a subsidiary of Envestra (NSW) Holdings 2 Pty Ltd.*
8) *Envestra (NSW) Pty Ltd is a subsidiary of Envestra (NSW) Holdings 3 Pty Ltd.*
9) *These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 26.*

NOTE 26 DEED OF CROSS GUARANTEE

Envestra Ltd, Envestra (SA) Holdings 1 Ltd, Envestra (SA) Ltd and Envestra (QLD) Ltd are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others. By entering into the Deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' Report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

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

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

Set out below is a consolidated income statement and a summary of movements in consolidated accumulated losses for the year ended 30 June 2013 of the Closed Group consisting of Envestra Ltd, Envestra (SA) Holdings 1 Ltd, Envestra (SA) Ltd and Envestra (QLD) Ltd.

	2013	2012
	$M	**$M**
Income statement		
Total revenue and income	292.2	266.8
Network operating costs	(65.6)	(58.6)
Gas purchases	(11.3)	(11.3)
Corporate development, property and administration costs	(8.8)	(9.0)
Depreciation and impairment	(29.4)	(29.3)
Net finance costs	(65.9)	(68.9)
Profit before income tax expense	111.2	89.7
Income tax expense	(33.4)	(26.9)
Net profit after tax	**77.8**	**62.8**
Summary of movements in consolidated retained earnings/ (accumulated losses)		
Accumulated losses at the beginning of the financial year	(72.0)	(47.3)
Net profit after tax for the financial year	77.8	62.8
Dividend paid	(93.7)	(87.5)
Accumulated losses at the end of the financial year	**(87.9)**	**(72.0)**

Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2013 of the Closed Group consisting of Envestra Ltd, Envestra (SA) Holdings 1 Ltd, Envestra (SA) Ltd and Envestra (QLD) Ltd.

	2013	2012
	$M	**$M**
ASSETS		
Current assets		
Cash and cash equivalents	0.5	0.6
Receivables	39.8	30.3
Other assets	1.3	2.6
Total current assets	41.6	33.5
Non-current assets		
Receivables	170.6	116.9
Investment in subsidiaries	508.9	508.9
Property, plant and equipment	1,374.9	1,288.0
Total non-current assets	2,054.4	1,913.8
Total assets	**2,096.0**	**1,947.3**
LIABILITIES		
Current liabilities		
Payables	21.9	23.2
Borrowings	-	82.1
Provisions	1.9	0.6
Other liabilities	62.6	54.9
Total current liabilities	86.4	160.8
Non-current liabilities		
Borrowings	1,166.4	1,170.2
Provisions	0.4	0.4
Derivative financial instruments	32.6	41.8
Deferred tax liabilities	55.6	33.0
Total non-current liabilities	1,255.0	1,245.4
Total liabilities	**1,341.4**	**1,406.2**
Net Assets	**754.6**	**541.1**
EQUITY		
Contributed equity	869.7	651.8
Reserves	(27.2)	(38.7)
Accumulated losses	(87.9)	(72.0)
Total Equity	**754.6**	**541.1**

NOTE 27 ECONOMIC DEPENDENCY

The Envestra Group has three major customers. They are:

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

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

NOTE 28 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 15 July 2013, the Envestra Group received a proposal from APA Group to acquire all issued capital which it does not currently own of the ultimate parent company, Envestra Ltd. The proposal was unsolicited, indicative, conditional and non-binding. On 5 August 2013, Envestra announced that its Independent Board Committee had decided not to proceed with the proposal. As at the date of signing the financial statements, there has been no further proposal.

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

NOTE 29 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2013	2012
	$M	**$M**
Profit after income tax	107.8	73.9
Depreciation and amortisation	62.7	62.6
Indexation of Capital Indexed Bonds	5.4	9.8
Other deferred revenue	2.5	(2.2)
Gain on disposal of land and plant and equipment	(0.5)	-
Change in operating assets and liabilities		
Increase in trade debtors	(3.6)	(14.7)
Decrease/(increase) in other operating assets	1.8	(2.3)
Increase in trade creditors and other liabilities	11.7	13.2
Increase in provision for deferred income tax	46.0	31.5
Net cash inflow from operating activities	**233.8**	**171.8**

NOTE 30 NON-CASH INVESTING AND FINANCING ACTIVITIES

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

NOTE 31 EARNINGS PER SHARE

	2013	2012
	Cents	**Cents**
Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company	6.6	4.9

Diluted earnings per share

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

	2013	2012
	Number	**Number**
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,629,119,095	1,524,035,953

