


Envestra Limited  
Half -Year Results  
31 December 2010

Ian Little  
Managing Director

Paul May  
Group Manager - Finance & Risk

24 February 2011



Envestra Limited  
Half -Year Results - 31 December 2010

Ian Little  
Managing Director



## 2010-11 First-Half Highlights

			Change on 2009-10
Underlying Net Profit after Tax	\$37.0M	↑	19%
Cash Flow from Operations	\$95.8M	↑	17%
<10TJ Volumes	30 PJ	↑	11%
Total Revenue from Continuing Operations	\$226.0M	↑	9%
Net Borrowing Costs	\$85.7M	↑	16%
Net Profit after Tax	\$35.0M	↑	9%
Customer Connections (< 10 TJJs)	14,500	↑	12%

- Significant profit after tax increase, strong cashflow performance
- Strong volumes from cool weather and continued growth in connections
- Borrowing costs up but in line with expectations



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## 2010-11 First-Half Highlights

- Country Energy acquisition – strategic purchase at competitive price
- Improved return to shareholders – 18% annualised return for half-year
- Regulatory submission lodged for SA/QLD
  - Draft Decision received 17 February
- Expanded capital expenditure program
  - \$63 million spent in first-half
- Continued strength in customer connections – over 14,000 new consumers in first half
  - Increased emphasis on marketing campaign
- Strong growth in gas volumes
  - Cooler winter weather in 2010
- Further improvement in key credit metrics



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## Envestra Limited Half -Year Results - 31 December 2010

Paul May  
Group Manager – Finance & Risk



### Financial Performance: Profit & Loss

	2010 \$M	2009 \$M	Change %
Revenue (excluding interest)	226.0	206.5	9
Operating costs	(63.4)	(61.4)	(3)
<b>EBITDA</b>	<b>162.6</b>	<b>145.1</b>	<b>12</b>
Depreciation, amortisation and impairment	(26.3)	(26.8)	(2)
<b>EBIT</b>	<b>136.3</b>	<b>118.3</b>	<b>15</b>
Net borrowing costs	(85.7)	(73.9)	(16)
<b>Profit before Tax</b>	<b>50.6</b>	<b>44.4</b>	<b>14</b>
Tax	(15.6)	(12.2)	
<b>PAT</b>	<b>35.0</b>	<b>32.2</b>	<b>9</b>

