

Envestra Limited
Chairman's Address
2010 Annual General Meeting

Ladies and Gentlemen

Ongoing global uncertainty

I'm sure all are aware that considerable uncertainty remained in the global economy throughout 2009-10. Markets continued to be impacted by problems in the United States and various European countries. Such problems were reflected in volatile and challenging markets, and particularly in the raising of debt and equity capital. It is in this respect that Envestra feels the effect of these global issues.

Envestra nevertheless continues to enjoy its stable and relatively predictable business performance.

Returns to shareholders in 2009-10 were 12.3%. Though there was little capital appreciation in the value of Envestra's securities, shareholders did receive an attractive income yield from the receipt of dividends totalling 5.5 cents. By comparison the ASX All Ordinaries Accumulation Index return for the year was 13.7%.

Highlights from 2009-10

Turning to our results for the year ended 30 June 2010, we achieved a Profit after Tax of \$37.2 million, a decrease of \$3.1 million on 2008-09. The result was mainly impacted by warmer than normal winter weather in the south-eastern States and a decision to significantly increase our natural gas marketing program. The previous year did, however, include profit from the sale of a property.

On an underlying basis, Profit after Tax for the year was up \$0.7 million, to \$36.3 million.

We continued our steady growth in consumers with approximately 24,000 being connected to the networks.

During the year we spent \$97.8 million on capital works, which included the construction of 276 kilometres of new gas mains and the replacement of 119 kilometres of old cast iron and unprotected steel mains as part of our ongoing mains replacement program. Over the past 13 years we have upgraded more than 2,000 kilometres of mains and it is planned to accelerate this program to enable the remaining 2,500 kilometres of cast iron and unprotected steel mains to be replaced by the end of this decade.

A critical measure of our success is the ratio of cashflow available, after financing costs and stay-in-business capex, to pay dividends to shareholders.

In 2007-08 the ratio was 95% (although this was affected by a 30 June interest payment that was paid on the next business day, being 1 July); this increased to 137% in 2008-09 and grew to 147% in the current year. This margin provides confidence about our ability to maintain the current level of dividends, and hopefully, in time, increase them.

Borrowing costs were \$156.9 million, down \$1.4 million on the previous period. The decrease largely reflects lower CPI indexation costs on the Company's Capital Indexed Bonds (which is non-cash), offset in part by higher margins paid on recently refinanced term-debt.

Financing Strategy

During the year the Company raised \$387 million of new bank debt to re-finance existing facilities and to support the capital expenditure program. Margins were above those that applied to the maturing facilities, and the new loan periods (known as tenor) for bank debt were generally shorter than those which were available in the past. These terms were a consequence of the global financial crisis that had a significant impact on capital markets throughout 2009-10. These additional costs are potentially recoverable via future regulatory resets, and in part, under our current Access Arrangements.

With the limited tenor available from Australian banks, and in the face of a lack of debt capital raisings by corporate issuers, the Company turned to the US market, in early 2010, and raised US\$150 million in 17-year bonds. The issue frees up existing bank lines to re-finance future maturing debt through to the 2011-12 financial year.

Envestra's financing strategy for many years has been to maintain a long-duration debt portfolio, to have refinancing in place at least six months prior to maturity, and to set a limit of 15% of the debt portfolio to mature in any one year. The average loan maturity for the Envestra group is now just over 10 years following the draw down of the US\$150 million Private Placement Facility on 1 July, 2010.

Our debt management strategy has also resulted in the Company having a broad portfolio of bank lines and bonds, with maturities reasonably spread over the years through to 2034, generally with less than 15% of the debt portfolio maturing in any one year.

At 30 June 2010, the Company had undrawn bank facilities amounting to \$222 million with terms extending from 2010 to 2012. These credit facilities, in conjunction with the cash being generated by the business, are sufficient to support our capital expenditure program and fund operating costs over the next couple of years.

The Company's exposure to interest rate risk is limited as over 90% of floating rate debt is hedged in line with the regulatory reset periods through to June 2011 for South Australia and Queensland, and December 2012, for Victoria.

Support of Major Shareholders

The Company's Dividend Reinvestment Plan continued to receive strong support in 2009-10 with more than 3,000 shareholders (around 16% of all shareholders representing about 60% of the issued capital) participating in the two DRP offers in 2009-10. I am pleased to report that the Company's two major shareholders, Australian Pipeline Ltd (APA) and Cheung Kong Infrastructure Holdings (Malaysian) Ltd (CKI) participated in both issues, raising their holdings in Envestra to 31.7% and 19.0% respectively.

Support for the recent offer under our Dividend Reinvestment Plan remained strong, with around \$23 million to be raised in new equity when the dividend is paid and the shares are issued this Friday, the 29th October.

Following the allotment of shares on Friday, APA's shareholding will increase to 32.4% and CKI's will be 19.3%.

The Ongoing Regulatory Challenge

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 revenue, and as a consequence, tariffs, as well as contractual terms for retailers and some larger volume consumers over the following five years.