PARENT ENTITY FINANCIAL INFORMATION

NOTE 32

Summary financial information

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

	2013	2012
	$M	**$M**
Balance sheet		
Current assets	41.6	33.5
Total assets	2,649.4	2,461.7
Current liabilities	86.4	160.8
Total liabilities	2,345.5	2,300.1
Shareholders equity		
Issued capital	869.7	651.8
Reserves – cash flow hedges	(27.2)	(38.7)
Accumulated losses	(538.6)	(451.5)
	303.9	161.6
Profit for the year	6.6	19.9
Total comprehensive income/(expense) for the year	18.1	(13.7)

Guarantees entered into by the parent entity

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

Contingent liabilities of the parent entity

The parent entity did not have any material contingent liabilities as at 30 June 2013 or 30 June 2012.

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 2013 or 30 June 2012.

Investment in subsidiaries

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 and anticipate long-term average growth rates of 1% to 3%. The discount rate used was 8.6% (2012: 7.8%).

NOTE 33 COMMITMENTS

Operating leases

Envestra has non-cancellable operating leases for office space and warehouses expiring within one to eight 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.

	2013	2012
	$M	**$M**
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	1.5	1.4
Later than one year but not later than five years	2.2	3.3
Later than five years	0.5	0.9
	4.2	5.6
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	3.7	5.0

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 42 to 82 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 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 33 to 39 of the Directors' Report comply with Accounting Standard AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

(d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 26 will be able to meet any obligations or liabilities to which they are, or may become subject by virtue of the Deed of Cross Guarantee described in note 26.

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

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

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

John Allpass

John G Allpass
Chairman
Adelaide 22 August 2013

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 2013, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Envestra Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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pwc

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

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 2013 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(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 33 to 39 of the directors' report for the year ended 30 June 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Forman
Partner
Adelaide 22 August 2013

SHAREHOLDER INFORMATION

Number of Shareholders

As at 22 August 2013, there were 15,885 shareholders.

Sharegrouping	Number of shareholders	Securities held	Percentage
1 - 1,000	624	263,154	0.01
1,001 - 5,000	2,005	6,908,487	0.39
5,001 - 10,000	2,625	20,906,132	1.16
10,001 - 100,000	9,943	313,391,086	17.44
100,001 and over	688	1,455,339,615	81.00
Owners of Envestra Ltd			
Total	**15,885**	**1,796,808,474**	**100.00**
Shareholders holding less than a marketable parcel of 449 Shares	332	32,016	<0.01

Twenty largest shareholders

The percentage of the total holdings held by or on behalf of the 20 largest holders of shares at 22 August 2013 was as follows:

Organisation	Shares	Percentage
Australian Pipeline Ltd	593,755,789	33.05
Cheung Kong Infrastructure Holdings (Malaysian) Ltd	313,645,693	17.46
J P Morgan Nominees Australia Ltd	97,455,422	5.42
HSBC Custody Nominees (Australia) Ltd	88,703,171	4.94
National Nominees Ltd	72,562,345	4.04
Citicorp Nominees Pty Ltd	47,930,224	2.67
Australian Executor Trustees SA Ltd	14,080,573	0.78
BNP Paribas Noms Pty Ltd	12,462,316	0.69
AMP Life Ltd	11,547,660	0.64
UBS Wealth Management Australia Nominees Pty Ltd	11,252,271	0.63

Organisation	Shares	Percentage
J P Morgan Nominees Australia Ltd <cash a/c>	10,953,326	0.61
Buttonwood Nominees Pty Ltd	7,465,503	0.42
HSBC Custody Nominees (Australia) Limited	5,258,984	0.29
RBC Investor Services Australia Nominees Pty Ltd	5,073,762	0.28
Queensland Investment Corporation	4,146,117	0.23
Mr Andrew Ivan Strauss & Mr John Danvers Leece	3,000,000	0.17
Flame Media Pty Ltd	2,457,821	0.14
CS Fourth Nominees Pty Ltd	2,095,883	0.12
National Exchange Pty Ltd	2,000,000	0.11
Citicorp Nominees Pty Ltd	1,876,294	0.10
Total for top 20	**1,307,723,154**	**72.79**

Substantial shareholders

Substantial shareholder notices have been received as follows:

Organisation	Shares	Percentage of shares
Australian Pipeline Ltd	593,755,789	33.05
Cheung Kong Infrastructure Holdings (Malaysian) Ltd	313,645,693	17.46

Summary Of Distributions/Dividends (Cents/Security)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Repayment of loan note	-	-	-	-	4.94	7.06	6.14	6.14	6.08	6.05
Interest on loan	-	-	-	-	0.42	1.51	2.43	3.36	3.42	3.45
Dividend	5.90	5.80	5.50	5.50	1.89	0.93	0.93	-	-	-
Total	**5.90**	**5.80**	**5.50**	**5.50**	**7.25**	**9.50**	**9.50**	**9.50**	**9.50**	**9.50**

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 on which to provide your tax file number, Australian Business Number or tax exemption details.