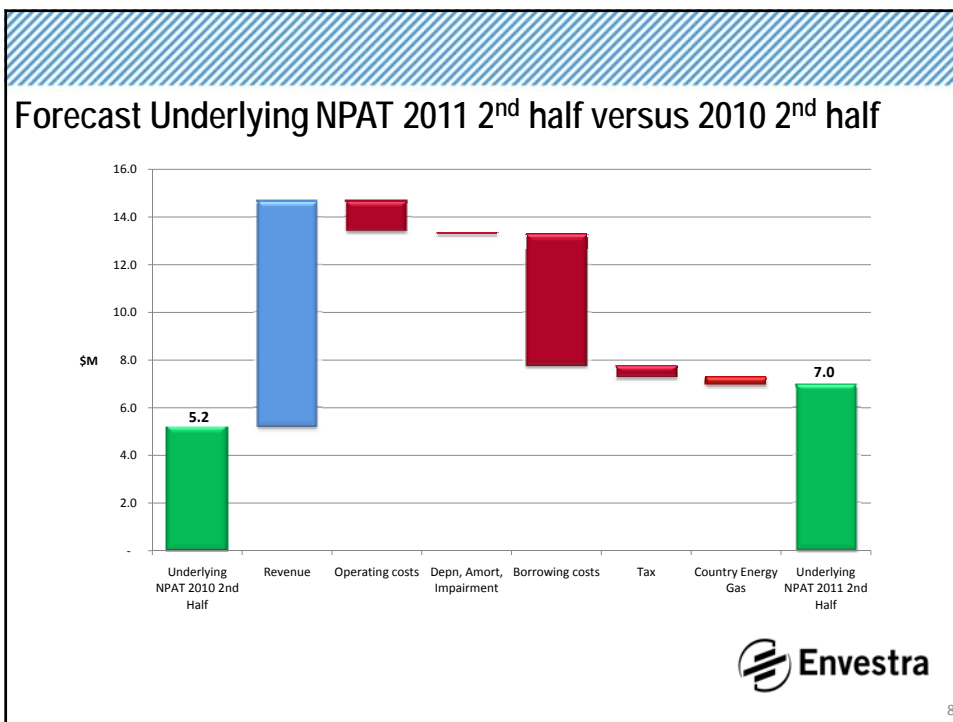
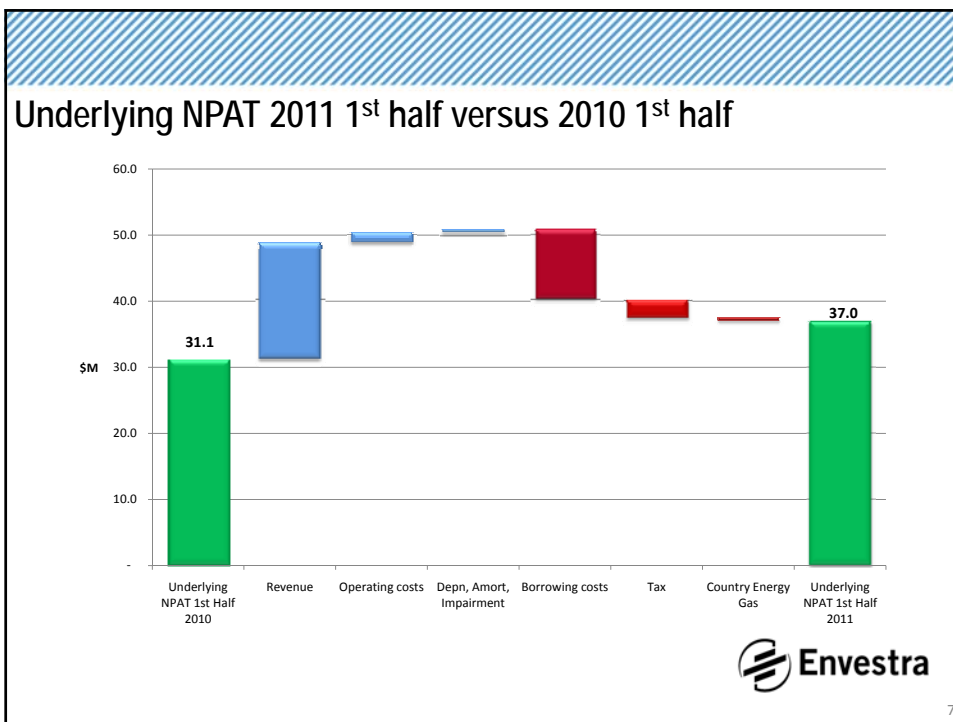
#### Overview of results:

- Revenue reflects strong volumes (volumes up 8%), and tariff increases; however, non-haulage revenue steady
- Tight cost control evident. Non-underlying costs incurred, including Country Energy acquisition costs
- Financing costs higher due to margins on recently refinanced debt and higher inflation (CPI 2.9% vs 1.7% LY).
- 2009 tax expense includes investment allowance

Note: Tariffs increases for 2010-11: Queensland 4.0% (July '10), South Australia 4.4% (July '10), Victoria 4.2% (January '10)



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## Segment Performance

	2010		2009		Change
	\$M	%	\$M	%	%
<b>Revenue</b>					
• Victoria	101.0	44	90.9	44	11
• South Australia/Northern Territory	88.0	39	80.4	39	10
• Queensland	31.0	14	31.0	15	-
• New South Wales	6.0	3	4.2	2	43
<b>TOTAL</b>	<b>226.0</b>		<b>206.5</b>		<b>9</b>
<b>EBIT</b>					
• Victoria	61.9	47	53.4	46	16
• South Australia/Northern Territory	50.8	38	41.9	36	21
• Queensland	19.0	14	18.5	16	3
• New South Wales	1.9	1	2.6	2	(27)
<b>TOTAL</b>	<b>133.6</b>		<b>116.4</b>		<b>15</b>

- Strong improvement across key segments
- NSW includes Country Energy Gas for Nov/Dec 2010.