We are currently in the Access Arrangement periods for each of our Victorian, South Australian and Queensland networks, with the Victorian period due to expire on 31 December 2012, whilst the South Australian and Queensland periods expire on 30 June 2011.

The regulatory process under the National Gas Law has now evolved to a position of extreme complexity, with submissions by network owners consuming significant time and resources. Our regulatory team has been focused throughout 2009-10 on preparing the necessary material for the South Australian and Queensland Access Arrangements. The submissions were provided to the Regulator on 1 October. Key issues addressed in the submissions are the rate of return required to justify future investments, the planned network development and maintenance costs required to meet customer demand and to ensure a safe and reliable network performance, and the anticipated gas demand over the next five-year period.

Our major concerns with the regulatory regime, arising from previous Access Arrangement decisions, is that the Regulator has taken a strong "consumer protection" stance in keeping gas transportation tariffs as low as possible, rather than ensuring adequate returns are available to shareholders to encourage distributors, like Envestra, to invest.

Substantial future investment, as an example, will be required to ensure that our "old" gas mains are refurbished as quickly as practical, and to enable natural gas to be made available to some regional communities that have been lobbying for this for many years.

Governments, both State and Federal, are constantly promoting the importance of infrastructure to the future of Australia, but gas distribution seems to be the "poor cousin" in the debate. Envestra's Board and management have been involved in extensive lobbying over the past year with the aim of convincing Government and the Australian Energy Regulator that they are providing a dis-service to the community by trying to "squeeze the last drop" out of the energy distribution companies via their Access Arrangements. We will continue our efforts to change this mindset and reverse the current approach that serves to limit essential investment in energy infrastructure.

Growth via acquisitions

In recent years there have been limited growth opportunities by way of acquisitions, particularly for businesses that would be a good fit with the Company's existing gas networks. However, we have remained vigilant with a view to pursuing those opportunities that have the potential to increase returns to our shareholders, deliver commercial benefits to the Company and not expose the Group to undue risks.

With that approach in mind, we have, over the course of the past several months, been engaged in reviewing an opportunity presented by Country Energy, a New South Wales State-owned Corporation, which had taken a decision earlier in the year to sell its regional gas distribution business based in Wagga Wagga and surrounding areas. This review and our bid resulted in our announcement yesterday that we had been successful in acquiring the business for an amount of \$107 million.

We believe these assets offer a strong strategic fit with both our existing Albury operations in New South Wales and the wider Envestra network business. The assets have been soundly run by an experienced management team for many years, and the investment offers appropriate returns in a largely regulated environment; while recognising it is only a relatively small size operation compared with the overall Envestra Group. Our Managing Director will provide further details when he addresses you shortly.

Outlook

It is expected that the connection of new consumers to our networks in 2010-11 will remain at about 24,000. Although the Federal Government's First Home Owners Grant has been reduced from \$21,000 to \$7,000, we are not seeing a downturn in building activity.

Capital expenditure will be around \$125 million, up substantially on recent years, with \$30 million to be spent on mains replacement and network enhancements and \$95 million on growth projects. This is a substantial program; with the increase in expenditure mainly relating to a ramp-up of our mains replacement program in Victoria, and in South Australia.

On the regulatory front, management is now engaged in responding to questions from the AER in response to the revised Access Arrangements for South Australia and Queensland. The Draft Decisions are due to be handed down in December, with the Final Decisions from the AER expected by April, 2011.

The outcome will, to a large extent, determine the rate of growth in our regulatory asset base and the resultant revenue generated by the business.

We have forecast an improved Profit after Tax for 2010-11 of around \$40 million. Higher revenue due to annual tariff increases and the addition of new consumers will be offset in part by higher borrowing costs.

The full-year result is subject to the usual caveat of weather conditions being relatively normal and no unforeseen circumstances arising. With regard to the impact of weather, the first three months of 2010-11 have been relatively cold, compared with last year, so haulage revenue to date is up on budget and represents a positive indicator with regard to our full-year profit expectation.

Our dividend is expected to be maintained at 5.5 cents for 2010-11. The forthcoming regulatory decisions will determine whether or not we can consider increasing dividends in the near term.

I turn now to an issue that applies to all listed companies and has had considerable publicity in recent times, that is, diversity as it relates to Boards and Management. Diversity includes, but is not limited to, gender, age, ethnicity and cultural background.

Your Board and Management recognise the need for diversity. In the recent past, two of the five senior executives were women, but this has since changed. However, today, five out of the 14 employees of Envestra (approximately 40%) are women.

To the extent practicable, Envestra intends to implement the recently released ASX guidelines on diversity. However, the rate of change will inevitably be constrained by our very small and stable workforce, and the occurrence of vacancies on the Board.

Thanks

The challenges being faced by business recently as a result of the global financial crisis remained throughout 2009-10. Despite these uncertain times, the Company performed well over the past 12 months in what have been difficult trading conditions and I acknowledge the considerable and sustained efforts of our management team in delivering a solid result.

I now invite Ian Little our Managing Director to address you.