

Envestra Limited
Managing Director's Address
2009 Annual General Meeting

Ladies and Gentlemen,

Global Financial Crisis

As the Chairman has mentioned, this time 12 months ago we were predicting difficult times ahead, and while there was speculation about how the global financial crisis **might** impact Australia, and more particularly Australian businesses, the ultimate impact on capital and equity markets proved to be far worse than most had first thought. However, in the midst of these turbulent economic conditions Envestra performed well against most of its key performance measures – something many other companies cannot claim. But there were a few disappointments - the poor share price performance and the necessary cuts in distributions that our shareholders have had to endure. The loss in shareholder wealth over the past two years is of considerable concern to me, and as mentioned by the Chairman, to our Board.

On a positive note, I am confident that we have taken a number of prudent steps over the past 12 to 18 months that will underpin our future performance, thereby enabling us to gain stronger market support and hopefully, over time, deliver better returns to our shareholders.

Relative Share Price Performance

Business Strategy

This brings me to our Business Strategy – the goals we have set ourselves and the things we believe will enable us to meet the long-term expectations of our shareholders and the community. I will provide a brief overview of how we performed in 2008-09 against each of these activities:

- **Achieving long-term (pre-tax) annual returns to our shareholders (including distributions and capital gains) of at least 10%.**

I don't have to remind shareholders that we did not achieve this goal. Total shareholder returns for the year, for those who participated in the January 2009 Rights Issue, were 0.3% while the remainder of our shareholders suffered a loss of 14.3%. These outcomes should be considered in the context of overall sharemarket performance in 2008-09 where the ASX 200 Index, net of dividends, resulted in a negative 19% return to shareholders generally.

To help address this issue, we continue to focus on improving the Company's financial performance since ultimately, that will be reflected in shareholder returns. We have also embarked on an expanded investor relations program. Our objective is to get the market to better appreciate the successes of our recent past, and the very solid foundation we have created for the future. The response to date has been encouraging.

Business Strategy

- **Operating our networks safely and efficiently, complying with all laws and relevant industry standards and enhancing their value by adding connections and augmenting capacity.**

There were no significant incidents involving interruption to supply, or breaches of laws or gas industry standards. During the year around 23,500 new customers were connected to the networks and \$113 million was spent on improving and extending gas supplies.

Business Strategy

- **Promoting the use of natural gas, the most environment friendly fossil fuel and a cost competitive, convenient energy source for most consumers.**

Although significant funding constraints, in part caused by regulatory outcomes, were applied to our marketing activities in 2008-09, we maintained a reasonably close association with property developers and builders.

Our funding cuts have also been made in recognition of the fact that governments have over the past few years implemented energy policies that promote the use of natural gas and in some cases mandate the use of the fuel. However, we see the need to expand our marketing activities in the coming years as alternative energy applications and reverse cycle air conditioning systems increase their presence in the energy markets.

- **Positively changing the regulatory environment so that investment is encouraged, reasonable economic rewards are available to network owners and the long-term interests of gas consumers (including supply reliability and environmental benefits) are protected.**

During the year, the Australian Energy Regulator undertook a review of the rate of return (commonly known as WACC, or Weighted Average Cost of Capital) that will apply to the electricity transmission and distribution sector for the next five years.

We actively participated in an energy industry campaign conducted by asset owners across all sectors of the energy infrastructure sector, aimed at ensuring the Regulator understood the cost of capital challenges being faced by these businesses.

The Final Determination of the AER provided an uplift of about 1% in the rate of return allowed in its Draft Determination, given interest rates prevailing at the time. Although this does not have a direct impact on Envestra, the Final Determination provides some guidance as to the rate of return parameters that might apply when our Access Arrangements are reviewed in 2 years. In this regard we expect the allowed rate of return for the gas industry to be higher given the different nature of the gas industry regulatory structure and the inherently higher risk – as opposed to electricity, gas is a fuel of choice.

Business Strategy

- **Profitably growing our business through network expansion, building new transmission pipelines, adding related gas infrastructure and making appropriate acquisitions.**

Almost 300 kilometres of new mains were laid in 2008-09 at a cost of \$25 million, bringing the total to just over 20,000 kilometres. Today Envestra delivers gas to around 1.04 million consumers and is the largest company focussed solely on the distribution of natural gas.