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## Financial Highlights: Cash Flow

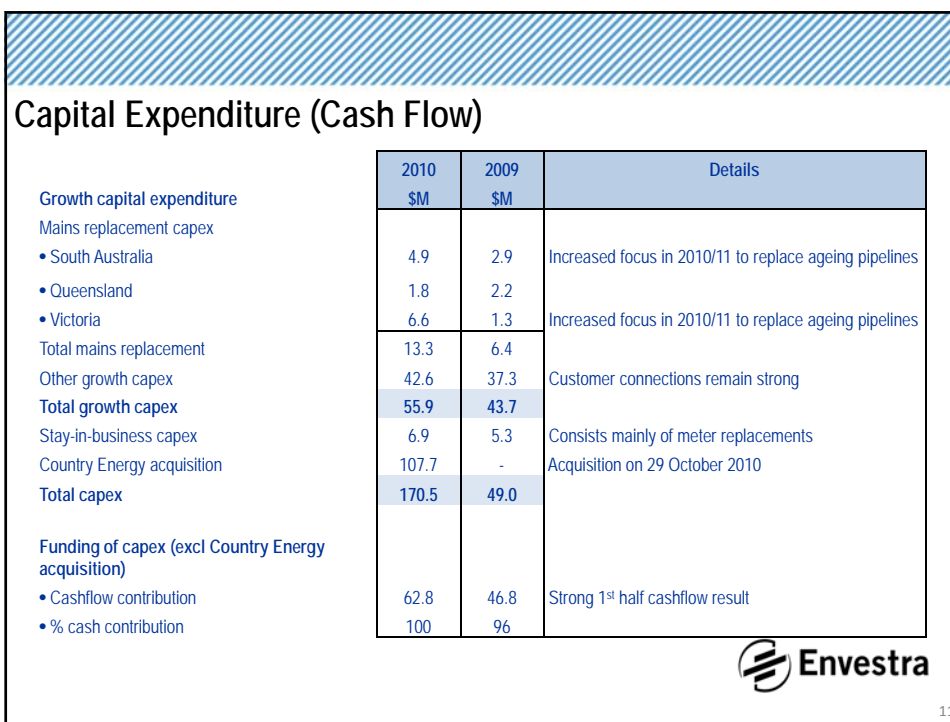
	2010	2009	Change
	\$M	\$M	%
<b>Operating cash flow</b>	173.7	152.7	14
Net borrowing costs	(77.9)	(71.0)	10
<b>Cash flow from operations</b>	<b>95.8</b>	<b>81.7</b>	<b>17</b>
Net proceeds from sale of assets	7.6	1.0	
Replacement capex	(6.9)	(5.3)	
<b>Available for distribution</b>	<b>96.5</b>	<b>77.4</b>	<b>25</b>
Dividends	(38.1)	(35.9)	
<b>Contribution to growth capex</b>	<b>58.4</b>	<b>41.5</b>	<b>41</b>
Growth capex	(55.9)	(43.7)	(28)
Cash flow pre-debt and equity financing	2.5	(2.2)	
Debt proceeds/(repayments)	85.0	(11.2)	
Acquisition of subsidiary	(107.7)	-	
Equity	22.9	22.2	
Capital raising costs	(1.8)	(10.5)	
<b>Increase / (decrease) in cash</b>	<b>0.9</b>	<b>(1.7)</b>	
Closing cash	7.3	4.5	