Annual Report mailing list

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

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

Change of address

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

Share trading

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

2013 Annual General Meeting

The Annual General Meeting of Envestra will be held at 10:00am on Wednesday, 30 October 2013 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. The DRP was suspended as from 22 August 2013.

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.

NETWORK STATISTICS
ENVESTRA LTD.

Gas Delivered (TJ – A terajoule is equal to one joule multiplied by 10^{12})

	2013		2012		2011		2010		2009	
	<10 TJ	*Total*	*<10 TJ*	*Total*	*<10 TJ*	*Total*	*<10 TJ*	*Total*	*<10 TJ*	*Total*
Victoria	35,625	53,843	34,605	54,954	36,851	57,803	32,924	53,909	34,540	55,628
South Australia	10,461	32,938	10,346	33,231	11,658	35,923	10,822	34,961	11,072	35,988
Queensland	2,264	16,377	2,322	16,465	2,313	16,644	2,138	15,773	2,242	16,497
New South Wales	2,600	6,468	2,504	6,432	1,991	5,297	1,284	3,359	1,248	3,567
Northern Territory	70	3,337	70	3,550	65	3,287	60	3,378	63	3,275
Total	**51,020**	**112,963**	**49,847**	**114,632**	**52,878**	**118,954**	**47,228**	**111,380**	**49,165**	**114,955**

	2008		2007		2006		2005		2004	
	<10 TJ	*Total*	*<10 TJ*	*Total*	*<10 TJ*	*Total*	*<10 TJ*	*Total*	*<10 TJ*	*Total*
Victoria	32,922	55,441	30,838	53,543	32,309	55,322	31,264	54,325	32,707	56,673
South Australia	10,435	36,050	10,602	36,435	11,564	37,376	10,549	36,754	11,192	38,329
Queensland	2,148	16,468	2,084	16,026	2,094	14,802	2,091	14,730	2,027	14,816
New South Wales	1,203	3,675	1,179	3,557	1,282	3,515	1,157	3,513	1,230	3,617
Northern Territory	69	3,184	64	3,335	68	3,280	65	3,085	64	3,085
Total	**46,777**	**114,818**	**44,767**	**112,896**	**47,317**	**114,295**	**45,126**	**112,407**	**47,220**	**116,520**

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Victoria	1,337	1,293	1,465	1,265	1,368	1,274	1,290	1,340	1,294	1,508
South Australia	857	970	1,126	921	1,032	905	960	1,042	966	1,063

Consumers

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Victoria	601,228	587,440	571,705	556,120	541,831	528,496	514,979	501,845	489,003	476,418
South Australia	417,222	410,706	403,474	395,285	388,198	381,280	374,196	367,515	360,746	354,905
Queensland	90,988	89,098	87,074	84,715	82,478	79,727	77,237	76,175	75,164	74,003
New South Wales	52,924	51,882	51,119	23,831	23,376	22,905	22,327	21,648	20,878	20,147
Northern Territory	1,100	1,090	1,084	1,080	1,047	1,047	1,024	999	993	984
Total	**1,163,462**	**1,140,216**	**1,114,456**	**1,061,031**	**1,036,930**	**1,013,455**	**989,763**	**968,182**	**946,784**	**926,457**

Assets	Victoria		South Australia		Queensland		New South Wales		Northern Territory		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
New mains (km)	123	171	51	47	27	24	8	18	-	-	209	260
New Inlets	12,553	14,988	7,484	7,666	1,922	1,797	490	480	-	-	22,449	24,931
Replacement mains (km)	145	127	201	166	61	28	10	10	-	-	417	331
Total mains (km)	10,353	10,226	7,836	7,786	2,692	2,643	1,842	1,826	39	38	22,762	22,519
Transmission pipelines (km)	373	373	224	224	284	284	84	84	159	159	1,124	1,124

SERVICING OVER
1·1 MILLION HOMES
AND BUSINESSES

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

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