There was only limited activity in relation to new transmission pipelines. We spent around \$7 million constructing a spur-line on the Palm Valley pipeline to supply gas to a new power station in Alice Springs. There was no activity in relation to acquisitions as worthwhile opportunities did not present themselves.

- **Delivering natural gas to our consumers in a manner that has minimal effect on the environment.**

There were no major incidents involving gas leaks, and our contractor, APA Asset Management, continued to perform its role to a high standard in repairing gas mains and the associated equipment, and installing new mains in a manner sympathetic to the environment. There were no contraventions of environmental codes or guidelines.

However, I would point out that when the Company acquired the Victorian business in 1999, including The Albury Gas Company, it included a small number of sites that were used some 40 years ago for the production of coal gas. These sites contain by-products of this production process and require rehabilitation. We are working closely with the respective local councils and Environmental Protection Agencies to identify the most appropriate remediation program to address the known contamination issue. We increased the provision in our 2008-09 accounts by some \$6 million to undertake this work.

Business Strategy

- **Providing outstanding service to our retail and commercial consumers that ensures continuing growth in consumer connections and increasing gas deliveries.**

Fewer than 40 complaints were received by the Energy Ombudsmen across all states in relation to the Company's assets and activities. This represents a sound performance as more than one million consumers are provided with a service via our networks.

- **Maintaining a work environment for our employees and major contractor that encourages innovation and professionalism, recognises and rewards success, and promotes safety.**

Envestra and APA Asset Management promote skills enhancement of employees and contractors through company funded training programs. This includes attendance at tertiary courses and support of various apprenticeships schemes as well as specialised courses or events for experienced staff.

APA has a major focus on safety and reinforces this through an incentive scheme for all employees under which they are rewarded for reaching certain occupational health and safety targets.

Operations

Turning to the general operation of our networks, this was one area of our business that went largely to plan during the year - the fundamental service of transporting gas to over one million consumers. Whilst operating costs were marginally higher than last year, largely due to increases in leakage costs, as well as some extraneous items such as increased provisioning for future remediation of old gasworks sites and additional costs associated with APA's defined superannuation scheme for its employees, the overall performance was credible, with total operating costs held to \$113 million compared to \$110 million in the previous year.

Our operating activities are outsourced to APA who, in turn, appoint a number of sub-contractors to undertake maintenance and capital project activities. I take this opportunity to record my appreciation of the effort put in by all those people during 2008-09 in ensuring our networks operated reliably and no significant interruptions occurred to our gas supplies.

Climate Change

The proposed legislation that would have allowed for the introduction of the Federal Government's Carbon Pollution Reduction Scheme and the associated Emissions Trading Scheme was rejected in the Senate, but is being reintroduced for further debate as we speak. However, the legislation that mandates certain businesses to report their greenhouse gas emissions is in place and we recently submitted Envestra's emissions data for the year ended 30 June 2009.

The amount was 627,000 tonnes of CO₂ equivalent. The emissions primarily relate to gas leakage from our networks. Although this number appears large, relative to emissions from coal fired electricity generation, it is quite small and the financial impact on gas consumers will be negligible. It has been suggested that an initial value of \$10 per tonne will apply when the Emissions Trading Scheme is introduced. If this were the case, Envestra would be required to pay around \$6 million per annum.

It is expected that this impost will ultimately be recovered from consumers, at about \$6 per household per year. This will need to be agreed with the AER; however, the Regulator has already indicated that he would expect this to be passed through to consumers.

There is no doubt that natural gas will play a pivotal role in addressing Australia's greenhouse gas reduction target, particularly in its role as a complement to various renewable technologies. Envestra is well placed to benefit from its position as Australia's largest distributor of this environment friendly fuel.

2008-09 Achievements

We achieved a great deal in 2008-09, including:

- A record underlying profit after tax;
- Debt consolidation;
- A major capital raising via the Rights Issue;
- Continuing strong support for our Distribution Reinvestment Plan;
- Reinstatement of the Group's Stable Outlook with Standard & Poor's;
- Refinancing of all term-debt maturing in 2009-10;
- Continuing our growth by adding a further 23,500 consumers to the networks; and
- Operating and maintaining our networks to a high standard.

These achievements would not have been possible without the commitment of our employees and our contractor, APA Asset Management. I would like to record my appreciation for their efforts. While we still have challenges before us, the Company is well placed to ride out the global financial crisis, and to improve returns to its shareholders.

Thank you ladies and gentlemen. I'll now hand you back to our Chairman.