### Overview of results:

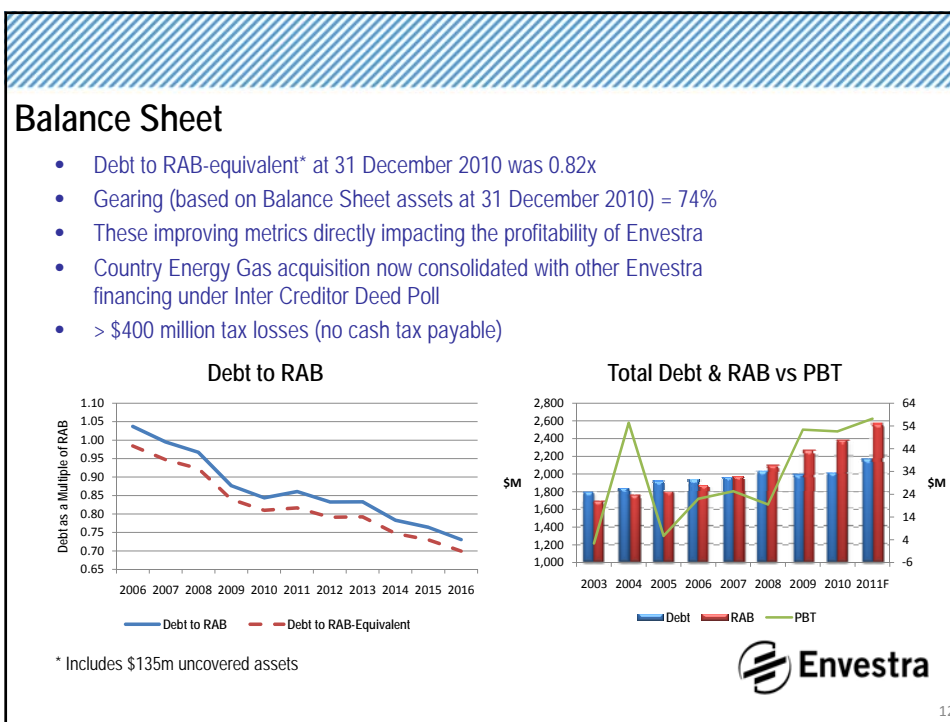
- Higher operating cash flow from strong revenue result
- Cash borrowing costs higher with increased margins on new loans
- Growth capex funded from internal cash generation
- Strong shareholder response to DRP (60%) – used to partly fund Country Energy
- Debt drawdown for Country Energy acquisition



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Envestra Limited

# Half -Year Results - 31 December 2010

Ian Little  
Managing Director

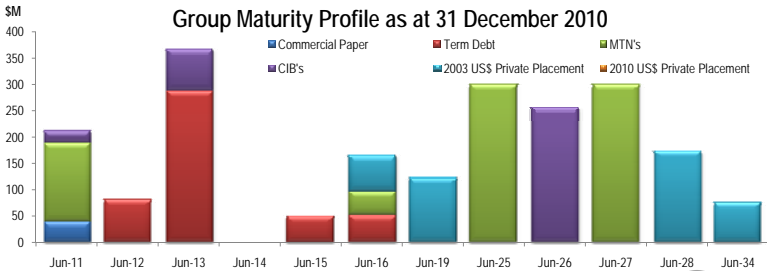


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## Capital Management

- Maintenance of investment grade credit rating
  - Short-term objective is to maintain Moody's Baa2 and to improve to the S&P 'BBB'
- Envestra's debt portfolio has the longest average term to maturity in the sector (circa 10 years)
- Proactive approach to management of the portfolio – take advantage of opportunities as they arise
- 85% of interest exposure hedged at 31 December – minimal interest rate risk through to regulatory resets
- May 2011 maturities covered by existing available facilities

**Group Maturity Profile as at 31 December 2010**



Date	Commercial Paper	CIB's	Term Debt	2003 US\$ Private Placement	2010 US\$ Private Placement	MTN's
Jun-11	~30	~10	~10	~10	~10	~150
Jun-12	0	0	~80	0	0	0
Jun-13	0	~10	~280	0	0	0
Jun-14	0	0	0	0	0	0
Jun-15	0	0	~50	0	0	0
Jun-16	0	~10	~40	~10	~10	~40
Jun-19	0	0	0	~120	0	0
Jun-25	0	0	0	0	0	~300
Jun-26	0	~250	0	0	0	0
Jun-27	0	0	0	0	0	~300
Jun-28	0	0	0	~170	0	0
Jun-34	0	0	0	~70	0	0

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## Regulatory Update

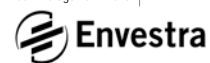
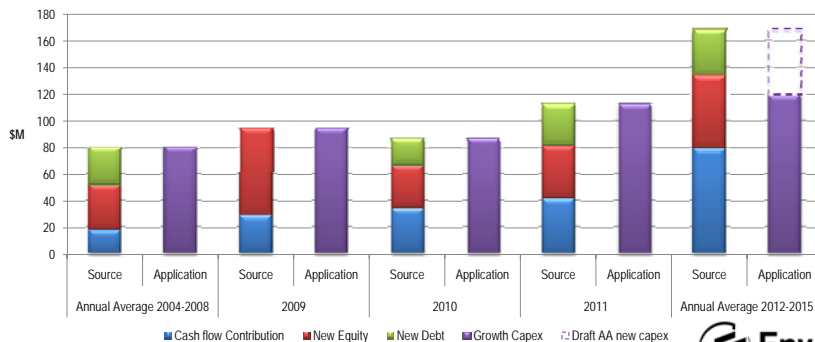
- SA/Qld draft decisions delivered on 17 February
- Significant increases allowed for capital expenditure (\$600 million – up around 100%)
- Increase to rate of return from existing Access Arrangements
- Efficiency Sharing Mechanism has provided \$12 million in allowed revenue
- Key issues to be addressed in response to draft decision:
  - WACC methodology
  - Operating cost allowance
  - Network management fee
  - Demand forecasts
- SA/Qld expected timetable:
  - Envestra submission on draft decision – April 2011
  - Release of final decision – May 2011
- Commenced work on Victorian submission for next Access Arrangement (2013 – 2017)



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## Funding of Capital Expenditure

- Higher dividend coverage allows greater contribution to growth capex - 150% in FY11
- Equity proceeds used to acquire Country Energy in 2010-11
- Pre-2009 growth capex was largely funded by new debt and equity
- In the future capex to be funded mainly by surplus cash flow and equity
- Extra capex from Draft AER Decision fits comfortably within profile



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## Acquisition of Country Energy Gas Networks

- Transaction settled on 29 October 2010
- Transitional Services Agreement in place until June 2011
  - Country Energy continuing to operate network during this period
- Integration of employees and systems has been a prime focus since purchase
  - 15 employees transferred from Country Energy to our contractor, APA.
- Financial results for 2 months since purchase have been in line with expectations
- Acquisition accounting reflected in half-year financial statements
  - \$1.4 million transaction costs included in income statement. No further "write-offs"
- Acquisition debt facility now "consolidated" into Envestra debt package – refinancing \$65 million 1-year acquisition facility well advanced
- Integration with existing business progressing to schedule



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## Summary and Outlook

- Significant increases in profitability and cashflow during first-half
- Country Energy acquisition was a positive, strategic step
- Increased capex programme in first-half – to continue throughout 2011 (expect to spend \$125M)
- Expect to connect around 27,000 new consumers
- All term-debt maturities through to November 2011 accommodated
- Long-term bond issue and new \$100 million bank facility anticipated early/mid 2011
- Dividend coverage ratio close to 150% for 2010/11
- Net Profit after Tax guidance for full-year increased to \$41 - \$45 million – subject to weather conditions
- Draft regulatory decisions for SA/QLD – discussions to be progressed with AER



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# Supporting Information



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## Business Overview

ENVESTRA LIMITED (as at 31 January 2011)	
ASX code	ENV
Customer numbers	1.1M
Net debt	\$2091M
Total shareholders' equity	\$537M
Enterprise value	\$2,921M
Shares on Issue	1,430M
Market Capitalisation	\$830M
Credit Rating	Baa2/BBB-

Location	Distribution Pipelines	Transmission Pipelines	Gas Delivered	Customer Numbers
Victoria	9,702 km	224 km	32.8 PJ	557,518
South Australia	7,955 km	372 km	19.0 PJ	406,188
Queensland	2,590km	284 km	8.8 PJ	86,193
New South Wales	1,815 km	85 km	2.3 PJ	50,100
Northern Territory	38 km	153 km	1.6 PJ	1,079
<b>TOTAL</b>	<b>22,100km</b>	<b>1,118 km</b>	<b>64.5 PJ</b>	<b>1,075,078</b>

### Revenue by Customer Segment

Segment	Percentage
Domestic	71%
Commercial	19%
Unregulated/other	10%


### Shareholder Profile

Shareholder Type	Percentage
APA Group	32%
CKI	27%
Retail	19%
Institutions	22%

Retail investors defined as <100,000 shareholding

### Regulated Asset Base

Year	Regulated Asset Base (\$million)
FY08	2,103
FY09	2,260
FY10	2,380
Dec-10	2,510



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## Underlying Profit – 31 December 2010

31 December	2010 \$M	2009 \$M	2008 \$M	2007 \$M
<b>Underlying Profit After Tax: Half-Year</b>				
Profit after Tax	35.0	32.2	26.1	171.4
One off items:				
Tax step-up	-	-	-	(153.2)
Land sale	-	-	(3.9)	-
Remediation/impairment	0.6	-	-	-
Investment allowance	-	(1.1)	-	-
Acquisition costs	1.4	-	-	-
<b>Underlying profit after tax</b>	<b>37.0</b>	<b>31.1</b>	<b>22.2</b>	<b>18.2</b>



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## Risk Analysis: Operational

Operating item	Sensitivities	Profit after tax impact (annual)	Explanation
Weather	Warmest & coldest years in the past 5 years	-\$8 million (warmest) +\$11 million (coldest)	Warm weather is the most significant factor affecting revenue and profit
Interest Expense	Interest Rates +/- 1%	\$0.5 million	Variable interest rate debt 85% hedged
Operating Leverage	Sales revenue +/- \$10 million	\$6 million	Low proportion of variable costs
Foreign Currency	USD +/- 1%	Nil	FX exposure on debt facilities 100% hedged
Inflation	CPI +/- 1%	<\$2 million	Capital Indexed Bonds provide natural hedge against tariff changes – medium term revenue increase covers any short-term loss



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## Risk Analysis: Weather & Natural Gas Demand

- High correlation between weather and consumption

Half-year ended 31 December

Volumes - PJ	2010	2009	2008	2007	2006	2005	2004
Victoria and NSW	35.1	31.3	32.9	32.3	32.6	30.7	32.3
South Australia	18.8	18.1	18.8	18.6	19.8	19.0	19.7
Queensland / other	10.6	10.2	10.2	10.6	9.8	9.3	9.0
<b>Total</b>	<b>64.5</b>	<b>59.6</b>	<b>61.9</b>	<b>61.5</b>	<b>62.2</b>	<b>59.0</b>	<b>61.0</b>
<b>&lt;10TJ (weather effected)</b>	<b>30.1</b>	<b>27.1</b>	<b>28.0</b>	<b>26.2</b>	<b>26.1</b>	<b>25.2</b>	<b>26.5</b>
<i>Effective Degree Days</i>							
Melbourne	942	788	871	785	798	744	876
Adelaide	742	569	678	563	598	571	662

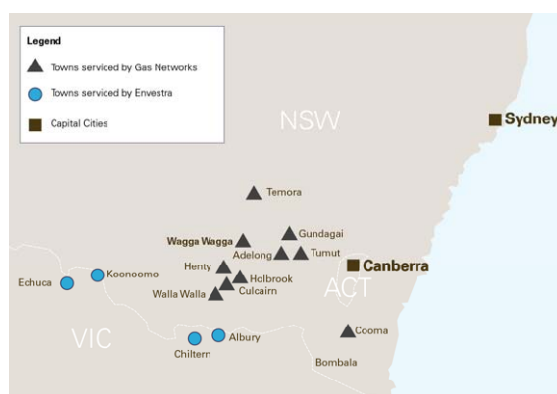
- But consumer habits are changing. Gradual household base load reductions are evident; however, tariff settings each 5 years make allowance for declining household gas usage
- Commercial revenue not significantly impacted by weather fluctuations



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## Geographic Location of Country Energy Gas Networks

Wagga Wagga and surrounding areas, including Tumut, Adelong, Gundagai, Culcairn, Holbrook, Henty, Temora, Walla Walla, Bombala and Cooma.



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